J Sainsbury plc

12 November 2014

Interim Results for the 28 weeks to 27 September 2014
Evolving to win

Financial summary

- Underlying Group sales[1] (inc VAT) down 0.3 per cent to £13,916 million (2013/14: £13,953 million)
- Retail sales (inc VAT, ex fuel) flat year-on-year
- Like-for-like sales (inc VAT, ex fuel) down 2.1 per cent
- Underlying profit before tax[2] down 6.3 per cent to £375 million (2013/14: £400 million)
- Underlying basic earnings per share[3] down 12.7 per cent to 14.5 pence (2013/14: 16.6 pence)
- Return on capital employed[4] of 11.1 per cent (2013/14: 11.4 per cent)
- Return on capital employed excluding pension fund deficit of 10.3 per cent (2013/14: 10.5 per cent)

Statutory

- Group sales (ex VAT, inc fuel) down 0.1 per cent to £12,667 million (2013/14: £12,684 million)
- Items excluded from underlying results total a charge of £665 million (2013/14: £33 million profit), including an impairment and onerous contract charge of £628 million (2013/14: £92 million)
- Loss before tax of £290 million (2013/14: £433 million profit)
- Basic loss per share 18.0 pence (2013/14: 17.9 pence per share earnings)
- Interim dividend 5.0 pence per share (2013/14: 5.0 pence per share)

Highlights from our Strategic Review

Evolving to win

- The grocery sector is undergoing structural change as customers shop more frequently, using online, convenience and discount channels more. We expect supermarket like-for-like sales in the sector to be negative for the next few years, but we have robust plans to address this challenge
- In challenging market conditions, Sainsbury's has delivered relative outperformance in sales and profit for the past five years
- We have listened to our customers and are evolving our strategy from a position of strength to meet their changing needs. We will build on our strong values, differentiated offer of quality products and services, competitive value proposition, advantaged store portfolio, established convenience and online businesses, great colleague service and our unique understanding of our customers

Great products and services at fair prices

- We will improve the quality of 3,000 own-brand products, focusing on the categories which matter to our customers
- We will invest an additional £150 million in price, of which approximately half will fall in the second half of 2014/15 and the remainder in the first half of 2015/16, focused in areas where our customers tell us price matters most
- We will always be competitive on price versus our main supermarket peers. We will work in close partnership with suppliers to deliver value chain efficiencies which can be reinvested in price
- We will continue to grow our non-food business with a focus on design-led clothing, cookware, homeware and seasonal products – increasing our non-food space in supermarkets and rolling out clothing online in 2015
- We are on track to deliver sales and profit growth at Sainsbury's Bank and have opportunities to expand the Bank's product portfolio

There for our customers

- We will open 500,000 sq ft of space in each of the next two years, followed by 350,000 sq ft in 2017/18. This will include eight new supermarkets over that period. It also includes four replacement stores, three of which are mixed-use developments, unlocking significant property profits. Over half of our new space will be convenience stores as we continue to target opening 100 convenience stores per year
- A review of our supermarket estate has concluded that:
  - Around 75 per cent of our stores are in the right locations and are of the right size for our food and non-food offer and we will pilot new formats focused on optimising range, layout and ease of shop to meet changing customer shopping patterns
  - Over the next five years, around 25 per cent of our store portfolio will have some under-utilised space which can be used to expand our non-food offer or for other purposes such as carefully selected concession partnerships
- We will continue to invest in groceries online to further improve our website and the customer experience, trialling new ways for customers to order and acquire their groceries, including click and collect

Colleagues making the difference

- We will improve our customer experience through continued investment in colleague training and new user-friendly technologies, for example through the roll-out of 'CAM', an automated availability tracking tool which reduces cost and improves on-shelf availability throughout the day

We know our customers better than anyone else

- We will invest in the systems infrastructure to create a single view of our customers, helping us to become increasingly effective in our customer interactions

Our values make us different

- Our values remain a key component of our differentiated offer and we will continue to invest in areas that matter to our customers

Maintaining balance sheet strength

- We will deliver total operating cost savings of £500 million over the next three years. This represents annual operating cost savings in the range of £150 million to £175 million, a step up from recent levels.
- We will reduce capital expenditure to between £500 million and £550 million per annum over the next three years, approximately two per cent of sales
- We maintain our interim dividend at 5.0 pence per share for 2014/15 and will fix dividend cover at 2.0 times our underlying earnings for 2014/15 and over the next three years
- Given the price investment announced today, combined with the outperformance of both the Bank and cost savings in the first half that we do not expect to be repeated in the second half, Sainsbury's expects profitability to be lower in the second half than the first half

David Tyler, Chairman said: "The UK grocery sector has become increasingly challenging in recent months. As a result, we have evolved our strategy and believe this will allow us to build on our heritage and past success, especially as it will be delivered by the most experienced management team in the industry.

"In order to execute this strategy, it is essential that we maintain the strength of our balance sheet. We will therefore be cutting our capital expenditure and making significant cost savings, as well as ensuring we pay an affordable dividend. Our interim dividend is maintained at 5.0 pence per share and we will fix our dividend cover at 2.0 times our underlying earnings for 2014/15 and the next three years. Our dividend for the full year is likely to be lower than last year, given our expected profitability(5)."

Mike Coupe, Chief Executive said: "Our strategy is evolving to address the continuing shifts in customer shopping patterns which we believe will lead to a greater emphasis on product quality and ease of shopping, and an increase in multi-channel shopping.

"We have examined every aspect of our business and we have good foundations for future growth in our supermarket and convenience estates, our online and non-food businesses and in Sainsbury's Bank. However, we need to make sure that we are investing in the right areas and by reducing our costs and capital expenditure we are ensuring that we have the resources to enable us to do so.

"We will continue to differentiate ourselves from a position of strength by offering great products and services at fair prices, investing in the quality of our food and investing in price in areas where our customers tell us it matters most. By knowing our customers better than anyone else we will continue to serve them through multiple channels and in ways that make their lives easier, regardless of changes in the market. Our colleagues will remain our greatest asset; we will invest in their training and development to ensure they can continue to deliver industry-leading service.

"Importantly, our values remain unchanged. They are what make us different and remain at the very core of our business. I am convinced customers will continue to recognise the value of our values as we evolve to win.

"Sainsbury's is a great business. Our consistent outperformance of our main supermarket peers over the past five years is evidence of this. We are facing into a once-in-a-generation combination of cyclical and structural change in the industry, but I firmly believe that this strategy, building on our unique heritage and track record of success and delivered by the most experienced management team in retail, will focus and energise our business to the benefit of customers, colleagues and shareholders alike."

Notes:
1. Underlying group sales excludes an £11 million adjustment for fair value unwind relating to the acquisition of Sainsbury's Bank.
2. Underlying profit before tax: Profit before tax before any profit or loss on the disposal of properties, investment property fair value movements, retail financing fair value movements, impairment of goodwill, IAS 19 Revised pension financing element, defined benefit pension scheme expenses, acquisition adjustments and one-off items that are material and infrequent in nature.
3. Underlying basic earnings per share: Underlying profit, net of attributable taxation, divided by the weighted average number of ordinary shares in issue during the year, excluding those held by the Employee Share Ownership Plan ESOP trusts, which are treated as cancelled.
4. Return on capital employed: Underlying profit before interest and tax, divided by the average of opening and closing capital employed (net assets before net debt).
5. 2014/15 UPBT consensus estimate of £677 million as published at 17.00 on 11 November 2014 on www.j-sainsbury.co.uk/investor-centre/analyst-consensus.
6. Certain statements made in this announcement are forward-looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results referred to in these forward-looking statements. They appear in a number of places throughout this announcement and include statements regarding our intentions, beliefs or current expectations and those of our officers, directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the business we operate. Unless otherwise required by applicable law, regulation or accounting standard, we do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.
7. Sainsbury's will report its 2014/15 Third Quarter Trading Statement at 07:00 (GMT) on 7 January 2015.

A results presentation for analysts and investors will be held at 09:30 on 12 November 2014.

To view the slides of the results presentation and the webcast: We recommend that you register for this event in advance. To do so, visit www.j-sainsbury.co.uk and follow the on-screen instructions. To participate in the live event, please go to the website from 09:00 on the day of the announcement, where there will be further instructions. An archive of the webcast will be available later in the day.

To listen to the results presentation: To listen to the live results presentation by telephone, please dial 0844 800 3850 (or +44 (0) 20 8996 3900 if you are unable to use the primary number). The pass code for the event is 845207. A transcript of the presentation and an archive recording of this event will be available later in the day at www.j-sainsbury.co.uk.

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Evolving to win

The UK grocery market is changing faster than at any time in the past three decades. We must evolve our business to meet the challenges this presents to ensure we continue to win for customers, colleagues and shareholders.

Over the past few months we have undertaken a thorough review of our market, our customers and our own business. This review sets out our view of the sector and our assessment of our business. We have identified the areas where we see room for growth, where we will invest to meet our customers' rapidly changing needs and aspirations and where we intend to make cost savings to help us compete effectively in the future.

Building on success

Against a challenging market backdrop, Sainsbury's has outperformed its main supermarket peers in recent years in relative sales and profit terms. We have focused on giving customers a quality food and non-food product offer at fair prices, maintaining our commitment to our values and providing a great shopping experience. We were early investors in convenience stores and in the groceries online channel. We have scale businesses in both these growing channels and are focused on improving our offer further in these areas.

Relative to our main supermarket peers, we believe our supermarket estate is well suited to meet the needs of our customers now and in the future. Our supermarkets are, on average, smaller and located in more densely populated catchments, with more favourable demographics, that are likely to grow faster in future. Our investments in our food and non-food product proposition and our good locations mean that many of our supermarkets will experience growth in customer visits.

Importantly, we know our customers well and communicate with them individually. Through our Nectar loyalty scheme we use our customer knowledge to inform them about relevant products and services offered by Sainsbury's. We also incentivise our customers with more tailored rewards on products they like to buy. Sainsbury's Bank continues to attract new customers as it delivers great value credit card, savings, insurance and loan products. We continue to see greater loyalty and grocery spend from customers who have one of our financial services products, and we also see this same increased loyalty from customers who use our groceries online channel.

All of this gives us a strong platform upon which to face the challenges of the current market, building on success and ensuring we outperform over the long term.

A changing industry environment

The market and the players within it are facing significant challenges that are both cyclical and structural in nature.

As the UK emerges from recession, some in-store food purchases are being substituted as customers return to eating out more frequently. The industry is also seeing deflation in some food categories for the first time in years, due to competitive pressures, falling commodity prices, good harvests and softening global demand. We expect these cyclical changes to unwind over time.

While the food and grocery products customers buy are largely the same today as they were ten years ago, the way customers shop for them has changed significantly over the past five years. From 2009, the recession and a squeeze on household income led to customers shopping more frequently and buying fewer items on each occasion, controlling their budgets and reducing waste. We have also seen a rapid increase in supermarket space as well as in the availability and quality of convenience stores, improvements in the ease of shopping online and growth in the number of discount stores. All of this has provided customers with more choice when deciding where to shop. In recent months, it has become clear these structural changes will persist, and will impact all retailers, particularly those with large amounts of out-of-town supermarket space.

This new way of shopping suits the increasingly busy lifestyles of many customers. Using online and supermarket channels to shop for bulky, essential items periodically and then buying fresh products a couple of times a week from supermarkets and convenience stores gives customers choice and flexibility. Customers can decouple how they buy undifferentiated products from how they buy fresh, perishable, value-added products, giving them greater choice and saving time and money.

This behaviour will become more established. We expect to see further growth in the number of visits to stores from customers who are buying food 'for today,' 'for tonight' or 'for just a couple of days,' while visits from customers doing a full weekly shop will continue to decline. This trend has led to strong growth in the convenience and online channels, putting pressure on traditional, out-of-town supermarket volumes.

While there will be growth in smaller-basket shopping trips, many of these shops will take place in supermarkets as well as convenience stores. In fact, our research suggests that two thirds of supermarket shopping is for smaller shopping missions. So, while we need to address the impact of falling volumes in our supermarkets, the supermarket channel will continue to play an important part in meeting customers' shopping needs.

From talking to our customers we know their first priority in deciding where to shop remains unchanged; getting the best quality at the best price in the product categories that really matter to them – principally fresh food and drink products. However, the drivers of store choice vary, depending on the shopping mission. When shopping for food 'for today,' 'for tonight' or 'for just a couple of days', freshness, choice, availability, inspiration, ease and speed of shop are important. Price is important for these missions, too, but it is not necessarily the key driver of store choice. When buying a broad range of products that will be used 'over many days', price becomes a bigger consideration; customers are willing to travel further or use online to ensure they can get all the products they need at a good price. This understanding of what customers want and how we can adapt our offer in our different channels to meet their needs has played a significant part in the development of our strategy.

We have strong foundations on which to deliver future success. But this is not enough: we must evolve our strategy to meet future customer needs. We will build on our existing strengths, maintaining and enhancing our differentiated offer while investing in areas that help us continue to outperform.

Our strategy

Our vision and values remain unchanged, and we have refined our goal to reflect our commitment to meeting customers' needs; however they want to shop for food, clothing, general merchandise and services. We have also updated our strategy, and this is discussed in more detail below.

Our vision: To be the most trusted retailer where people love to work and shop.

Our goal: We will make customers' lives easier, offering great quality and service at fair prices, serving our customers whenever and wherever they want.

Our strategy: We know our customers better than anyone else. We will be there whenever and wherever they need us, offering great products and services at fair prices. Our colleagues make the difference, our values make us different.

Great products and services at fair prices

Quality leader

Providing great food is Sainsbury's core purpose, and doing this better than anyone else is key to winning customer loyalty. Customers trust us to deliver on our product quality and price promise. We have strong penetration of own-brand food products and customers continue to rate us above our main supermarket peers on product quality. But, as customers' expectations of quality continue to increase, our first priority is to improve upon our differentiated quality position.

We will invest in quality where it matters to customers and where we can deliver a meaningful advantage. Over the next 18 months, we will improve the quality of 3,000 own-brand products, investing in range, innovation, packaging and merchandising, and deliver great taste and ethical sourcing in line with our values.

Strong value proposition

Differentiated and improved quality must be delivered at a fair price. Getting good value is important to every customer, whatever their budget. Over the past five years, we have improved our price proposition and perception. Brand Match has reassured customers that their branded shop will be good value: those who receive a Brand Match coupon know that we have matched our branded prices to Asda's, including promotions. We have worked to simplify our pricing, creating sensible hierarchies and reducing the number of price changes. We have also simplified our promotional offers and reduced our base prices when products are not on promotion.

We will continue to invest in lower prices and improved quality over the coming years. We have identified the product areas where it is more difficult to differentiate, and where customers' needs are more price-led. We will focus our price investments in these areas – those that are heavily branded and more commoditised product ranges. These targeted price investments will begin almost immediately, with approximately half of our total £150 million price investment being made in the second half of 2014/15 and the remainder in the first half of 2015/16, paid for in future years through efficiencies in the value chain. We will deliver these efficiencies working in close partnership with our suppliers.

Growth opportunities in non-food and services
Our non-food and services businesses are profitable, with significant growth potential. Customers who buy these products and services tend to show an increase in loyalty and spend more with Sainsbury's across all areas of the business.

Non-food – We have great value clothing and general merchandise ranges which are now sold in around 420 of our supermarkets. Clothing and general merchandise are both growing at over five per cent per annum and we expect to continue to deliver high growth rates given our relatively low market shares.

In clothing, our strategy of bringing customers 'high street quality at supermarket prices' has been highly successful and has seen us double the size of our clothing business to around £750 million since 2008/09, making us the seventh largest clothing retailer by volume and 11th by value. Our general merchandise business has grown 70 per cent since 2008/09 as we have focused on the core categories that are important to our customers, including cookware, homeware, stationery, toys and gifting. We have improved our gross margins through scale and increased direct sourcing from the Far East. We have significant opportunity for growth, both in clothing and in our targeted general merchandise markets by driving sales from existing space. We can also grow by introducing these ranges into more of our supermarkets.

Financial services – We took 100 per cent ownership of Sainsbury's Bank in January 2014 and continue to offer an attractive and competitive range of financial services that help our customers *Live Well for Less*. We are currently transitioning to a new, more flexible banking platform, and during this transformation period we have continued to drive sales and profit in line with our business plan. The Bank platform will be up and running by autumn/winter 2015 with cards and loans migrated across by spring/summer 2016 and we see strong opportunities to develop the product portfolio further. We will invest now to ensure we are in a position to pursue the right opportunities as soon as the transformation is complete.

There for our customers

A competitively advantaged portfolio
As we have outlined, we believe there will be further declines in supermarket food and grocery volumes, so a key focus of our strategy is to adapt and improve our core supermarket offer to succeed in the long term. We have reviewed every supermarket in our estate. This has highlighted the relative long-term strength of our overall estate, offering a real structural advantage over many of our peers.

Our review has highlighted that around 75 per cent of the supermarkets in our estate are in the right location and of the right size to deliver our current and future food and non-food proposition. We will adapt our offer in these stores to reflect the changing ways our customers are shopping.

Over the next five years, around 25 per cent of our estate, although well located, will have some under-utilised space given the projected food and grocery volume declines. We will look at opportunities to use that space either to expand our non-food offer, to provide services like *Mobile by Sainsbury's* or to bring in carefully selected concession partners.

One consequence of the review of our estate will be a reduction in the amount of new supermarket space we open in the coming three years. We will open a total of 500,000 sq ft of space in each of the next two years, followed by 350,000 sq ft in 2017/18. This will include eight new supermarkets over that period and four replacement stores, three of which are mixed-use developments, unlocking significant property profits. Over half of this new space will be convenience stores as we continue to target opening around 100 convenience stores per year.

As a result of the review of our supermarket estate, we have impaired a number of our trading stores and have also decided to withdraw from a number of schemes in our property pipeline that are unlikely to achieve an appropriate return on capital, resulting in a total impairment and onerous contract charge of £628 million.

Piloting new supermarket formats – Customers want to shop in clean, well-stocked stores that are quick and easy to navigate and where they receive friendly, helpful and personal service. To ensure that our supermarkets can continue to satisfy a wider variety of customer shopping missions, we will be developing new concept pilots for our different-sized supermarkets. We will trial these over the course of the next year, aiming to roll out the right product and service offer to our existing estate over the next few years.

Elements we will be trialling include: addressing the balance between food and non-food to ensure that we optimise the non-food offer; ensuring our stores are convenient and easy to get in and around quickly; and customer and colleague technology to help ease of shop, speed of checkout and improve customer service.

These pilots will be in small, medium and larger supermarket formats, giving us a blueprint for future investment.

Strength in growing channels to market
We have scale businesses in growing channels and we will continue to invest to develop these, ensuring we can serve customers whenever and wherever they want.

Growing our convenience store network – We have invested to develop our convenience store network and will continue to target opening stores at a rate of approximately two per week. We are able to operate very efficiently in a variety of size and locations, and over the past year we have adapted the product range in each store to better serve the needs of its local community.

Over the coming few years we will trial smaller convenience stores with a range that is more focused on 'food to go' and 'food for tonight' missions, particularly in densely populated, urban environments. We also see opportunity to roll out larger convenience stores of over 3,000 sq ft that bring a wider offer to more communities. These new formats will increase the range of locations that are suitable for our convenience stores.

Developing our groceries online channel – We have operated our online business for 18 years and now cover 98 per cent of households. We operate an efficient in-store picking model and have capacity to serve future demand efficiently, except in central London. We will continue to invest in our London infrastructure to service future demand and will open our first 'dark store', in Bromley-by-Bow, in 2016. We will also continue to trial new ways for customers to order and acquire their groceries, including click and collect in tube stations and other locations. We have invested successfully in upgrading our online platform and enhancing the customer experience, making it as easy as possible for customers to use.

Netto UK trial – We recently opened our first Netto UK store with our joint venture partner Dansk Supermarked. This is part of a limited trial and we are on track, with plans to open 15 stores by the end of 2015. If successful, this investment will give us access to the growing discount grocery channel.

<u>Colleagues making the difference</u>

Delivering great customer service
The service our colleagues provide in store, online, at the door, on the phone or through email or social media has built customer trust and loyalty to Sainsbury's. We want customers to have a great service experience in whichever channels they choose to shop – our colleagues make this happen. The service they provide in every interaction is an important differentiator of our brand. It is through these conversations that we can be sure we really do know our customers better than anyone else.

As customers' shopping needs have changed in recent years, our colleagues have demonstrated their ability to respond. Many colleagues now have markedly different working patterns, and since the late 1990s the make-up of our colleague base has changed significantly. We have moved from an entirely supermarket-focused workforce to one where more than one in twelve of our colleagues work in our online operations and slightly more in convenience stores.

We will support our colleagues as they make these transitions. We will continue to invest in learning and development through our great training programmes which have already been externally recognised by two consecutive Gold Standard Investor in People awards. We are the only UK Supermarket to achieve this recognition on two consecutive occasions.

We will also invest in the right tools for the job, helping our colleagues to work more effectively together wherever they are in the business. Our investments in technology include the launch of a new Colleague Portal next year, which will make communicating easier and more efficient; we are also trialling tablets for Managers in our convenience stores to help them become more efficient and allow them to spend more time on the shop floor. We can now track our sales and availability in real time, enabling us to react to customer demand even more quickly.

As well as equipping our existing colleagues to serve our customers in the future, we must become even more effective at spotting and attracting great talent externally, moving quickly to ensure we stay at the forefront of any new developments in the marketplace.

We know our customers better than anyone else

We have great customer data and, more importantly, we use it effectively. We work hard to understand what customers want and what they value, how their needs are changing and how we can serve them better.

Customer data, insight and understanding will inform our decision-making and ensure we continue to put our customers at the very heart of our business, differentiating us now and in the longer term. We will build on the platform that the Nectar programme provides, investing to develop our customer relationship management infrastructure and capability, allowing us to create and maximise a single view of our customers and how they are interacting with us.

We will continue to actively encourage customers to trade with us across multiple channels, developing our ability to reward those who shop with us in more targeted ways. These investments will support the growth of our products and services and drive the increased loyalty we see when customers interact with us across more than one channel or buy into our non-food products or our services.

Our values make us different

Committed to a strong set of values

Our customer values – Sourcing with Integrity, Respect for our Environment, Best for Food and Health, Making a Positive Difference to our Community, and Great Place to Work – remain at the very core of the way we run our business. They are a vital differentiator and are embedded in our business.

Customers have helped us identify particular areas in which Sainsbury's leadership is of significance to them and which act as an important driver of loyalty. Continuing to provide British products and to support our British suppliers is one of these; it is key to why customers trust us and will continue to play a major part in our differentiated product offer. Reducing waste is also particularly resonant with shoppers and we will focus and intensify our efforts in this area, saving cost for the business and for customers.

Strong brand heritage

Sainsbury's is a great business and has provided quality food at fair prices for the last 145 years. Over the last ten years we have consistently invested in our products, our value proposition, our service and our channels to market. As we evolve our strategy to ensure that we meet the needs of our customers, this consistent approach, these investments and the fantastic strength of our brand will ensure that we succeed.

Maintaining balance sheet strength

In delivering our plan, we will maintain the strength of our balance sheet and we have therefore identified a series of measures to conserve cash in the business. We have reviewed our cost base and identified a number of areas in which we have opportunity to reduce costs. Through these measures we will deliver total operating cost savings of £500 million over the next three years. This represents annual operating cost savings in the range of £150 million to £175 million, a step up from recent levels.

As we reduce new space to reflect changing market conditions, we will reduce our capital expenditure to between £500 million and £550 million per annum from an average of around £950 million per annum between 2012/13 and 2014/15, whilst continuing to invest in growth areas such as convenience.

We will pay an affordable dividend, fixing cover at 2.0 times underlying earnings for 2014/15 and the next three years.

Conclusion

The work of the past decade made Sainsbury's great again; we will build on that foundation.

This is the right strategy for a particularly challenging period. We do not underestimate the scale of the task ahead, but we do know we have the people, the assets and the ambition to keep Sainsbury's a compelling proposition for customers and shareholders, whatever changes they or the market may undergo. Through maintaining our focus on providing great quality products and services at fair prices, combined with financial discipline and judicious investment, we will ensure that we remain the most trusted retailer where people love to work and shop.

We will evolve to win.

First-half review

Great products and services at fair prices

Quality leader
Taste the Difference has grown four per cent year-on-year and continues to outperform the premium market. Over 95 per cent of our customers buy our core *by Sainsbury's* range and our *basics* range remains one of the most popular value ranges on the market, bought by around two-thirds of our customers.

Our focus on quality, provenance and sustainability differentiates us from our competitors. All our fresh, breaded and cooked chicken is from the UK, as is fresh pork and fresh lamb in the main season. Our fresh and frozen beef, and beef used in fresh ready meals, pies, sandwiches, quiches and soups is British or Irish. We have a long-standing commitment to British farming and to the 2,200 farmers and growers in our ten Sainsbury's Development Groups, sharing best practice and developing more efficient ways of working. We were named Drinks and Seafood Retailer of the Year at the Retail Industry Awards, Fish Retailer of the Year by the Marine Stewardship Council and In-store Bakery Retailer of the Year at The Baking Industry Awards. We are also the biggest retailer of Freedom Foods, selling 280 RSPCA-approved products.

Strong value proposition
In the first half, we have strengthened the competitiveness of our pricing by lowering base prices on thousands of lines within the food business and simplified Brand Match to make it clear that the scheme compares our prices on brands to Asda's – even when on promotion.

Growth opportunities in non-food and services
Growing non-food – Clothing and general merchandise continue to offer significant growth opportunities. In September, we celebrated the tenth anniversary of our *Tu* clothing brand with the launch of our largest ever collection. Our focus on 'high street style at supermarket prices' and our successful, ongoing partnership with Gok Wan has helped us increase market share and drive double-digit sales growth. Our best-ever 'Back to School' event this summer consolidated our position as the UK's fourth largest schoolwear retailer by volume. We were recently voted 'UK's favourite fashion retailer' by retail analysts Conlumino.

Quality and design, together with the continuing roll-out of our 'department store' look and feel, have also helped us grow sales in homeware and cookware. Events such as 'Student Life Sorted' helped to drive year-on-year sales growth, with kitchen and domestic electrical items performing particularly strongly.

Sainsbury's Bank – Sainsbury's Bank delivered good operational performance. We made good progress during the first half, launching tailored products focused around our core values of quality, value and rewards. This included our strongest ever range of credit cards, incorporating a market-leading low rate card, a market-leading low balance transfer fee card, and our longest-ever balance transfer offer.

We continue to see growth in pet insurance and our products continue to win industry awards. New credit card accounts grew 55 per cent year-on-year and new loan accounts by 16 per cent year-on-year. Following the successful re-launch of Pet Insurance, sales grew by 86 per cent year-on-year. Travel Money had another successful summer with 20 per cent year-on-year growth and we opened a further 21 Travel Money Bureaux during the half. We opened and replaced 65 ATMs, taking our estate to 1,518 free-to-use machines, an increase of around six per cent year-on-year.

The Bank is part-way through its 42-month transition programme and has made good progress during the first half. Colleagues have moved into our new offices in Edinburgh, allowing us to create the culture and the efficiencies we want for the future. We also announced the purchase of a new Customer Services Contact Centre for the Lloyds Banking Group Service colleagues, who will transfer to the business in summer 2015.

New services – We continue to work with Vodafone, our mobile phone network partner, on future plans for our joint venture, *Mobile by Sainsbury's*. The online sales channel at *Sainsbury's Energy* now accounts for 86 per cent of new accounts. *Sainsbury's Entertainment* saw a small sales increase and the acquisition of the remaining stake in the Anobii e-books platform will allow us to offer an enhanced digital entertainment experience and support growth in the future.

There for our customers

A competitively advantaged supermarket portfolio

During the half we opened three new supermarkets, four supermarket extensions and refurbished five supermarkets. We continue to offer great product availability, our stores are clean, clear and easy to navigate and we have a choice of manned and self-scan checkouts to make paying quick and easy. Additionally, Mobile Scan and Go technology is currently being trialled in a number of stores. Our in-store cafés and restaurants are popular with customers, and clothing and general merchandise ranges are available in around 420 of our supermarkets. Working with key business partners, we also offer complementary products and services – such as dental and GP surgeries, Explore Learning and Timpsons – that enhance customers' shopping experience and make good use of our store space.

Convenience store network growth – In the first half we opened 50 convenience stores and refurbished 22. In August we opened our 650th convenience store and in July, we trialled our second convenience in-store bakery.

Our convenience business now generates sales of over £1 billion from approximately seven million customer transactions each week. Our 17 per cent growth in the first half of the year accounted for around 40 per cent of the UK's convenience market growth and we were named Convenience Retailer of the Year for the fifth consecutive year at the Retail Industry Awards.

Developing our groceries online channel – Our online offer continues to grow. We recently upgraded our groceries online website, making online transactions easier and more efficient. Although unprofitable customer acquisition activity by competitors impacted growth online, the business grew by around nine per cent. Online deliveries now exceed 200,000 a week, with annualised sales of over £1 billion. We are also piloting a click and collect service from seven London tube stations.

Following customer feedback, we recently made general merchandise ranges available on our groceries online website, ensuring that customers' online experience better reflects their experience in stores. We are also trialling selling our *Tu* clothing range online, with positive early customer reaction.

Netto UK trial – In June, we announced a joint venture with Dansk Supermarked to bring Netto back to the UK, giving us access to the discount market, a growth area of food retail. We will hit our target of opening five stores by the end of 2014 and are on track with plans to open 15 by the end of 2015.

Colleagues making the difference

Delivering great customer service

Product knowledge and skills training enables our colleagues to make a real difference to serving our customers. Since we opened our convenience training college in March, we have run nearly 300 training sessions in management skills, coaching and operations. We continue to train colleagues working on our fresh food counters and in our cafés in product knowledge and skills in our seven City & Guilds-accredited food colleges. In recognition of this, we were named Business Employer of the Year at the City & Guilds Lion Awards. We also encourage store colleagues to study for job-related diplomas, and over 2,000 gained qualifications in retail skills in the first half. To support the growth of our non-food business, over 430 general merchandise colleagues have been trained in visual merchandising skills. In September, Sainsbury's Bank also welcomed the first intake into its two-year graduate training scheme.

We won the Training Initiative of the Year Award at the Retail Industry Awards for our programme to improve operational outcomes and customer experience.

We are proud of our record in customer service and our mystery shopper scores continue to perform strongly year-on-year. Most recently, our Longstone, Edinburgh store manager won Store Manager of the Year at the Retail Industry Awards. Our availability continues to drive our success and since the beginning of the financial year we have won The Grocer 33 award for service and availability nearly one week in every three.

We know our customers better than anyone else

Our Nectar loyalty scheme continues to underpin our products and services. In October, we announced that we will change the way customers earn Nectar points from April next year. Customers will then accrue one point per one pound spend. At the same time, we are launching more high-value bonus events, like Swipe to Win and ten times points on fuel, as well as adding more categories to our Christmas 'Double Up' event so that customers can make their points go further. Together with coupon-at-till technology, Nectar helps us incentivise our customers and provide targeted offers on products they want to buy.

Our values make us different

Our values are part of our long-term vision for growth – they make good business sense and we believe they give us real competitive advantage.

We established our board-level Corporate Responsibility & Sustainability steering group in 2001 and published our *20x20* sustainability commitments in October 2011. We have made good progress since then across all of our five values:

Best for food and health: We continue to reformulate our core products to improve their nutrition value, including reducing the sugar content of our chilled juice drinks by 83.5 tonnes, as well as expanding our *My Goodness!* range for health conscious customers. We also continue to remove allergens across a number of our core products by addressing processes within the manufacturing sites.

Sourcing with integrity: We held our first Research and Development conference at the Royal Institute and first Ethical Trade conference with our suppliers to share knowledge and expertise to address common challenges in the industry. We were awarded RSPCA 'Most Outstanding Contribution to Farm Animal Welfare' in September 2014.

Respect for our environment: In September, we were the only company to be ranked as a sustainability leader in the 'Food and Staples Retailing' category of the Dow Jones Sustainability Indices, outperforming 92 per cent of our industry and obtaining the highest score for environmental performance worldwide. We were also awarded with a position on 'The A List: The CDP Climate Performance Leadership Index 2014' for our work to reduce carbon emissions and mitigate the business risks of climate change. In September, our store in Cannock was the first retail outlet in the UK to come off the National Grid, powered by food waste alone.

Making a positive difference to our community: Since 2009, through our Local Charity Scheme we have donated over £6 million to local charities at a store level through partnerships voted for by our customers. In addition, in the last financial year we donated £100,000 to local causes through our colleague volunteering scheme. Nationally, with the support of our customers, colleagues and suppliers we raised over £6.7 million for Sport Relief and supported five world-class athletics and para-athletics events in four cities through Sainsbury's Summer Series.

Great place to work: We were named one of the Times Top 50 Employers for Women in recognition of our commitment to creating a great place to work. In addition to this, we are the only UK Supermarket to achieve Gold accreditation for Investors in People.

Financial Review

Summary income statement

	28 weeks to 27 September 2014 £m	28 weeks to 28 September 2013 £m	Change %	52 weeks to 15 March 2014 £m
Underlying Group sales (including VAT)[1]	**13,916**	13,953	(0.3)	26,353
Retail sales (including VAT)	**13,757**	13,953	(1.4)	26,328
Underlying Group sales (excluding VAT)[1]	**12,656**	12,684	(0.2)	23,946
Retail sales (excluding VAT)	**12,497**	12,684	(1.5)	23,921
Underlying operating profit				
Retailing	**388**	440	(11.8)	873
Financial services – Sainsbury's Bank	**35**	-	n/a	6
Total underlying operating profit	**423**	440	(3.9)	879
Underlying net finance costs[2]	**(54)**	(58)	6.9	(111)
Underlying share of post-tax profit from JVs[3]	**6**	18	(66.7)	30
Underlying profit before tax	**375**	400	(6.3)	798
Items excluded from underlying results	**(665)**	33	(2115.2)	100
(Loss)/profit before tax	**(290)**	433	(167.0)	898
Income tax expense	**(54)**	(93)	41.9	(182)
(Loss)/profit for the financial period	**(344)**	340	(201.2)	716
Underlying basic earnings per share	**14.5p**	16.6p	(12.7)	32.8p
Basic (loss)/earnings per share	**(18.0)p**	17.9p	(200.6)	37.7p
Dividend per share	**5.0p**	5.0p	-	17.3p

1 Underlying group sales excludes an £11 million adjustment for fair value unwind relating to the acquisition of Sainsbury's Bank (2013/14: £nil).
2 Net finance costs before financing fair value movements and the IAS 19 Revised pension financing charge.
3 The underlying share of post-tax profit from JVs is stated before investment property fair value movements, financing fair value movements, profit on disposal of properties and Sainsbury's Bank one-off costs.

Retail sales (including VAT) and space

Retail sales (including fuel) decreased by 1.4 per cent to £13,757 million (2013/14: £13,953 million). This includes a 2.0 per cent contribution from new space (excluding extensions and replacements) and like-for-like ('LFL') sales decline of 3.4 per cent.

Retail sales growth (including VAT, including fuel)	**28 weeks to 27 September 2014 %**	28 weeks to 28 September 2013 %	52 weeks to 15 March 2014 %
Like-for-like sales	**(3.4)**	1.5	-
Net new space (excluding extensions and replacements)	**2.0**	2.9	2.7
Total sales growth	**(1.4)**	4.4	2.7

Retail sales (excluding fuel) were flat year-on-year, with a LFL decline of 2.1 per cent. This was a smaller decline than the sales including fuel due to retail price deflation in fuel and lower LFL fuel volumes. LFL sales (excluding fuel) declined 1.1 per cent in the first quarter and 2.8 per cent in the second quarter. The decline was due to acceleration in more frequent, convenient shopping resulting in smaller basket sizes, price deflation in many food categories and annualising strong performance in the prior year. Sainsbury's growth was behind the market, with market share declining by 14 basis points year-on-year to 16.7 per cent for the 52 weeks to 14 September 2014 (as measured by Kantar).

The contribution from net new space (excluding extensions and replacements) of 2.1 per cent was in line with Sainsbury's expectations.

Our multi-channel strategy enables customers to shop whenever and wherever they want. The convenience business grew sales by 17 per cent to over £1 billion, ahead of the market, and groceries online grew around nine per cent year-on-year, lower than the previous year's growth reflecting increased competitor acquisition activity. Sainsbury's non-food offer continued to grow ahead of the market, supported by continued range development and the roll-out of new space.

Retail sales growth (including VAT, excluding fuel)	**28 weeks to 27 September 2014 %**	28 weeks to 28 September 2013 %	52 weeks to 15 March 2014 %
Like-for-like sales[1]	**(2.1)**	1.4	0.2
Net new space (excluding extensions and replacements)	**2.1**	2.6	2.5
Total sales growth	**-**	4.0	2.7

1 This includes a 0.2 per cent contribution from stores extended in 2014/15, net of disruptions (2013/14: 0.3 per cent).

Sainsbury's added a gross 347,000 sq ft of selling space in the first half (including replacements and extensions), an increase of 1.6 per cent (2013/14: 393,000 sq ft and 1.8 per cent). Including the impact of closures, this translated into net space growth of 320,000 sq ft, an increase of 1.4 per cent since the start of the year (2013/14: 389,000 sq ft and 1.8 per cent).

In the first half, Sainsbury's opened three new supermarkets, of which one was a replacement store (2013/14: six new supermarkets, of which none were replacements) and completed five supermarket refurbishments and four extensions (2013/14: eight supermarket refurbishments and two extensions). Convenience continues to be a key area of growth, with 50 stores added during the half-year (2013/14: 50 stores), in line with our target of opening around two new stores per week. One store was closed (2013/14: two stores) and 22 were refurbished (2013/14: 22 stores).

Net of replacements, closures and disposals, closing space of 22,480,000 sq ft was 3.8 per cent higher than last year (28 September 2013: 21,654,000 sq ft).

Store numbers and retailing space 28 weeks to 27 September 2014	**Supermarkets**		**Convenience**		**Total**	
	Number	Area 000 sq ft	Number	Area 000 sq ft	**Number**	**Area 000 sq ft**
At 15 March 2014	592	20,744	611	1,416	**1,203**	**22,160**
New stores	3	152	50	118	**53**	**270**
Disposals/closures	(1)	(24)	(1)	(3)	**(2)**	**(27)**
Extensions/refurbishments/downsizes	-	78	-	(1)	-	**77**
At 27 September 2014	**594**	**20,950**	**660**	**1,530**	**1,254**	**22,480**
Memorandum:						
Extensions	4	70	-	-	**4**	**70**
Refurbishments/downsizes	5	8	22	(1)	**27**	**7**
Total projects	**9**	**78**	**22**	**(1)**	**31**	**77**

In the second half of 2014/15, Sainsbury's expects LFL sales to be similar to the first half. Contribution from new space (excluding extensions and replacements) is expected to be around 2.0 per cent.

In 2014/15, Sainsbury's expects to deliver around 750,000 sq ft of gross new space, with around two new convenience store openings per week.

Retail underlying operating profit

Retail underlying operating profit decreased by 11.8 per cent to £388 million (2013/14: £440 million), reflecting lower LFL sales and investment in the customer offer, particularly in staple products, in order to remain price competitive. This was partly offset by increased cost savings year-on-year of around £75 million (2013/14: £55 million).

Retail underlying operating margin declined by 37 basis points year-on-year to 3.10 per cent (2013/14: 3.47 per cent), equivalent to a 39 basis points decline at constant fuel prices. Retail underlying EBITDAR margin increased by one basis point to 7.86 per cent, or a five basis point decline to 7.80 per cent at constant fuel prices.

Retail underlying operating profit	**28 weeks to 27 September 2014**	28 weeks to 28 September 2013	Change	Change at constant fuel prices	52 weeks to 15 March 2014
Retail underlying operating profit (£m)[1]	**388**	440	(11.8)%		873
Retail underlying operating margin (%)[2]	**3.10**	3.47	(37)bps	(39)bps	3.65
Retail underlying EBITDAR (£m)[3]	**982**	996	(1.4)%		1,926
Retail underlying EBITDAR margin (%)[4]	**7.86**	7.85	1bp	(5)bps	8.05

1 Underlying earnings before interest, tax, Sainsbury's Bank underlying operating profit and Sainsbury's underlying share of post-tax profits from JVs.
2 Retail underlying operating profit divided by retail sales excluding VAT.
3 Retail underlying operating profit before rent, depreciation and amortisation.
4 Retail underlying EBITDAR divided by retail sales excluding VAT.

In 2014/15, Sainsbury's expects cost inflation towards the lower end of the two to three per cent range and efficiency savings of around £140 million.

We have announced today an investment of £150 million in price, of which approximately half will fall in the second half of 2014/15 and the remainder in the first half of 2015/16. When combined with the outperformance of both the Bank and cost savings in the first half that we do not expect to be repeated in the second half, Sainsbury's expects profitability to be lower in the second half than the first half.

Financial services - Sainsbury's Bank

Sainsbury's completed its purchase of the remaining 50 per cent of Sainsbury's Bank on 31 January 2014 and the Bank has been 100 per cent consolidated for the six months to 31 August 2014. The Bank contributed £35 million to Group underlying profit before tax (2013/14: £12 million).

Sainsbury's Bank results	**6 months to 31 August 2014**	6 months to 31 August 2013	Change %	50 weeks to 28 February 2014
Total income (£m)[1]	**131**	122	7.4	229
Underlying operating profit (£m)	**35**	27	29.6	53
Recognised as a joint venture (£m)	**-**	12	(100.0)	18
Consolidated as a subsidiary (£m)	**35**	-	n/a	6
Impact on Group underlying profit before tax	**35**	12	191.7	24
Net interest margin (%)[2]	**4.0**	2.7	126bps	3.1
Bad debt as a percentage of lending (%)[3]	**0.8**	1.3	53bps	1.1
Tier one capital ratio (%)[4]	**13.5**	12.5	103bps	13.6

1 Net interest and net commission income.
2 Net interest receivable divided by average interest-bearing assets.
3 Bad debt expense divided by gross lending.
4 Tier one capital divided by risk-weighted assets.

Sainsbury's Bank total income increased by 7.4 per cent to £131 million (2013/14: £122 million), mainly due to lower market savings rates which resulted in a reduction in interest payable.

Sainsbury's Bank delivered an underlying operating profit of £35 million, a 29.6 per cent increase year-on-year. This increase was driven by the higher total income and favourable bad debt levels, partly offset by incremental running costs associated with the move to a new, more flexible banking platform.

Bad debt levels as a percentage of lending improved to 0.8 per cent (2013/14: 1.3 per cent) as a result of improved recovery processes, low market interest rates and improving economic conditions. Net interest margin increased by 126 basis points year-on-year to 4.0 per cent (2013/14: 2.7 per cent) mainly driven by changes to the funding structure. The tier one capital ratio increased by 103 basis points year-on-year to 13.5 per cent (31 August 2013: 12.5 per cent).

In 2014/15, Sainsbury's Bank is expected to deliver around ten to 15 per cent year-on-year growth in underlying operating profit.

Property and other joint ventures ('JV')

Sainsbury's underlying share of post-tax profit from its JV with British Land was £6 million (2013/14: £7 million). Its underlying share of post-tax profit from the JV with Land Securities was £2 million (2013/14: £1 million).

An investment property fair value movement of £18 million was recognised within the share of post-tax profit from the JVs in the income statement (2013/14: £1 million surplus), with average property yields of the JVs decreasing to 5.0 per cent, 0.1 percentage points lower than the prior half-year (2013/14: 5.1 per cent), partly offset by rental increases.

The two start-up JVs, *Mobile by Sainsbury's* and I^2C, recognised a net loss of £2 million driven by start-up costs (2013/14: £2 million loss).

In 2014/15, Sainsbury's expects the share of profit from the property JVs to be around £14 million. Sainsbury's share of loss from the start-up JVs, now including Netto, is expected to be around £10 million.

Underlying net finance costs

Underlying net finance costs decreased by £4 million year-on-year to £54 million (2013/14: £58 million). This was driven by a change in the mix of debt and a decrease in the inflation rate on Sainsbury's inflation-linked debt[1], partly offset by a reduction in capitalised interest.

Underlying net finance costs

	28 weeks to 27 September 2014 £m	28 weeks to 28 September 2013 £m	52 weeks to 15 March 2014 £m
Underlying finance income[2]	**10**	10	20
Interest costs	**(76)**	(83)	(157)
Capitalised interest	**12**	15	26
Underlying finance costs[2]	**(64)**	(68)	(131)
Underlying net finance costs[2]	**(54)**	(58)	(111)

1 The interest rate on the inflation-linked debt resets annually in April, by reference to the RPI rate (capped at five per cent) prevailing in January.
2 Finance income/costs before financing fair value movements and the IAS 19 Revised pension financing charge.

Sainsbury's expects underlying net finance costs in 2014/15 to be around £105 million, including capitalised interest of around £20 million.

Items excluded from underlying results

Items excluded from underlying results totalled a charge of £665 million (2013/14: £33 million credit), mainly due to one-off items.

Items excluded from underlying results

	28 weeks to 27 September 2014 £m	28 weeks to 28 September 2013 £m	52 weeks to 15 March 2014 £m
Profit on disposal of properties	**4**	18	52
Investment property fair value movements	**18**	1	-
Retail financing fair value movements	**(12)**	(3)	(8)
IAS 19 Revised pension financing charge	**(16)**	(14)	(23)
Defined benefit pension scheme expenses	**(2)**	(5)	(7)
Acquisition adjustments	**6**	-	18
One-off items	**(663)**	36	68
Total items excluded from underlying results	**(665)**	33	100

One-off items

The charge to one-off items of £663 million (2013/14: £36 million credit) includes: a non-cash impairment and onerous contract charge of £628 million; costs of £23 million in relation to transitioning Sainsbury's Bank to a new, more flexible banking platform; and £12 million of pension compensation payments made to employees as a result of the closure of Sainsbury's defined benefit pension scheme to future accrual.

As part of adapting to our changing customer needs, we have reassessed our store pipeline and the potential to achieve an appropriate return on capital, which resulted in a decision that some sites will no longer be developed, for which a charge of £287 million has been recognised. A charge of £341 million has also been recognised in relation to unprofitable and marginally profitable trading stores.

One-off items	**28 weeks to 27 September 2014 £m**	28 weeks to 28 September 2013 £m	52 weeks to 15 March 2014 £m
Impairment and onerous contract charge	**(628)**	(92)	(92)
Sainsbury's Bank costs	**(23)**	(17)	(45)
Pension compensation payments	**(12)**	-	(10)
Pension past service credit	-	158	158
Nectar VAT	-	-	76
Other	-	(13)	(19)
Total one-off items	**(663)**	36	68

In 2014/15, Sainsbury's Bank costs for transitioning to a new, more flexible banking platform are expected to be around £50 million (capital costs relating to the transition are expected to be around £70 million). Pension compensation payments are expected to be £17 million.

Taxation

The income tax charge was £54 million (2013/14: £93 million), with an underlying tax rate of 26.4 per cent (2013/14: 21.5 per cent) and an effective tax rate of (18.6) per cent (2013/14: 21.5 per cent). The underlying rate is higher than last year, mainly due to the revaluation of deferred tax balances reducing the rate in the prior year, but not repeated in the current year. The effective tax rate was negative, mainly as a result of the impairment costs not being deductible for tax purposes.

Underlying tax rate 28 weeks to 27 September 2014	**Profit £m**	**Tax £m**	**Rate %**
Profit before tax, and tax thereon	(290)	(54)	(18.6)
Adjustments (and tax thereon) for:			
Profit on disposal of properties	(4)	-	
Investment property fair value movements	(18)	-	
Retail financing fair value movements	12	(1)	
IAS 19 Revised pension financing	16	(5)	
Defined benefit pension scheme expenses	2	(1)	
Acquisition adjustments	(6)	2	
One-off items	663	(41)	
Revaluation of deferred tax balances	-	1	
Underlying profit before tax, and tax thereon	**375**	(99)	**26.4**

In 2014/15, Sainsbury's expects the underlying tax rate for the full year to be broadly in line with the rate for the half-year.

Earnings per share

Underlying basic earnings per share decreased by 12.7 per cent to 14.5 pence in the first half of 2014/15 (2013/14: 16.6 pence) reflecting the fall in underlying profits, a higher underlying tax rate year-on-year and additional shares issued during the year.

The weighted average number of shares in issue was 1,909.4 million (2013/14: 1,894.4 million), an increase of 15.0 million shares or 0.8 per cent. Basic loss per share was 18.0 pence (2013/14: 17.9 pence earnings). The basic loss per share was lower than the underlying basic earnings per share due to the items excluded from underlying results.

Underlying earnings per share

	28 weeks to 27 September 2014 pence per share	28 weeks to 28 September 2013 pence per share
Basic (loss)/earnings per share	**(18.0)**	17.9
Adjustments (net of tax) for:		
Profit on disposal of properties	**(0.2)**	(1.0)
Investment property fair value movements	**(0.9)**	(0.1)
Retail financing fair value movements	**0.5**	0.2
IAS 19 Revised pension financing charge	**0.5**	0.5
Defined benefit pension scheme expenses	**0.1**	0.2
Acquisition adjustments	**(0.2)**	-
One-off items	**32.6**	(0.6)
Revaluation of deferred tax balances	**0.1**	(0.5)
Underlying basic earnings per share	**14.5**	16.6

Dividends

The Board has recommended an interim dividend of 5.0 pence per share (2013/14: 5.0 pence). This will be paid on 2 January 2015 to shareholders on the Register of Members at the close of business on 21 November 2014. The interim dividend was approved by the Board on 11 November 2014 and, as such, has not been included as a liability as at 27 September 2014.

Sainsbury's will maintain the interim dividend at 5.0 pence per share for this year and dividend cover at two times our underlying earnings for 2014/15. Given expected profitability[1], the dividend is expected to reduce year-on-year.

1 2014/15 UPBT consensus estimate of £677 million as published on www.j-sainsbury.co.uk/investor-centre/analyst-consensus at 17.00 on 11 November 2014.

Financing

The Group's key financing objectives are to diversify funding sources, to minimise refinancing risk and to maintain appropriate standby liquidity. As at 27 September 2014, the Group had drawn borrowing facilities of £2.9 billion and undrawn but committed borrowing facilities of £650 million at its disposal.

The principal elements of the Group's core borrowings comprise of two long-term loans of £891 million due 2018 and £821 million due 2031, both secured over property assets. In addition, the Group has unsecured borrowings totalling £339 million with maturities ranging from 2015 to 2019, unsecured private placement loans totalling £184 million with maturities ranging from 2015 to 2017 and £140 million of hire purchase facilities.

In February 2014, the Group entered into a new syndicated committed revolving credit facility for £1,150 million, replacing the £690 million facility which was due to mature in October 2015. The £1,150 million facility is split into two tranches, a £500 million Facility (A) maturing in March 2017 and a £650 million Facility (B) maturing in March 2019. As at 27 September 2014, £500 million had been drawn under Facility (A) (28 September 2013: £nil). The £1,150 million facility, bank loans and private placement loans contain only one financial covenant, being the ratio of EBITDAR to consolidated net interest plus net rental expenditure, the 'Fixed Charge Cover' ratio. As at the half-year, Sainsbury's comfortably passed this covenant test.

Net debt and cash flows

Sainsbury's net debt includes the cost of acquiring Sainsbury's Bank, but excludes Sainsbury's Bank's own net debt balances. As at 27 September 2014, net debt was £2,382 million (28 September 2013: £2,187 million), an increase of £195 million year-on-year and a decrease of £2 million since 15 March 2014. The year-on-year increase was driven primarily by the additional funding used to acquire Sainsbury's Bank at the end of 2013/14 and an increase in capital expenditure, partly offset by improvements in retail working capital.

Operating cash flows before changes in working capital decreased by 11.0 per cent to £620 million (2013/14: £697 million) and cash generated from operations decreased by 24.6 per cent to £524 million (2013/14: £695 million, 9.1 per cent increase), mainly due to an adverse movement in Sainsbury's Bank working capital. Retail operating cash flow after changes in working capital increased by 29.1 per cent to £897 million (2013/14: £695 million).

Total working capital increased by £96 million from 15 March 2014, driven by an increase in Sainsbury's Bank working capital of £408 million, partly offset by a £312m improvement in retail working capital. The £312 million improvement in retail working capital was mainly due to an increase in trade payables of £383 million.

The net cash used in investing activities of £554 million was £231 million higher year-on-year (2013/14: £323 million) driven by higher capital expenditure and lower proceeds from property transactions. Receipt of new debt of £530 million during the year relates to a £200 million bank loan maturing in August 2019, a £30 million hire purchase facility maturing in May 2019 and an additional £300 million drawing under the new £1,150 million syndicated committed revolving credit facility maturing in 2017 and 2019. The new debt offsets £322 million of borrowings repaid during the year.

Summary cash flow statement

	28 weeks to 27 September 2014 £m	28 weeks to 28 September 2013 £m	52 weeks to 15 March 2014 £m
Operating cash flow before changes in working capital	**620**	697	1,366
Decrease/(increase) in retail working capital	**312**	(2)	(128)
Increase in Sainsbury's Bank working capital	**(408)**	-	(11)
Cash generated from operations	**524**	695	1,227
Interest paid	**(76)**	(74)	(148)
Corporation tax paid	**(50)**	(55)	(140)
Net cash from operating activities	**398**	566	939
Net cash used in investing activities	**(554)**	(323)	(590)
Acquisition of subsidiaries net of cash acquired	**(1)**	-	1,016
Proceeds from issue of shares	**8**	5	19
Receipt of new debt	**530**	150	450
Repayment of borrowings	**(322)**	(80)	(439)
Purchase of own shares	**(3)**	-	-
Dividends paid	**(234)**	(225)	(320)
(Decrease)/Increase in cash and cash equivalents	**(178)**	93	1,075
Elimination of net increase in Sainsbury's Bank cash and cash equivalents	**385**	-	(1,225)
Increase in debt	**(213)**	(77)	(27)
Fair value and other non-cash movements	**8**	(41)	(45)
Movement in net debt	**2**	(25)	(222)

Sainsbury's expects 2014/15 year-end net debt to be around £2.4 billion.

Retail capital expenditure

Core retail capital expenditure increased by £108 million in the first half of 2014/15 to £557 million (2013/14: £449 million), due to higher land purchases year-on-year and the phasing of Digital and Technology ('D&T') expenditure. Core retail capital expenditure as a percentage of retail sales (including fuel, including VAT) was 4.0 per cent (2013/14: 3.2 per cent).

Three supermarkets were opened in the first half (2013/14: six supermarkets) along with 50 new convenience stores (2013/14: 50 convenience stores).

Expenditure on extensions and refurbishments decreased year-on-year following a reduction to 27 refurbishments (2013/14: 30 refurbishments), comprising five supermarkets (2013/14: eight supermarkets) and 22 convenience stores (2013/14: 22 convenience stores). This was partly offset by a year-on-year increase in the number of supermarket extensions to four (2013/14: two extensions).

There were no sale and leaseback proceeds in the first half (2013/14: £122 million), resulting in net retail capital expenditure of £562 million (2013/14: £332 million).

Retail capital expenditure	**28 weeks to 27 September 2014 £m**	28 weeks to 28 September 2013 £m	52 weeks to 15 March 2014 £m
New store development (£m)	**300**	234	418
Extensions and refurbishments (£m)	**134**	140	274
Other – including supply chain and D&T (£m)	**123**	75	196
Core retail capital expenditure (£m)	**557**	449	888
Acquisition of freehold and trading properties (£m)	**(2)**	5	41
Proceeds from property transactions (£m)[1]	**7**	(122)	(301)
Net retail capital expenditure	**562**	332	628
Capex/sales ratio (%)[2]	**4.0**	3.2	3.4

1 Includes movement in timing of capital debtors and creditors.
2 Core retail capital expenditure divided by retail sales (including fuel, including VAT).

In 2014/15, Sainsbury's expects core retail capital expenditure (excluding Sainsbury's Bank) to be similar to 2013/14 and core retail capital expenditure as a percentage of retail sales (including fuel, including VAT) to also be similar to 2013/14.

Return on capital employed

The return on capital employed ('ROCE') over the 52 weeks to 27 September 2014 was 11.1 per cent (2013/14: 11.4 per cent), a decrease of 26 basis points year-on-year. ROCE is enhanced by the net pension deficit, which reduces capital employed.

ROCE excluding the net pension deficit and over the 52 weeks to 27 September 2014 was 10.3 per cent (2013/14: 10.5 per cent), a year-on-year decrease of 26 basis points. ROCE decline was due to the fall in underlying operating profit driven by lower LFL sales, partly offset by the non-cash impairment and onerous contract charge of £628 million, reducing closing capital employed.

Return on capital employed

	52 weeks to 27 September 2014	52 weeks to 28 September 2013	52 weeks to 15 March 2014[2]
Total underlying operating profit (£m)	**862**	858	879
Underlying share of post-tax profit from JVs (£m)	**18**	36	30
Underlying profit before interest and tax (£m)	**880**	894	909
Average capital employed[1] (£m)	**7,924**	7,865	8,073
Return on capital employed (%)	**11.1**	11.4	11.3
Return on capital employed (%) (excluding pension fund deficit)	**10.3**	10.5	10.4
52 week ROCE movement to 27 September 2014	**(26)bps**		
52 week ROCE movement to 27 September 2014 (excluding pension fund deficit)	**(26)bps**		

1 Average of opening and closing net assets before net debt.
2 The closing capital employed for the 52 weeks to 15 March 2014 has been reduced by 50 per cent of Sainsbury's Bank consolidated net assets (£243 million) to reflect the fact that the Bank was only consolidated in the accounts for four weeks of the 2013/14 financial year.

Summary balance sheet

Shareholders' funds as at 27 September 2014 were £5,517 million (15 March 2014: £6,005 million), a decrease of £488 million, mainly attributable to the non-cash impairment and onerous contract charge of £628 million.

The book value of property, plant and equipment, including land and buildings, decreased by £298 million (excluding Sainsbury's Bank) since the year-end, driven by the impairment, offset by continued space growth.

Net debt was £2 million lower than at 15 March 2014 (28 September 2013: £25 million higher than at 16 March 2013) driven by improvements in retail working capital, partly offset by the lower profitability and higher capital expenditure year-on-year.

Net assets of £532 million as a result of the full consolidation of Sainsbury's Bank have been included and separately identified.

Group adjusted net debt to EBITDAR was 3.8 times (2013/14: 3.7 times[1]) and interest cover remained at 7.9 times (2013/14: 7.9 times). Fixed charge cover remained at 3.0 times (2013/14: 3.0 times). Gearing increased year-on-year to 43.2 per cent (28 September 2014: 38.0 per cent) as a result of the increase in net debt and a reduction in equity shareholder funds. Excluding the pension deficit, gearing increased to 38.7 per cent (28 September 2014: 34.1 per cent).

Summary balance sheet	**As at 27 September 2014 £m**	Movement since 15 March 2014 £m	As at 28 September 2013 £m	As at 15 March 2014 £m
Land and buildings (freehold & long leasehold)	**6,916**	(211)	7,176	7,127
Land and buildings (short leasehold)	**798**	47	702	751
Fixtures and fittings	**1,850**	(134)	1,912	1,984
Property, plant and equipment	**9,564**	(298)	9,790	9,862
Other non-current assets	**869**	79	958	790
Inventories	**1,055**	50	1,051	1,005
Trade and other receivables	**328**	38	381	290
Sainsbury's Bank assets[2]	**3,993**	(120)	-	4,113
Cash and cash equivalents	**577**	210	603	367
Debt	**(2,959)**	(208)	(2,790)	(2,751)
Net debt	**(2,382)**	2	(2,187)	(2,384)
Trade and other payables and provisions	**(3,815)**	(451)	(3,573)	(3,364)
Retirement benefit obligations, net of deferred tax	**(634)**	45	(658)	(679)
Sainsbury's Bank liabilities[2]	**(3,461)**	167	-	(3,628)
Net assets	**5,517**	(488)	5,762	6,005

Key financial ratios				
Group adjusted net debt to EBITDAR[3]	**3.8 times**		3.7 times	3.9 times
Interest cover[4]	**7.9 times**		7.9 times	8.2 times
Fixed charge cover[5]	**3.0 times**		3.0 times	3.1 times
Gearing[6]	**43.2%**		38.0%	39.7%
Gearing (excluding pension deficit)[7]	**38.7%**		34.1%	35.7%

1 2013/14 restated to reflect changes in disclosure of lease lengths beyond five years.
2 As at 31 August 2014.
3 Net debt of £2,382 million plus capitalised lease obligations of £5,090 million (5.5 per cent discount rate), divided by group underlying EBITDAR of £1,966 million, calculated for a 52 week period to 27 September 2014.
4 Underlying profit before interest and tax divided by underlying net finance costs, calculated for a 28 week period at half-year, and 52 week period at year-end.
5 Group underlying EBITDAR divided by net rent and underlying net finance costs, calculated for a 28 week period at half-year, and 52 week period at year-end.
6 Net debt divided by net assets.
7 Net debt divided by net assets, excluding pension deficit.

As at 27 September 2014, Sainsbury's estimated market value of properties, including our 50 per cent share of properties held within property JVs, was £11.9 billion[1] (15 March 2014: £12.0 billion). The £0.1 billion decrease since the year-end was as a result of the non-cash impairment, partly offset by a six basis points improvement in the yield to 4.6 per cent (15 March 2014: 4.7 per cent).

The summary balance sheet presented above discloses Sainsbury's Bank assets and liabilities separately to aid interpretation. A summary balance sheet is also presented with Sainsbury's Bank consolidated by line.

Summary balance sheet	**As at 27 September 2014 £m**	Movement since 15 March 2014 £m	As at 28 September 2013 £m	As at 15 March 2014 £m
Land and buildings (Freehold & long leasehold)	**6,917**	(210)	7,176	7,127
Land and buildings (Short leasehold)	**798**	47	702	751
Fixtures and fittings	**1,869**	(133)	1,912	2,002
Property, plant and equipment	**9,584**	(296)	9,790	9,880
Other non-current assets	**2,385**	151	958	2,234
Inventories	**1,055**	50	1,051	1,005
Trade and other receivables	**1,945**	229	381	1,716
Sainsbury's Bank cash and cash equivalents	**840**	(385)	-	1,225
Cash and cash equivalents	**577**	210	603	367
Debt	**(2,959)**	(208)	(2,790)	(2,751)
Net debt	**(2,382)**	2	(2,187)	(2,384)
Trade and other payables and provisions	**(7,276)**	(284)	(3,573)	(6,992)
Retirement benefit obligations, net of deferred tax	**(634)**	45	(658)	(679)
Net assets	**5,517**	(488)	5,762	6,005

1 The property value is based on a desktop valuation performed by BNP Paribas Real Estate as at 27 September 2014. The basis of valuation was investment market value based on rent and yield, assuming sale and leaseback on the standard institutional lease which the Group currently uses when transacting its disposals of dry assets.

Defined benefit pensions

As at 27 September 2014, the post-tax pension deficit was £634 million, an improvement of £24 million year-on-year (28 September 2013: £658 million). The year-on-year reduction in the deficit was driven by outperformance of assets, partly offset by a fall in the real discount rate and changes in other assumptions that increased the present value of funded obligations.

Retirement benefit obligations	**27 September 2014 £m**	28 September 2013 £m	15 March 2014 £m
Present value of funded obligations	**(7,174)**	(6,580)	(6,855)
Fair value of plan assets	**6,500**	5,884	6,131
Pension deficit	**(674)**	(696)	(724)
Present value of unfunded obligations	**(13)**	(13)	(13)
Retirement benefit obligations	**(687)**	(709)	(737)
Deferred income tax asset	**53**	51	58
Net retirement benefit obligations	**(634)**	(658)	(679)

Group income statement (unaudited)
for the 28 weeks to 27 September 2014

	Note	**28 weeks to 27 September 2014 £m**	28 weeks to 28 September 2013 £m	52 weeks to 15 March 2014 £m
Revenue	4	**12,667**	12,684	23,949
Cost of sales		**(12,168)**	(11,974)	(22,562)
Gross profit		**499**	710	1,387
Administrative expenses		**(735)**	(239)	(444)
Other income		**2**	18	66
Operating (loss)/profit		**(234)**	489	1,009
Finance income	5	**10**	10	20
Finance costs	5	**(90)**	(84)	(159)
Share of post-tax profit from joint ventures and associates		**24**	18	28
(Loss)/profit before tax		**(290)**	433	898
Analysed as:				
Underlying profit before tax		**375**	400	798
Profit on disposal of properties	3	**4**	18	52
Investment property fair value movements	3	**18**	1	-
Retail financing fair value movements	3	**(12)**	(3)	(8)
IAS 19 Revised pension financing charge	3	**(16)**	(14)	(23)
Defined benefit pension scheme expenses	3	**(2)**	(5)	(7)
Acquisition adjustments	3	**6**	-	18
One-off items	3	**(663)**	36	68
		(290)	433	898
Income tax expense	6	**(54)**	(93)	(182)
(Loss)/profit for the financial period		**(344)**	340	716
Attributable to:				
Owners of the parent		**(344)**	340	716
Non-controlling interests		**-**	-	-
		(344)	340	716

Earnings/(loss) per share	7	**pence**	pence	pence
Basic		**(18.0)**	17.9	37.7
Diluted		**(18.0)**	17.6	36.9
Underlying basic		**14.5**	16.6	32.8
Underlying diluted		**14.3**	16.3	32.2

The notes on pages 29 to 46 form an integral part of these Condensed Consolidated Interim Financial Statements.

Group statement of comprehensive income (unaudited)
for the 28 weeks to 27 September 2014

	28 weeks to 27 September 2014 £m	28 weeks to 28 September 2013 £m	52 weeks to 15 March 2014 £m
(Loss)/profit for the financial period	**(344)**	340	716
Items that will not be reclassified subsequently to the income statement:			
Remeasurement on defined benefit pension schemes	**51**	(229)	(326)
Current tax relating to items not reclassified	**2**	19	34
Deferred tax relating to items not reclassified	**(4)**	8	19
	49	(202)	(273)
Items that may be reclassified subsequently to the income statement:			
Currency translation differences	**-**	(1)	(2)
Available-for-sale financial assets fair value movements			
Group	**13**	22	34
Cash flow hedges effective portion of fair value movements			
Group	**(4)**	(30)	(43)
Joint ventures and associates	**1**	1	2
Items reclassified to cash flow hedge reserve	**17**	(6)	4
Current tax relating to items that may be reclassified	**-**	-	(1)
Deferred tax relating to items that may be reclassified	**(2)**	1	(2)
	25	(13)	(8)
Total other comprehensive income/(expense) for the financial period (net of tax)	**74**	(215)	(281)
Total comprehensive (expense)/income for the financial period	**(270)**	125	435
Attributable to:			
Owners of the parent	**(270)**	125	435
Non-controlling interests	**-**	-	-
	(270)	125	435

The notes on pages 29 to 46 form an integral part of these Condensed Consolidated Interim Financial Statements.

Group balance sheet (unaudited)
at 27 September 2014

	Note	**27 September 2014 £m**	28 September 2013 £m	15 March 2014 £m
Non-current assets				
Property, plant and equipment		**9,584**	9,790	9,880
Intangible assets		**303**	175	286
Investments in joint ventures and associates		**413**	557	404
Available-for-sale financial assets		**267**	211	255
Other receivables		**83**	50	26
Amounts due from Sainsbury's Bank customers		**1,338**	-	1,292
Derivative financial instruments		**22**	33	28
		12,010	10,816	12,171
Current assets				
Inventories		**1,055**	1,051	1,005
Trade and other receivables		**488**	381	433
Amounts due from Sainsbury's Bank customers		**1,457**	-	1,283
Derivative financial instruments		**47**	57	49
Cash and bank balances	9b	**1,417**	603	1,592
		4,464	2,092	4,362
Non-current assets held for sale		**17**	-	7
		4,481	2,092	4,369
Total assets		**16,491**	12,908	16,540
Current liabilities				
Trade and other payables		**(3,065)**	(2,869)	(2,692)
Amounts due to Sainsbury's Bank customers and other deposits		**(3,155)**	-	(3,245)
Borrowings		**(374)**	(481)	(534)
Derivative financial instruments		**(54)**	(65)	(65)
Taxes payable		**(148)**	(153)	(189)
Provisions		**(70)**	(9)	(40)
		(6,866)	(3,577)	(6,765)
Net current liabilities		**(2,385)**	(1,485)	(2,396)
Non-current liabilities				
Other payables		**(257)**	(190)	(204)
Amounts due to Sainsbury's Bank customers and other deposits		**(216)**	-	(302)
Borrowings		**(2,615)**	(2,354)	(2,250)
Derivative financial instruments		**(27)**	(15)	(21)
Deferred income tax liability		**(229)**	(263)	(227)
Provisions		**(77)**	(38)	(29)
Retirement benefit obligations	12	**(687)**	(709)	(737)
		(4,108)	(3,569)	(3,770)
Net assets		**5,517**	5,762	6,005
Equity				
Called up share capital		**547**	543	545
Share premium account		**1,098**	1,079	1,091
Capital redemption reserve		**680**	680	680
Other reserves		**150**	123	127
Retained earnings		**3,042**	3,336	3,560
Equity attributable to owners of the parent		**5,517**	5,761	6,003
Non-controlling interests		**-**	1	2
Total equity		**5,517**	5,762	6,005

The notes on pages 29 to 46 form an integral part of these Condensed Consolidated Interim Financial Statements.

Group cash flow statement (unaudited)
for the 28 weeks to 27 September 2014

	Note	**28 weeks to 27 September 2014 £m**	28 weeks to 28 September 2013 £m	52 weeks to 15 March 2014 £m
Cash flows from operating activities				
Cash generated from operations	9a	**524**	695	1,227
Interest paid		**(76)**	(74)	(148)
Corporation tax paid		**(50)**	(55)	(140)
Net cash generated from operating activities		**398**	566	939
Cash flows from investing activities				
Purchase of property, plant and equipment		**(552)**	(457)	(916)
Purchase of intangible assets		**(34)**	(12)	(13)
Proceeds from disposal of property, plant and equipment		**5**	143	335
Acquisition of subsidiaries net of cash acquired		**(1)**	-	1,016
Increase in loans to joint ventures		-	(2)	(7)
Investment in joint ventures		**-**	(4)	(13)
Proceeds from repayment of loan to joint venture		**4**	-	4
Interest received		**9**	9	20
Dividends received		**14**	-	-
Net cash (used in)/generated from investing activities		**(555)**	(323)	426
Cash flows from financing activities				
Proceeds from issuance of ordinary shares		**8**	5	19
Proceeds from short-term borrowings		**-**	100	200
Repayment of short-term borrowings		**(255)**	-	(200)
Proceeds from long-term borrowings		**530**	50	250
Repayment of long-term borrowings		**(47)**	(63)	(206)
Purchase of own shares		**(3)**	-	-
Repayment of capital element of obligations under finance lease payments		**(15)**	(13)	(25)
Interest elements of obligations under finance lease payments		**(5)**	(4)	(8)
Dividends paid		**(234)**	(225)	(320)
Net cash used in financing activities		**(21)**	(150)	(290)
Net (decrease)/increase in cash and cash equivalents		**(178)**	**93**	1,075
Net opening cash and cash equivalents		**1,579**	**504**	504
Closing cash and cash equivalents	9b	**1,401**	**597**	1,579

The notes on pages 29 to 46 form an integral part of these Condensed Consolidated Interim Financial Statements.

Group statement of changes in equity (unaudited)

for the 28 weeks to 27 September 2014

	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 16 March 2014	**545**	**1,091**	**807**	**3,560**	**6,003**	**2**	**6,005**
(Loss) for the period	**-**	**-**	**-**	**(344)**	**(344)**	**-**	**(344)**
Other comprehensive income/(expense):							
Remeasurements on defined benefit pension schemes (net of tax)	**-**	**-**	**-**	**49**	**49**	**-**	**49**
Available-for-sale financial assets fair value movements (net of tax):							
Group	**-**	**-**	**11**	**-**	**11**	**-**	**11**
Cash flow hedges effective portion of changes in fair value (net of tax):							
Group	**-**	**-**	**(4)**	**-**	**(4)**	**-**	**(4)**
Joint ventures	**-**	**-**	**1**	**-**	**1**	**-**	**1**
Items reclassified from cash flow hedge reserve	**-**	**-**	**17**	**-**	**17**	**-**	**17**
Total comprehensive income/(expense) for the period ended 27 September 2014	**-**	**-**	**25**	**(295)**	**(270)**	**-**	**(270)**
Transactions with owners:							
Dividends paid	**-**	**-**	**-**	**(234)**	**(234)**	**-**	**(234)**
Amortisation of convertible bond equity component	**-**	**-**	**(2)**	**2**	**-**	**-**	**-**
Share-based payment (net of tax)	**-**	**-**	**-**	**11**	**11**	**-**	**11**
Purchase of own shares	**-**	**-**	**-**	**(3)**	**(3)**	**-**	**(3)**
Purchase of non-controlling interest	**-**	**-**	**-**	**2**	**2**	**(2)**	**-**
Allotted in respect of share option schemes	**2**	**7**	**-**	**(1)**	**8**	**-**	**8**
At 27 September 2014	**547**	**1,098**	**830**	**3,042**	**5,517**	**-**	**5,517**

At 17 March 2013	541	1,075	820	3,401	5,837	1	5,838
Profit for the period	-	-	-	340	340	-	340
Other comprehensive (expense)/income:							
Currency translation differences	-	-	(1)	-	(1)	-	(1)
Remeasurements on defined benefit pension schemes (net of tax)	-	-	-	(202)	(202)	-	(202)
Available-for-sale financial assets fair value movements (net of tax):							
Group	-	-	23	-	23	-	23
Cash flow hedges effective portion of changes in fair value (net of tax):							
Group	-	-	(30)	-	(30)	-	(30)
Joint ventures	-	-	1	-	1	-	1
Items reclassified from cash flow hedge reserve	-	-	(6)	-	(6)	-	(6)
Total comprehensive (expense)/income for the period ended 28 September 2013	-	-	(13)	138	125	-	125
Transactions with owners:							
Dividends paid	-	-	-	(225)	(225)	-	(225)
Amortisation of convertible bond equity component	-	-	(4)	3	(1)	-	(1)
Share-based payment (net of tax)	-	-	-	20	20	-	20
Allotted in respect of share option schemes	2	4	-	(1)	5	-	5
At 28 September 2013	543	1,079	803	3,336	5,761	1	5,762

The notes on pages 29 to 46 form an integral part of these Condensed Consolidated Interim Financial Statements.

Group statement of changes in equity (continued) (unaudited)
for the 28 weeks to 27 September 2014

	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 17 March 2013	541	1,075	820	3,401	5,837	1	5,838
Profit for the period	-	-	-	716	716	-	716
Other comprehensive (expense)/income:							
Currency translation differences	-	-	(2)	-	(2)	-	(2)
Remeasurements on defined benefit pension schemes (net of tax)	-	-	-	(273)	(273)	-	(273)
Available-for-sale financial assets fair value movements (net of tax):							
Group	-	-	31	-	31	-	31
Cash flow hedges effective portion of changes in fair value (net of tax):							
Group	-	-	(43)	-	(43)	-	(43)
Joint ventures	-	-	2	-	2	-	2
Items reclassified from cash flow hedge reserve	-	-	4	-	4	-	4
Total comprehensive (expense)/income for the 52 weeks to 15 March 2014	-	-	(8)	443	435	-	435
Transactions with owners:							
Dividends paid	-	-	-	(320)	(320)	-	(320)
Amortisation of convertible bond equity component	-	-	(5)	5	-	-	-
Share-based payment (net of tax)	-	-	-	31	31	-	31
Shares issued	-	-	-	-	-	1	1
Shares vested	-	-	-	12	12	-	12
Allotted in respect of share option schemes	4	16	-	(12)	8	-	8
At 15 March 2014	545	1,091	807	3,560	6,003	2	6,005

The notes on pages 29 to 46 form an integral part of these Condensed Consolidated Interim Financial Statements.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

1 General information

J Sainsbury plc is a public limited company ('Company') incorporated in the United Kingdom, whose shares are publicly traded on the London Stock Exchange. The Company is domiciled in the United Kingdom and its registered address is 33 Holborn, London EC1N 2HT, United Kingdom.

The Condensed Consolidated Interim Financial Statements are unaudited but have been reviewed by the auditors whose report is set out on pages 48 to 49. The financial information presented herein does not amount to full statutory accounts within the meaning of Section 434 of the Companies Act 2006. The Annual Report and Financial Statements 2014 have been filed with the Registrar of Companies. The Independent Auditors' report on the Annual Report and Financial Statements 2014 was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

The financial period represents the 28 weeks to 27 September 2014 (prior financial period 28 weeks to 28 September 2013; prior financial year 52 weeks to 15 March 2014). The financial information comprises the results of the Company and its subsidiaries (the 'Group') and the Group's interests in joint ventures and associates.

The Group's principal activities are grocery related retailing and retail banking.

2 Basis of preparation

The Interim Results, comprising the Condensed Consolidated Interim Financial Statements and the Interim Management Report, have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 'Interim Financial Reporting' as adopted by the European Union.

The financial information contained in the Interim Results is presented in sterling, rounded to the nearest million (£m) unless otherwise stated.

The financial information contained in the Condensed Consolidated Interim Financial Statements should be read in conjunction with the Annual Report and Financial Statements 2014, which were prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The accounting policies have remained unchanged since the prior financial year ended on 15 March 2014 other than the adoption of the accounting standards set out below which have not had any impact on the interim financial statements.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these Condensed Consolidated Interim Financial Statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements for the year ended 15 March 2014, with the exception of changes in estimates that are required in determining the provision for income taxes. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings adjusted for the impact of the impairment and onerous contract charge.

Sainsbury's Bank plc has been consolidated for six months to 31 August 2014 (15 March 2014: four weeks to 28 February 2014 and 46 weeks equity accounted as a joint venture, 28 September 2013: 28 weeks equity accounted as a joint venture). Adjustments have been made for the effects of significant transactions or events that occurred between this date and the Group's balance sheet date.

The Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

2 Basis of preparation (continued)

The Group has considered the following new standards, interpretations and amendments to published standards that are effective for the Group for the financial year beginning 16 March 2014 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.

- IFRS 10, 'Consolidated financial statements'*
- IFRS 11, 'Joint arrangements'*
- IFRS 12, 'Disclosures of interests in other entities'*
- IAS 27 (revised 2011) 'Separate financial statements'*
- IAS 28 (revised 2011) 'Associates and joint ventures'*
- Amendments to IFRS 10, 11 and 12 on transition guidance*
- Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures*
- Amendments to IAS 32 'Financial instruments: Presentation' on Financial instruments asset and liability offsetting*
- Amendment to IAS 39 'Financial instruments: Recognition and measurement', on novation of derivatives and hedge accounting*

* These standards and interpretations have been endorsed by the EU.

3 Non-GAAP performance measures

Certain items recognised in reported profit before tax can vary significantly from year to year and therefore create volatility in reported earnings which does not reflect the Group's underlying performance. Similarly, whilst defined benefit pension scheme expenses may not vary significantly, they no longer relate to the Group's ongoing activities given the closure of the defined benefit pension scheme to future accrual. The Directors believe that the 'underlying revenue', 'underlying profit before tax' ('UPBT') and 'underlying diluted and basic earnings per share' measures presented provide a clear and consistent presentation of the underlying performance of Sainsbury's ongoing business for shareholders. Underlying profit is not defined by IFRS and therefore may not be directly comparable with the 'adjusted' profit measures of other companies. The adjusted items are:

- Profit/loss on disposal of properties;
- Investment property fair value movements - these reflect the difference between the fair value of an investment property at the reporting date and its carrying amount at the previous reporting date;
- Retail financing fair value movements – includes net fair value movements on derivative financial instruments not designated in a hedging relationship, fair value movements on early repayment of loans carried at amortised cost and hedge ineffectiveness on fair value hedging relationships;
- Impairment of goodwill;
- The financing element of IAS 19 Revised;
- Defined benefit pension scheme expenses;
- Acquisition adjustments – these reflect the adjustments arising from the Sainsbury's Bank acquisition including the fair value unwind, the remeasurement of the previously held equity interest in Sainsbury's Bank and the amortisation of acquired intangibles; and
- One-off items – these are items which are material and infrequent in nature and do not relate to the Group's underlying performance.

3 Non-GAAP performance measures (continued)

The adjustments made to reported (loss)/profit before tax to arrive at underlying profit before tax are:

	28 weeks to 27 September 2014 £m	28 weeks to 28 September 2013 £m	52 weeks to 15 March 2014 £m
Underlying profit before tax	**375**	400	798
Profit on disposal of properties[1]	**4**	18	52
Investment property fair value movements	**18**	1	-
Retail financing fair value movements[2]	**(12)**	(3)	(8)
IAS 19 Revised pension financing charge	**(16)**	(14)	(23)
Defined benefit pension scheme expenses	**(2)**	(5)	(7)
Acquisition adjustments	**6**	-	18
One-off items[3]	**(663)**	36	68
Total adjustments	**(665)**	33	100
(Loss)/profit before tax	**(290)**	433	898

1 Profit on disposal of properties for the 28 weeks to 27 September 2014 comprised £2 million for the Group (28 September 2013: £18 million) and £2 million for the joint ventures (28 September 2013: £nil).

2 Retail financing fair value movements for the 28 weeks to 27 September 2014 comprised £(10) million for the Group (28 September 2013: £(2) million) and £(2) million for the joint ventures (28 September 2013: £(1) million).

3 Includes impairment of goodwill.

One-off items

One-off items of £663 million for the 28 week period to 27 September 2014 includes: a non-cash impairment and onerous contract charge of £628 million; costs of £23 million in relation to transitioning Sainsbury's Bank to a new, more flexible banking platform and £12 million of pension compensation payments.

As part of adapting to our changing customer needs, we have reassessed our store pipeline and the potential to achieve an appropriate return on capital, which resulted in a decision that some sites will no longer be developed. A charge of £287 million has been recognised within administration expenses, including £255 million of property plant and equipment which is all land and buildings, £1 million of goodwill, and £31 million of onerous contract provisions.

A charge of £341 million has also been recognised, £310 million within cost of sales and £31 million within administrative expenses, in relation to unprofitable and marginally profitable trading stores. This includes £283 million of property plant and equipment, comprised of £162 million of land and buildings and £121 million of fixtures and fittings, £7 million of intangible assets, comprised of £2 million goodwill and £5 million of other intangibles, and onerous lease provisions of £51 million.

The recoverable amount of these assets has been determined as the higher of value-in-use or fair-value less costs to dispose.

Compensation payments of £12 million were made to employees on transition to the Group's defined contribution pension schemes resulting from the closure of the Sainsbury's defined benefit pension scheme to future accrual in the prior year.

4 Operating segments

The Group's businesses are organised into three operating segments:

- Retailing (Supermarkets and Convenience);
- Financial services (Sainsbury's Bank); and
- Property investments (The British Land Company PLC joint venture and Land Securities Group PLC joint venture).

Management have determined the operating segments based on the information provided to the Operating Board (the Chief Operating Decision Maker for the Group) to make operational decisions on the management of the Group. All material operations and assets are in the UK. The business of the Group is not subject to highly seasonal fluctuations although there is an increase in retail trading in the period leading up to Christmas.

The Group has continued to include additional disclosure analysing the Group's financial services and property investment joint ventures into separate reportable segments.

Revenue from operating segments is measured on a basis consistent with the revenue number in the income statement. All revenue is generated by the sale of goods and services.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The Operating Board assesses the performance of all segments on the basis of underlying profit before tax. The reconciliation provided below reconciles underlying operating profit from each of the segments disclosed to profit before tax.

28 weeks to 27 September 2014	**Retailing £m**	**Financial services £m**	**Property investment £m**	**Group £m**
Segment revenue				
Retail sales to external customers	**12,497**	**-**	**-**	**12,497**
Financial services sales to external customers	**-**	**159**	**-**	**159**
Underlying revenue	**12,497**	**159**	**-**	**12,656**
Acquisition adjustment fair value unwind[1]	**-**	**11**	**-**	**11**
Revenue	**12,497**	**170**	**-**	**12,667**
Underlying operating profit	**388**	**35**	**-**	**423**
Underlying finance income	**10**	**-**	**-**	**10**
Underlying finance costs	**(64)**	**-**	**-**	**(64)**
Underlying share of post-tax profit from joint ventures and associates	**(2)**	**-**	**8**	**6**
Underlying profit before tax	**332**	**35**	**8**	**375**
Profit on disposal of properties	**2**	**-**	**2**	**4**
Investment property fair value movements	**-**	**-**	**18**	**18**
Retail financing fair value movements	**(10)**	**-**	**(2)**	**(12)**
IAS 19 Revised pension financing charge	**(16)**	**-**	**-**	**(16)**
Defined benefit pension scheme expenses	**(2)**	**-**	**-**	**(2)**
Acquisition adjustments	**-**	**6**	**-**	**6**
One-off items	**(640)**	**(23)**	**-**	**(663)**
(Loss)/profit before tax	**(334)**	**18**	**26**	**(290)**
Income tax expense				**(54)**
Loss for the financial period				**(344)**
Assets	**12,085**	**3,993**	**-**	**16,078**
Investment in joint ventures and associates	**1**	**-**	**412**	**413**
Segment assets	**12,086**	**3,993**	**412**	**16,491**
Segment liabilities	**(7,513)**	**(3,461)**	**-**	**(10,974)**

1 Represents fair value unwind on loans and advances to customers resulting from the Sainsbury's Bank acquisition.

4 Operating segments (continued)

28 weeks to 28 September 2013	Retailing £m	Financial services £m	Property investment £m	Group £m
Segment revenue	12,684	-	-	12,684
Underlying operating profit	440	-	-	440
Underlying finance income	10	-	-	10
Underlying finance costs	(68)	-	-	(68)
Underlying share of post-tax (loss)/profit from joint ventures and associates	(2)	12	8	18
Underlying profit before tax	380	12	8	400
Profit on disposal of properties	18	-	-	18
Investment property fair value movements	-	-	1	1
Retail financing fair value movements	(2)	-	(1)	(3)
IAS 19 Revised pension financing charge	(14)	-	-	(14)
Defined benefit pension scheme expenses	(5)	-	-	(5)
One-off items	53	(17)	-	36
Profit before tax	430	(5)	8	433
Income tax expense				(93)
Profit for the financial period				340
Assets	12,351	-	-	12,351
Investment in joint ventures and associates	3	171	383	557
Segment assets	12,354	171	383	12,908
Segment liabilities	(7,146)	-	-	(7,146)

52 weeks to 15 March 2014	Retailing £m	Financial services £m	Property investment £m	Group £m
Segment revenue				
Retail sales to external customers	23,921	-	-	23,921
Financial services sales to external customers	-	25	-	25
Underlying revenue	23,921	25	-	23,946
Acquisition adjustment fair value unwind[1]	-	3	-	3
Revenue	23,921	28	-	23,949
Underlying operating profit	873	6	-	879
Underlying finance income	20	-	-	20
Underlying finance costs	(131)	-	-	(131)
Underlying share of post-tax (loss)/profit from joint ventures and associates	(4)	18	16	30
Underlying profit before tax	758	24	16	798
Profit on disposal of properties	51	-	1	52
Retail financing fair value movements	(5)	-	(3)	(8)
IAS 19 Revised pension financing charge	(23)	-	-	(23)
Defined benefit pension scheme expenses	(7)	-	-	(7)
Acquisition adjustments	-	18	-	18
One-off items	113	(45)	-	68
Profit before tax	887	(3)	14	898
Income tax expense				(182)
Profit for the financial year				716
Assets	12,023	4,113	-	16,136
Investment in joint ventures and associates	3	-	401	404
Segment assets	12,026	4,113	401	16,540
Segment liabilities	(6,907)	(3,628)	-	(10,535)

1 Represents fair value unwind on loans and advances to customers resulting from the Sainsbury's Bank acquisition.

5 Finance income and finance costs

	28 weeks to 27 September 2014 £m	28 weeks to 28 September 2013 £m	52 weeks to 15 March 2014 £m
Interest on bank deposits and other financial assets	**10**	10	20
Finance income	**10**	10	20
Borrowing costs:			
Secured borrowings	**(45)**	(49)	(91)
Unsecured borrowings	**(25)**	(29)	(56)
Obligations under finance leases	**(5)**	(4)	(8)
Provisions – amortisation of discount	**(1)**	(1)	(2)
	(76)	(83)	(157)
Other finance costs:			
Interest capitalised – qualifying assets	**12**	15	26
Retail financing fair value movements[1]	**(10)**	(2)	(5)
IAS 19 Revised pension financing charge	**(16)**	(14)	(23)
	(14)	(1)	(2)
Finance costs	**(90)**	(84)	(159)

1 Retail financing fair value movements includes net fair value movements on derivative financial instruments not designated in a hedging relationship of £(6) million (28 September 2013: £(1) million, 15 March 2014: £(4) million) and fair value movement on early repayment of bank loans carried at amortised cost £(4) million (28 September 2013: £(1) million, 15 March 2014: £(1) million).

6 Income tax expense

	28 weeks to 27 September 2014	28 weeks to 28 September 2013	52 weeks to 15 March 2014
	£m	£m	£m
Current tax expense	**60**	98	214
Deferred tax credit	**(6)**	(5)	(32)
Total income tax expense in income statement	**54**	93	182
Underlying tax rate	**26.4%**	21.5%	21.9%
Effective tax rate	**(18.6)%**	21.5%	20.3%

	£m	£m	£m
Income tax expense on underlying profit	**99**	86	175
Tax on items below:			
Profit on disposal of properties	**-**	(1)	(1)
Retail financing fair value movements	**(1)**	-	(1)
IAS 19 Revised pension financing charge	**(5)**	(4)	(5)
Defined benefit pension scheme expenses	**(1)**	(1)	(2)
Acquisition adjustments	**2**	-	1
One-off items	**(41)**	24	35
Revaluation of deferred tax balances	**1**	(11)	(20)
Total income tax expense in income statement	**54**	93	182

The current and deferred tax in relation to the Group’s defined benefit pension scheme’s remeasurements and available-for-sale fair value movements have been charged or credited through other comprehensive income.

In the March 2013 Budget statement, it was announced that the main rate of corporation tax would reduce from 21 per cent to 20 per cent from 1 April 2015. This change was substantively enacted in July 2013 and hence the effect of the change on the deferred tax balances was included in the prior year figures.

7 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held by the Employee Share Ownership Plan trusts, which are treated as cancelled.

For diluted earnings per share, the earnings attributable to the ordinary shareholders are adjusted by the interest on the convertible bonds (net of tax). The weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year and the number of shares that would be issued if all convertible bonds are assumed to be converted.

Underlying earnings per share is provided by excluding the effect of any profit or loss on disposal of properties, investment property fair value movements, impairment of goodwill, retail financing fair value movements, IAS 19 Revised pension financing element, defined benefit pension scheme expenses, acquisition adjustments and one-off items that are material and infrequent in nature. This alternative measure of earnings per share is presented to reflect the Group's underlying trading performance.

All operations are continuing for the periods presented.

	28 weeks to 27 September 2014 million	28 weeks to 28 September 2013 million	52 weeks to 15 March 2014 million
Weighted average number of shares in issue	**1,909.4**	1,894.4	1,896.8
Weighted average number of dilutive share options	**15.1**	24.1	25.4
Weighted average number of dilutive convertible bonds	**29.3**	46.0	46.3
Total number of shares for calculating diluted earnings per share	**1,953.8**	1,964.5	1,968.5

	£m	£m	£m
(Loss)/profit for the financial period	**(344)**	340	716
Add interest on convertible bonds, net of tax	**-**	6	11
Diluted earnings for calculating diluted earnings per share	**(344)**	346	727

	£m	£m	£m
(Loss)/profit for the financial period attributable to owners of the parent	**(344)**	340	716
(Less)/add (net of tax):			
Profit on disposal of properties	**(4)**	(19)	(53)
Investment property fair value movements	**(18)**	(1)	-
Retail financing fair value movements	**11**	3	7
IAS 19 Revised pension financing charge	**11**	10	18
Defined benefit pension scheme expenses	**1**	4	5
Acquisition adjustments	**(4)**	-	(17)
One-off items	**622**	(12)	(33)
Revaluation of deferred tax balances	**1**	(11)	(20)
Underlying profit after tax	**276**	314	623
Add interest on convertible bonds, net of tax	**4**	6	11
Diluted underlying profit after tax	**280**	320	634

	pence per share	pence per share	pence per share
Basic (loss)/earnings	**(18.0)**	17.9	37.7
Diluted (loss)/earnings[1]	**(18.0)**	17.6	36.9
Underlying basic earnings	**14.5**	16.6	32.8
Underlying diluted earnings	**14.3**	16.3	32.2

1 Dilutive share options and convertible bonds have been excluded from the calculation as in accordance with 'IAS 33, Earnings per share', they are only included where the impact is dilutive.

8 Dividend

	28 weeks to 27 September 2014	28 weeks to 28 September 2013	52 weeks to 15 March 2014
Amounts recognised as distributions to equity holders in the period:			
Dividend per share (pence)	**12.3**	11.9	16.9
Total dividend charge (£m)	**234**	225	320

Post the half-year, an interim dividend of 5.0 pence per share (28 September 2013: 5.0 pence per share) has been approved by the Board of Directors for the financial year ending 14 March 2015, resulting in a total interim dividend of £96 million (28 September 2013: £95 million). The interim dividend was approved by the Board on 11 November 2014 and as such has not been included as a liability at 27 September 2014.

9 Notes to the cash flow statement

(a) Reconciliation of operating profit to cash generated from operations

	28 weeks to 27 September 2014 £m	28 weeks to 28 September 2013 £m	52 weeks to 15 March 2014 £m
(Loss)/profit before tax	**(290)**	433	898
Net finance costs	**80**	74	139
Share of post-tax profits of joint ventures	**(24)**	(18)	(28)
Operating (loss)/profit	**(234)**	489	1,009
Adjustments for:			
Depreciation expense	**299**	277	536
Amortisation expense	**19**	7	15
Non-cash acquisition adjustments[1]	**(16)**	-	(19)
Sainsbury's Bank impairment losses on loans and advances	**12**	-	2
Profit on disposal of properties	**(2)**	(18)	(51)
Impairment of property, plant and equipment	**538**	92	92
Impairment of intangible assets	**8**	-	1
Nectar VAT recovery	**-**	-	(14)
Foreign exchange differences	**(2)**	(3)	6
Share-based payment expense	**13**	18	33
Retirement benefit obligations[2]	**(15)**	(165)	(244)
Operating cash flows before changes in working capital	**620**	697	1,366
Changes in working capital:			
Increase in inventories	**(52)**	(65)	(19)
(Increase)/decrease in trade and other receivables	**(109)**	(85)	13
Increase in amounts due from Sainsbury's Bank customers	**(216)**	-	(23)
Increase/(decrease) in trade and other payables	**376**	152	(118)
(Decrease)/increase in amounts due to Sainsbury's Bank customers and other deposits	**(176)**	-	6
Increase/(decrease) in provisions and other liabilities	**81**	(4)	2
Cash generated from operations	**524**	695	1,227

1 Excludes £10 million amortisation on acquired intangibles resulting from the Sainsbury's Bank acquisition fair value adjustments, included in amortisation expense in this note.

2 The adjustment for retirement benefit obligations reflects the difference between the service charge of £nil (28 September 2013: £34 million, 15 March 2014: £34 million) for the defined benefit scheme, defined benefit pension scheme expenses £2 million (28 September 2013: £5 million, 15 March 2014: £7 million), one-off past service credit of £nil (28 September 2013: £(158) million, 15 March 2014: £(158) million) and the cash contributions of £17 million made by the Group to the defined benefit scheme (28 September 2013: £46 million, 15 March 2014: £127 million).

9 Notes to the cash flow statement (continued)

(b) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following:

	27 September 2014 £m	28 September 2013 £m	15 March 2014 £m
Cash in hand and bank balances	**880**	174	409
Money market funds and deposits	**329**	429	656
Treasury bills	**208**	-	527
Cash and bank balances	**1,417**	603	1,592
Bank overdrafts	**(16)**	(6)	(13)
Net cash and cash equivalents	**1,401**	597	1,579

10 Analysis of net debt[1]

	27 September 2014 £m	28 September 2013 £m	15 March 2014 £m
Non-current assets			
Interest bearing available-for-sale financial assets	**37**	35	37
Derivative financial instruments[3]	**21**	33	27
	58	68	64
Current assets			
Cash and cash equivalents[2]	**577**	603	367
Derivative financial instruments	**47**	57	49
	624	660	416
Current liabilities			
Bank overdrafts	**(16)**	(6)	(13)
Borrowings	**(328)**	(447)	(494)
Finance leases	**(30)**	(28)	(27)
Derivative financial instruments	**(54)**	(65)	(65)
	(428)	(546)	(599)
Non-current liabilities			
Borrowings	**(2,440)**	(2,185)	(2,089)
Finance leases	**(175)**	(169)	(161)
Derivative financial instruments[3]	**(21)**	(15)	(15)
	(2,636)	(2,369)	(2,265)
Total net debt	**(2,382)**	(2,187)	(2,384)

1 Net debt includes the cost of acquiring Sainsbury's Bank, but excludes Sainsbury's Bank's own net debt balances.
2 Cash and cash equivalents exclude £840 million Sainsbury's Bank balances (15 March 2014: £1,225 million).
3 Derivative financial instruments exclude £1 million Sainsbury's Bank non-current asset balances (15 March 2014: £1 million) and £(6) million non-current liabilities (15 March 2014: £(6) million).

10 Analysis of net debt (continued)

Reconciliation of net cash flow to movement in net debt

	28 weeks to 27 September 2014 £m	28 weeks to 28 September 2013 £m	52 weeks to 15 March 2014 £m
Net debt at beginning of the period	**(2,384)**	(2,162)	(2,162)
Net (decrease)/increase in net cash and cash equivalents	**(178)**	93	1,075
Elimination of net decrease/(increase) in Sainsbury's Bank cash and cash equivalents	**385**	-	(1,225)
Net (increase)/decrease in borrowings[1]	**(197)**	(41)	1
Net decrease in derivatives[1]	**-**	1	-
Net increase in obligations under finance leases[2]	**(16)**	(37)	(28)
Fair value movements	**9**	(41)	(45)
Other non-cash movements	**(1)**	-	-
Net debt at the end of the period	**(2,382)**	(2,187)	(2,384)

1 Excluding fair value and Sainsbury's Bank derivative movements.
2 Excluding additions of property, plant and equipment under finance leases.

The Group maintains a syndicated committed revolving credit facility for £1,150 million. The £1,150 million facility is split into two tranches, a £500 million Facility (A) maturing in March 2017 and a £650 million Facility (B) maturing in March 2019. As at 27 September 2014, £500 million had been drawn under Facility (A) (28 September 2013: £nil; 16 March 2014: £200 million).

In April 2014, the Group prepaid a £25 million loan due July 2014 without penalty.

In May 2014, the Group entered into a £30 million five year hire purchase facility with respect to moveable in-store assets due 2019. The Group also prepaid a £40 million loan due May 2015 at fair value.

In July 2014, the £190 million convertible bond matured and was repaid.

In August 2014, the Group entered into a £200 million five year bilateral loan due August 2019 at floating rates of interest, £100 million of which was swapped into fixed rate liabilities. The £100 million portion of the loan and associated interest rate swap have been designated as a cash flow hedge. The £200 million loan was fully drawn as at 27 September 2014.

Sainsbury's Bank

As at 27 September 2014, Sainsbury's Bank had pledged the rights to a pool of Bank issued customer loans in exchange for £190 million of Treasury Bills (under the Bank of England Funding for Lending Scheme). These Treasury Bills can then be converted to cash as a source of future funding to the Bank.

As at 27 September 2014, UK wholesale counterparties had deposited £17 million with Sainsbury's Bank, disclosed within other deposits in current liabilities and excluded from the Group's net debt.

11 Financial instruments

Carrying amount versus fair values

Set out below is a comparison of the carrying amount and the fair value of financial instruments that are carried in the financial statements at a value other than fair value. The fair value of financial assets and liabilities are based on prices available from the market on which the instruments are traded. Where market values are not available, the fair values of financial assets and liabilities have been calculated by discounting expected future cash flows at prevailing interest rates. The fair values of short-term deposits, trade receivables, overdrafts and payables are assumed to approximate to their book values.

At 27 September 2014	Carrying amount £m	Fair value £m
Financial assets		
Other receivables	**339**	**339**
Amounts due from Sainsbury's Bank customers[3]	**2,795**	**2,826**
Financial liabilities		
Loans due 2018[1]	**(915)**	**(995)**
Loans due 2031	**(846)**	**(1,021)**
Bank overdrafts	**(16)**	**(16)**
Revolving credit facility due 2017	**(501)**	**(501)**
Bank loans due 2015	**(183)**	**(183)**
Bank loans due 2016	**(39)**	**(39)**
Bank loans due 2017	**(61)**	**(61)**
Bank loans due 2019	**(201)**	**(201)**
Other loans due 2015[2]	**(22)**	**(22)**
Finance lease obligations	**(205)**	**(205)**
Amounts due to Sainsbury's Bank customers	**(3,371)**	**(3,375)**

1 Includes £211 million accounted for as a fair value hedge.
2 Includes £22 million accounted for as a fair value hedge.
3 Includes £1,458 million accounted for as a fair value hedge.

At 28 September 2013	Carrying amount £m	Fair value £m
Financial assets		
Other receivables	48	35
Financial liabilities		
Loans due 2018[1]	(998)	(1,111)
Loans due 2031	(864)	(1,082)
Bank overdrafts	(6)	(6)
Bank loans due 2014	(125)	(125)
Bank loans due 2015	(266)	(275)
Bank loans due 2016	(42)	(42)
Bank loans due 2017	(107)	(107)
Bank loans due 2018	(19)	(19)
Convertible bond due 2014	(187)	(206)
Other loans due 2015[2]	(24)	(24)
Finance lease obligations	(197)	(197)

1 Includes £211 million accounted for as a fair value hedge.
2 Includes £23 million accounted for as a fair value hedge.

11 Financial instruments (continued)

At 16 March 2014	Carrying amount £m	Fair value £m
Financial assets		
Other receivables	273	273
Amounts due from Sainsbury's Bank customers[3]	2,575	2,582
Financial liabilities		
Loans due 2018[1]	(956)	(1,053)
Loans due 2031	(855)	(1,013)
Bank overdrafts	(13)	(13)
Revolving credit facility due 2017	(200)	(200)
Bank loans due 2014	(69)	(75)
Bank loans due 2015	(188)	(188)
Bank loans due 2016	(42)	(42)
Bank loans due 2017	(60)	(60)
Convertible bond due 2014	(189)	(193)
Other loans due 2015[2]	(24)	(24)
Finance lease obligations	(188)	(188)
Amounts due to Sainsbury's Bank customers	(3,547)	(3,543)

1 Includes £211 million accounted for as a fair value hedge.
2 Includes £23 million accounted for as a fair value hedge.
3 Includes £1,232 million accounted for as a fair value hedge.

Fair value measurements recognised in the balance sheet

The following table provides an analysis of financial instruments that are recognised at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are derived from quoted market prices (unadjusted) in active markets for identical assets or liabilities at the balance sheet date. This level includes listed equity securities and debt instrument on public exchanges;
- Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). The fair value of financial instruments is determined by discounting expected cash flows at prevailing interest rates; and
- Level 3 fair value measurements are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 27 September 2014	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Available-for-sale financial assets[1]				
Investment securities	-	32	-	**32**
Interest bearing financial assets	-	37	-	**37**
Other financial assets	-	-	196	**196**
Financial assets at FVTPL				
Derivative financial assets	-	68	1	**69**
Financial liabilities at FVTPL				
Derivative financial liabilities	-	(79)	(2)	**(81)**

1 Available-for-sale financial assets also includes £2 million in relation to unlisted equity investments which are carried at cost as the fair value cannot be reliably measured and has been excluded from the fair value hierarchy table above.

11 Financial instruments (continued)

At 28 September 2013	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Available-for-sale financial assets[1]				
Interest bearing financial assets	-	35	-	35
Other financial assets	-	-	175	175
Financial assets at FVTPL				
Derivative financial assets	-	84	6	90
Financial liabilities at FVTPL				
Derivative financial liabilities	-	(80)	-	(80)

1 Available-for-sale financial assets also includes £1 million in relation to unlisted equity investments which are carried at cost as the fair value cannot be reliably measured and has been excluded from the fair value hierarchy table above.

At 16 March 2014	Level 1	Level 2	Level 3	Total
	£m	£m	£m	£m
Available-for-sale financial assets				
Investment securities	-	32	-	**32**
Interest bearing financial assets	-	37	-	**37**
Other financial assets	-	-	184	**184**
Financial assets at FVTPL				
Derivative financial assets	-	74	3	**77**
Financial liabilities at FVTPL				
Derivative financial liabilities	-	(86)	-	**(86)**

1 Available-for-sale financial assets also includes £2 million in relation to unlisted equity investments which are carried at cost as the fair value cannot be reliably measured and has been excluded from the fair value hierarchy table above.

Reconciliation of Level 3 fair value measurements of financial assets:

Details of the determination of Level 3 fair value measurements are set out below:

28 weeks to 27 September 2014	Available-for-sale financial assets	Derivative financial assets / (liabilities)	Total
	£m	£m	£m
Opening balance	184	3	**187**
Included in finance cost in the Group income statement	-	(4)	**(4)**
Included in other comprehensive income	12	-	**12**
Total Level 3 financial assets	**196**	**(1)**	**195**

28 weeks to 28 September 2013	Available-for-sale financial assets	Derivative financial assets	Total
	£m	£m	£m
Opening balance	154	4	158
Included in finance cost in the Group income statement	-	2	2
Included in other comprehensive income	21	-	21
Total Level 3 financial assets	175	6	181

11 Financial instruments (continued)

52 weeks to 16 March 2014	Available-for-sale financial assets £m	Derivative financial assets £m	Total £m
Opening balance	154	4	158
Included in finance cost in the Group income statement	-	(1)	(1)
Included in other comprehensive income	30	-	30
Total Level 3 financial assets	184	3	187

Available-for-sale other financial assets

The available-for-sale financial assets relate to the Group's beneficial interest in a property investment pool. The net present value of the Group's interest in the various freehold reversions owned by the property investment pool has been derived by assuming a property growth rate of three per cent per annum (2013/14: three per cent) and a discount rate of nine per cent (2013/14: nine per cent). The sensitivity of this balance to changes of 0.5 per cent in the assumed rate of property rental growth and one per cent in the discount rate holding other assumptions constant is shown below:

	27 September 2014		28 September 2013	
	Change in discount rate +/- 1.0%	**Change in growth rate +/- 0.5%**	Change in discount rate +/- 1.0%	Change in growth rate +/- 0.5%
	£m	**£m**	£m	£m
Available-for-sale assets	**(15)/17**	**11/(10)**	(16)/16	10/(11)

	15 March 2014	
	Change in discount rate +/- 1.0%	Change in growth rate +/- 0.5%
	£m	£m
Available-for-sale assets	(17)/15	10/(11)

Derivative financial assets – power purchase agreement

The Group has entered into several long-term fixed price Power Purchase agreements with independent producers. Included within derivative financial instruments is a net liability of £(1) million relating to these agreements at 27 September 2014 (within derivative financial assets at 28 September 2013: £6 million; at 15 March 2014: £3 million). The Group values its Power Purchase agreements as the net present value of the estimated future usage at the contracted fixed price less the market implied forward energy price discounted back at the prevailing swap rate. The Group also makes an assumption regarding expected energy output based on the historical performance and the producer's estimate of expected electricity output. The sensitivity of this balance to changes of 20 per cent in the assumed rate of energy output and ten per cent in the implied forward energy prices holding other assumptions constant is shown below:

	27 September 2014		28 September 2013	
	Change in volume +/- 20.0%	**Change in electricity forward price +/- 10.0%**	Change in volume +/- 20.0%	Change in electricity forward price +/- 10.0%
	£m	**£m**	£m	£m
Derivative financial assets	**-/(-)**	**9/(9)**	1/(1)	11/(11)

11 Financial instruments (continued)

	16 March 2014	
	Change in volume +/- 20.0%	Change in electricity forward price +/- 10.0%
	£m	£m
Derivative financial assets	1/(1)	10/(10)

12 Retirement benefit obligations

Retirement benefit obligations relate to a defined benefit scheme, the Sainsbury's Pension Scheme (the 'Scheme'), and an unfunded pension liability relating to certain employees. The Scheme was closed to new employees on 31 January 2002 and closed to future accrual on 28 September 2013. A one-off past service credit was recognised in the comparative period as a result as disclosed within Note 3. The assets of this Scheme are held separately from the Group's assets.

The unfunded pension liability is unwound when each employee reaches retirement and takes their pension from the Group payroll or is crystallised in the event of an employee leaving or retiring and choosing to take the provision as a one-off cash payment.

The Consumer Price Index ('CPI') rather than the Retail Price Index ('RPI') has been used as the basis for inflationary increases to pensions in cases where this is permitted by the Scheme rules.

The amounts recognised in the balance sheet, based on valuations performed by KPMG, are as follows:

	27 September 2014	28 September 2013	15 March 2014
	£m	£m	£m
Present value of funded obligations	**(7,174)**	(6,580)	(6,855)
Fair value of plan assets	**6,500**	5,884	6,131
	(674)	(696)	(724)
Present value of unfunded obligations	**(13)**	(13)	(13)
Retirement benefit obligations	**(687)**	(709)	(737)
Deferred income tax asset	**53**	51	58
Net retirement benefit obligations	**(634)**	(658)	(679)

	27 September 2014	28 September 2013	15 March 2014
	%	%	%
Discount rate	**3.95**	4.40	4.25
Inflation rate - RPI	**3.20**	3.35	3.40
Real discount rate	**0.75**	1.05	0.85

The retirement benefit obligations and the associated deferred income tax asset are shown within different line items on the balance sheet. The deferred income tax asset includes the impact of the Sainsbury's Property Scottish Limited Partnership.

The amounts recognised in the income statement in respect of the IAS 19 Revised charges for the defined benefit scheme are as follows:

12 Retirement benefit obligations (continued)

	27 September 2014 £m	28 September 2013 £m	15 March 2014 £m
Included in underlying profit before tax:			
IAS 19 Revised defined benefit service cost	**-**	(34)	(34)
Excluded from underlying profit before tax:			
Interest cost on pension scheme liabilities	**(155)**	(157)	(290)
Interest income on plan assets	**139**	143	267
IAS 19 Revised pension financing charge (Note 5)	**(16)**	(14)	(23)
Defined benefit pension scheme expenses	**(2)**	(5)	(7)
Past service credit[1]	**-**	158	158
Total excluded from underlying profit before tax (Note 3)	**(18)**	139	128
Total IAS 19 Revised income statement (expense)/credit	**(18)**	105	94

1 One-off items presented within note 3 also include compensation payments to defined contribution schemes of £12 million (28 September 2013: £nil; 16 March 2014: £10 million).

13 Capital expenditure and commitments

In the financial period, there were additions to property, plant and equipment of £561 million (28 September 2013: £467 million) and additions to intangible assets of £45 million (28 September 2013: £12 million).

In the financial period, there were disposals of property, plant and equipment with a net book value of £5 million (28 September 2013: £111 million), disposals of assets held for sale with a net book value of £5 million (28 September 2013: £13 million) and disposals of intangible assets with a net book value of £nil (28 September 2013: £1 million).

At 27 September 2014, capital commitments contracted, but not provided for by the Group, amounted to £266 million (28 September 2013: £334 million).

14 Related party transactions

The Group's significant related parties are its joint ventures as disclosed in its Annual Report and Financial Statements 2014.

Transactions with joint ventures and associates
For the 28 weeks to 27 September 2014, the Group entered into various transactions with joint ventures and associates as set out below.

	28 weeks to 27 September 2014 £m	28 weeks to 28 September 2013 £m	52 weeks to 15 March 2014 £m
Management services provided	**-**	10	16
Remeasurement of previously held equity interest in Sainsbury's Bank	**-**	-	15
Revenue share received from joint ventures	**3**	-	4
Interest income received in respect of interest bearing loans	**-**	-	1
Dividend income received	**14**	-	1
Repayment of loan to joint ventures	**4**	-	4
Investment in joint ventures and associates	**-**	(4)	(13)
Loan to joint venture	**-**	(2)	(7)
Rental expenses paid	**(36)**	(39)	(72)
Purchase of assets	**-**	-	(24)

14 Related party transactions (continued)

Balances arising from transactions with joint ventures and associates

	27 September 2014 £m	28 September 2013 £m	15 March 2014 £m
Receivables			
Other receivables	**27**	20	21
Loans due from joint ventures:			
Floating rate subordinated undated loan capital[1]	**-**	25	-
Floating rate subordinated dated loan capital[1]	**-**	30	-
Other	**15**	15	18
Payables			
Loans due to joint ventures	**(5)**	(5)	(5)

1 Balances due from Sainsbury's Bank which following full ownership from 31 January 2014 now eliminate on consolidation.

15 Contingent liabilities

The Group has a contingent liability for indemnities arising from the disposal of subsidiaries. No provision has been recognised on the basis that any potential liability arising is not considered probable. It is not possible to quantify the impact of this liability with any certainty.

Principal risks and uncertainties

Risk is an inherent part of doing business. The J Sainsbury plc Board has overall responsibility for the management of the principal risks and internal control of the Company. As part of the strategic review process, the principal risks were reviewed and updated in line with the Company's strategic objectives. The Board has identified the following principal potential risks to the successful operation of the business. These risks, along with events in the financial markets and their potential impacts on the wider economy, are those which will affect the Group in the second half of the year.

- Business continuity and major incidents response
- Business strategy and change
- Colleague engagement, retention and capability
- Data security
- Financial and treasury risk
- Health and safety – people and product
- Trading environment and competitive landscape

With the strategic review completed, the timing was deemed appropriate to re-align the principal risks to our principle that business as usual risks (i.e. core operations) which are not material at the corporate level are primarily managed at the Divisional level. This enables strategic, external and emerging risks to be managed at the corporate level by the Board. This has resulted in a more streamlined set of principal risks from the prior year.

Of the remaining principal risks, the following changes have been made since the prior year:

- Business strategy and change – in the prior year, this risk was reported as 'Business Strategy'. The term 'change' has been added to provide focus on the risk associated with change initiatives forming part of the business strategy.
- Trading environment and competitive landscape – in the prior year, this risk was described as 'Trading Environment' and referenced the competitive landscape in the detailed risk description. 'Competitive landscape' has now been included in the risk title reflecting the significance of the changes to the competitive landscape over the last year.

For more detail and description of the principal risks, please refer to pages 24 to 27 of the Group's Annual Report and Financial Statements 2014, a copy of which is available on the Group's corporate website www.j-sainsbury.co.uk. Further detail will also be provided in the Group's Annual Report and Financial Statements 2014/2015.

Statement of Directors' responsibilities

The Directors confirm that this set of Condensed Consolidated Interim Financial Statements has been prepared in accordance with IAS 34 as adopted by the European Union, and that the Interim Management Report herein includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R.

The Directors of J Sainsbury plc are listed in the J Sainsbury plc Annual Report and Financial Statements 2014. On 9 July 2014 Mike Coupe was appointed as Chief Executive.

By order of the Board

Mike Coupe
Chief Executive
11 November 2014

John Rogers
Chief Financial Officer
11 November 2014

Independent review report to J Sainsbury plc

Report on the Condensed Consolidated Interim Financial Statements

Our conclusion

We have reviewed the Condensed Consolidated Interim Financial Statements, defined below, in the Interim Results of J Sainsbury plc for the 28 weeks ended 27 September 2014. Based on our review, nothing has come to our attention that causes us to believe that the Condensed Consolidated Interim Financial Statements are not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

This conclusion is to be read in the context of what we say in the remainder of this report.

What we have reviewed

The Condensed Consolidated Interim Financial Statements, which are prepared by J Sainsbury plc, comprise:

- the Group balance sheet as at 27 September 2014;
- the Group income statement for the period then ended;
- the Group statement of comprehensive income for the period then ended;
- the Group cash flow statement for the period then ended;
- the Group statement of changes in equity for the period then ended; and
- the explanatory notes to the Condensed Consolidated Interim Financial Statements.

As disclosed in note 2, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

The Condensed Consolidated Interim Financial Statements included in the Interim Results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What a review of Condensed Consolidated Interim Financial Statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the Interim Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Condensed Consolidated Interim Financial Statements.

Responsibilities for the Condensed Consolidated Interim Financial Statements and the review

Our responsibilities and those of the directors

The Interim Results including the Condensed Consolidated Interim Financial Statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Results in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express to the company a conclusion on the Condensed Consolidated Interim Financial Statements in the Interim Results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure and Transparency Rules of the Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
London
11 November 2014

The maintenance and integrity of the J Sainsbury plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Condensed Consolidated Interim Financial Statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of Condensed Consolidated Interim Financial Statements may differ from legislation in other jurisdictions.