J Sainsbury plc

6 May 2015

Preliminary Results for the 52 weeks to 14 March 2015
Making progress with our strategy

Financial summary
- Underlying Group sales(1) (inc VAT) down 0.9 per cent to £26,122 million (2013/14: £26,353 million)
- Retail sales (inc VAT, ex fuel) down 0.2 per cent
- Like-for-like sales (inc VAT, ex fuel) down 1.9 per cent
- Underlying profit before tax(2) down 14.7 per cent to £681 million (2013/14: £798 million)
- Underlying basic earnings per share(3) down 19.5 per cent to 26.4 pence (2013/14: 32.8 pence)
- Return on capital employed(4) of 9.7 per cent (2013/14: 11.3 per cent)
- Return on capital employed excluding pension fund deficit of 9.0 per cent (2013/14: 10.4 per cent)

Statutory
- Group sales (ex VAT, inc fuel) down 0.7 per cent to £23,775 million (2013/14: £23,949 million)
- Items excluded from underlying results total a charge of £753 million (2013/14: £100 million credit), including an impairment and onerous contract charge of £628 million (2013/14: £92 million charge)
- Loss before tax of £72 million (2013/14: £898 million profit)
- Basic loss per share 8.7 pence (2013/14: 37.7 pence earnings per share)
- Proposed full-year dividend 13.2 pence per share, down 23.7 per cent, cover 2.0 times (2013/14: 17.3 pence per share, cover 1.9 times)

Operational Highlights

Great products and services at fair prices
- We are investing in lowering prices on products where customers have told us that price is most important. We have never been more competitive on price versus our competition and are seeing encouraging early signs of volume and transaction growth
- Our programme to improve the quality of 3,000 own-brand products that matter most to our customers is well under way and customers will see more of our improved product ranges over the coming year
- General merchandise and clothing are performing strongly, with sales up over nine per cent
- Sainsbury's Bank delivered sales and profit growth, with operating profit up 17 per cent to £62 million. We are making good progress against our transition plan albeit total capital costs associated with the transition are expected to increase by between £80 million and £120 million

There for our customers
- We have identified sites for our new convenience and supermarket format trials, as we look to make our customer shopping experience easier and more convenient
- We opened 98 convenience stores during the year and delivered over 16 per cent convenience sales growth. We continue to open one to two convenience stores per week
- Groceries online delivered growth in the number of customer orders of 13 per cent, and we have invested in our platform to improve service and availability

Colleagues making the difference
- We restructured the way we work at our store support centres to improve efficiencies, reducing the number of roles by 500. In April 2015, we also announced a restructure of our stores to improve efficiency and customer service, which we expect to result in around 800 fewer roles
- We are developing digital hubs in London and Coventry, creating 480 specialist roles
- We continue to invest in colleague training and development. We won 'Training Initiative of the Year' at the Retail Industry Awards for a programme designed to improve operational outcomes and customer experience

We know our customers better than anyone else

- Our customer insight remains a source of competitive advantage and allows us to reward our customers in a personalised way
- In April 2015, we changed the way we reward our Nectar customers, reducing the number of points earned but introducing more high-value bonus events

Our values make us different

- Our values remain a key component of our differentiated offer and we will continue to focus on areas that our customers care about
- We received our second consecutive Green Retailer of the Year award at the 2014 Grocer Gold Awards. Amongst other environmental initiatives, our Triple Zero stores and CO_2 refrigerated vehicles were recognised

Maintaining balance sheet strength

- We have taken decisive action to maintain our balance sheet strength and maximise our cash position, to ensure we remain fit for the future and are able to capitalise on our many growth opportunities
- We have delivered operating cost savings of £140 million in 2014/15 and expect to deliver total operating cost savings of £500 million over the next three years
- Core retail capital expenditure(5) was £947 million in 2014/15. We will reduce core retail capital expenditure to between £500 million and £550 million per annum in each of the next three years. The allocation of our capital expenditure is also changing to reflect our strategy
- The value of our property has decreased during the year by £0.9 billion to £11.1 billion, mainly due to a reduction in market rental values
- We have improved retail working capital by more than £300 million as a result of operational efficiencies
- We have an affordable dividend policy and have fixed cover at 2.0 times our underlying earnings

David Tyler, Chairman said: “Sainsbury’s is a business built on strong foundations. With our grocery business at the core, we are confident that we can grow shareholder value through our increasingly multi-channel offer, and by growing businesses across financial services, convenience, online, clothing and general merchandise. I am confident that we have the best management team in the sector to lead us through a time of unprecedented industry change.

“We will maintain the strength of the balance sheet by making significant cost savings, improving working capital and reducing capital expenditure. We remain committed to ensuring we pay an affordable dividend with our policy of fixing it at two times cover for the next three years. With this in mind, we are recommending this year a final dividend of 8.2 pence per share, bringing our full year dividend to 13.2 pence per share.”

Mike Coupe, Chief Executive said: “The UK marketplace is changing faster than at any time in the past 30 years which has impacted our profits, like-for-like sales and market share. However, we are making good progress with our strategy, and our investment in price and quality is showing encouraging early signs of volume and transaction growth.

“We know that our customers still want the best quality food at great prices and our strategy is built on our strong foundations of selling great food with a focus on quality, provenance and sustainability. At the same time, we know that our customers want value for money and we have therefore invested in lowering our prices; our prices versus our competitors have never been better.

“We also have significant opportunities to grow our business. Clothing, general merchandise and financial services have all performed well over the past 12 months, as have our convenience and online channels. We have a significant ambition to grow these areas over the coming years.

“Sainsbury’s is a fantastic business, run by an experienced management team, supported by great colleagues and underpinned by strong values. I believe we are taking the right decisions to ensure we remain fit for the future and are able to capitalise on our many growth opportunities.”

Notes:
1. Underlying Group sales excludes a £23 million adjustment (2013/14: £3 million) 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 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 tax, 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. Core retail capital expenditure: Capital expenditure excluding Sainsbury's Bank and before proceeds from sale and leasebacks and capital relating to the acquisition of freehold and trading properties.
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 2015/16 First Quarter Trading Statement at 07:00 (GMT) on 10 June 2015.

A results presentation for analysts and investors will be held at 09:30 on 6 May 2015.

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 0800 783 0986 (or +44 (0) 1296 480 900 if you are unable to use the primary number). The pass code for the event is 342686. 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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Market Context

The market

Over the past year, consumer confidence has recovered as household income has improved. Reduced unemployment rates and real wage growth have led to an increase in the amount of money consumers have to spend. In addition, there has been a slowing of inflation on many household essentials, with deflation in various commodities including fuel, fresh produce and meat. This, coupled with the competitive pricing environment which has seen significant price investment across the market, has allowed customers to benefit from reduced prices in their grocery shop. Even in this environment, volume growth has remained relatively low throughout the year. Instead, increasingly confident consumers are choosing to treat themselves to things which they missed out on during recessionary years like eating out more frequently and purchasing big tickets items for the home.

Shopping habits

The savvy shopping behaviour learned during the recession has driven a structural shift in the market. Customers have been managing their budgets by shopping more frequently and wasting less. The move away from one weekly shop has been supported by the growth of convenience stores, improvements and confidence in the ease and security of shopping online and the rise of discounters. As customers use these channels more frequently, volumes in supermarkets are continuing to decline. However, supermarkets will remain the dominant channel with forecasts indicating that approximately 60 per cent of grocery spend will still be made in supermarkets by 2022.

Shopping missions

As customers have started to shop more frequently and across an increasing range of shopping channels, they now enjoy an unprecedented level of flexibility and convenience in the way that they buy their groceries. This has allowed customers to tailor their expectations for each shopping trip and potentially have a very specific shopping mission in mind.

For example a customer buying a product such as a sandwich is looking to consume that product either immediately or very shortly after purchase. The speed and ease of shop offered by a convenience store is likely to be more attractive to a customer with limited time. Price is important as this is an everyday purchase, but not necessarily the key consideration. A customer can still buy a sandwich in a supermarket but is doing so increasingly less. This migration of everyday purchases to a convenience store is a major reason behind the falling volumes in supermarkets. It is not only everyday purchases that are subject to changing shopping missions. Products which are designated for special events, for example Valentine's Day flowers, are also bought for immediate or short-term use, but here the customer is likely to be even less price sensitive as the purchase is a highly considered one, where quality and freshness really matter.

When buying for the longer-term, shopping missions have become impacted by the growth of online. Customers can easily benchmark the prices of comparable products from one grocer to the next, and the convenience of home delivery, particularly for bulkier products, means the impact of shopping on their leisure time can be minimised. As with shorter-term purchases in convenience stores, this growing shopping mission, driven by increasing levels of confidence in the security of shopping online, is having an impact on supermarket volumes.

Traditional grocers need to adapt their business model to these changing shopping missions. Customers are leading increasingly busy lives and, with early signs of improvements to disposable income levels, there is still an opportunity to serve all of a customer's needs under one roof, or through one brand. Generating customer loyalty will be critical in this respect. Those grocers that evolve their offer to align to these changing habits will be the most successful. They will also have the license to expand their range beyond just food, selling clothing, general merchandise and other products and services as customers build even greater levels of trust with their brands.

Great products and services at fair prices

We are focused on maximising the strength of our food and non-food businesses. As well as being the grocer of choice, we also aim to be the clothing, general merchandise and financial services brand of choice and to expand our existing offer in these areas.

Quality leader

Providing great food is Sainsbury's core purpose. Customers continue to rate us above our main supermarket peers on product quality and this is key to winning customer loyalty. We are making good progress in our programme to improve the quality of 3,000 own-brand products, investing in the products that matter most to our customers. For example, we improved the quality of our *Taste the Difference* burgers, our *by Sainsbury's* cheesecake and, our *by Sainsbury's* all-in-one dishwasher tablets recently won *Which?* Best Buy 2015. The rate at which we launch these new products will increase at pace over the next 12 months.

Own-brand products account for 49 per cent of our food sales, a small decline year-on-year. However, *Taste the Difference* outperformed the premium market and delivered growth of nearly five per cent and annualised sales of £1.1 billion. Despite the decline in own-brand sales, over 95 per cent of our customers choose *by Sainsbury's* products.

Our focus on quality, provenance and sustainability differentiates us from our competitors. Our British sourcing credentials are an important part of our customer proposition. We sell over 1,900 own-brand products sourced from the UK and we are always looking to increase the number of British lines we sell. This year we developed our game range, including new venison lines, and we promoted lesser-known species of fish such as sustainably-caught coley and responsibly-sourced river cobbler, giving our customers greater variety and choice. For a number of years all our fresh, breaded and cooked chicken has come from the UK, as does fresh pork and fresh lamb in the main season. Our fresh and frozen beef is British or Irish. We continue to work with our long-standing Development Groups of farmers and growers to share best practice and develop more efficient and sustainable ways of working. This year, our *Love your Freezer* campaign inspired customers with practical advice on minimising waste and saving money, to make their lives easier.

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 Bakery Industry Awards.

Strong value proposition

For our customers, quality and price are both important in the value proposition. Our new pricing strategy of regular lower prices reassures customers that they can always get a good price at Sainsbury's. Customers have responded positively to clearer, simpler pricing as we continue to adopt lower base prices for products not on promotion.

We are investing in lowering the prices of the everyday products that matter to our customers. This will be paid for through value chain efficiencies in future years. We have lowered the prices of over 1,100 products, including responsibly-sourced Scottish salmon, British bacon and lamb. Our Brand Match promise continues to reinforce our value credentials and reassures customers that their branded shop will be good value: those who receive a coupon know that we have matched our branded prices to Asda's, including promotions.

We have never been more competitive on price than we are today. We will continue to invest in lowering prices and improving quality to ensure that we are well-positioned to meet the challenges of an increasingly competitive marketplace.

Growth opportunities in non-food and services

Our clothing, general merchandise and financial services businesses are profitable, well established and continue to show excellent growth and strong potential. We see a firm correlation between increased loyalty and spend across our whole offer when customers buy into these categories.

Non-food – Clothing and general merchandise grew sales by over nine per cent last year. Our strategy for growth focuses on increasing our non-food presence in stores, changing the visual merchandising more frequently and emphasising our quality and design-led approach in clothing, cookware, homeware and seasonal products - categories that customers tell us matter most to them. The ranges are currently stocked in nearly 430 of our supermarkets.

We have seen *Tu* clothing sales grow to over £800 million this year and we are currently the UK's seventh largest clothing retailer by volume and tenth largest by value. We bring our customers new *Tu* collections every six weeks and our focus on being a destination for 'high street style at supermarket prices' and our successful partnership with Gok Wan have helped us increase market share and drive double-digit sales growth. We marked *Tu's* tenth birthday in September with our largest-ever fashion collection, and we launched our 16th collection with Gok in February.

Customers are shopping our childrenswear ranges more frequently than ever before and we remain the sixth largest childrenswear retailer by volume and eighth by value.

Our trial of selling clothing online has been extended to a number of regions across the UK, including London and the South East, and we continue to evaluate the results. We anticipate a full roll-out of our clothing online offer this year.

Our general merchandise business grew by over seven per cent last year from a relatively low market share base. We increasingly source directly from the Far East and gross margins have improved as our scale has grown. Events such as Halloween and Valentine's Day continue to be successful, with our customers buying into a full selection of seasonal products.

Financial services – We took 100 per cent ownership of Sainsbury's Bank in January 2014 and are part way through our transition to become a standalone bank. We see significant growth opportunities for Sainsbury's Bank, in particular capitalising on the brand loyalty effect we see from our customers. Last year we saw a 13 per cent increase in the number of Sainsbury's Bank credit cards being used within our stores. Whilst reduced advertising activity has resulted in overall customer awareness of the Bank declining slightly during the year, the number of active accounts held by customers has now reached 1.7 million, an increase of six per cent.

In a challenging marketplace, we have continued to see sales and profit growth, with operating profit up 17 per cent to £62 million and total income up over 13 per cent to £260 million. In 2014, we grew credit card sales volumes by 50 per cent year-on-year. Our loans business had another very successful year with a 13 per cent year-on-year increase in sales volumes as we continue to provide competitive, best buy table loan rates. Sainsbury's Bank Travel Money saw like-for-like growth in turnover of 24 per cent. In March, we welcomed 574 Travelex colleagues over to Sainsbury's Bank, a key milestone in our transition strategy to become a standalone bank and opened our 168th Travel Money Bureau.

Despite insurance sales volumes and income declining year-on-year due to increased competition in the car and home markets, new business volumes in pet insurance grew by 64 per cent year-on-year. The Bank's ATM estate grew nearly seven per cent to 1,575 free-to-use ATMs, seeing over 236 million transactions in 2014/15. Sainsbury's Bank's website visitors have also grown by over 12 per cent year-on-year to over two million visits each month.

Whilst we have made good progress in certain areas of the transition programme in terms of building our new banking platform and planning customer migration, a complex project of this size always brings challenge and we have faced into a number of issues that are likely to impact the end costs. Although our transition plans remain on time and in line with budget to date, we see total costs (capital and revenue) for the project going forward rising by between £80 million and £120 million, taking our overall spend to between £340 million and £380 million. The smooth migration of savings customers in winter 2015 remains our primary near term objective.

New services – We continue to develop other services through *Mobile by Sainsbury's, Sainsbury's Energy* and *Sainsbury's Entertainment*. These investments take time and carry added risk and they remain a small loss making part of our overall business.

There for our customers

We have developed our multi-channel credentials over a number of years and, as well as our core supermarket offer, we now have convenience and online businesses of scale. Ensuring the size and format of our estate meets our customers' varied shopping needs is a fundamental part of our strategy for growth and we will continue to invest strategically so that we can serve our customers whenever, wherever and however they want.

A competitively advantaged supermarket portfolio
Our strategic review highlighted the relative long-term strength in our overall store estate, giving us a structural advantage despite the declines in supermarket grocery volumes we expect to see over the coming years.

Around a quarter of our stores will have some under-utilised space over the next five years – around six per cent of our total space. We will use half of this to expand our successful clothing and general merchandise offer, making more of the range available to more customers. With only one in five of our supermarkets selling the full non-food offer, there are significant opportunities for growth. The remaining three per cent of space will be used for carefully selected concession partners, offering complementary goods and services to give our customers more choice and convenience. For example, Argos digital stores will open in ten of our supermarkets this year and we are working with Timpsons, an existing concession partner, to bring their products and services to more of our supermarkets. GP and dental surgeries have also been popular.

During this financial year we opened eight supermarkets (of which two were replacement stores), extended five, refurbished 13, and closed one. As part of our review, we announced a reduction in our store opening programme. We will add only around 450,000 square feet of new space in each of the next two financial years, predominantly focused on convenience stores. As a result of the review of our supermarket estate, we have taken an impairment charge against some of our trading stores and withdrawn from a number of schemes in our property pipeline that are unlikely to achieve an appropriate return on capital. This resulted in a total impairment and onerous contract charge of £628 million which was recognised in the first half of the financial year.

Despite a £0.9 billion decline in our property valuation, we aim to maximise the value of our property assets by working with joint venture partners to deliver new leisure, residential and commercial opportunities whilst adding trading space to our estate. We are delivering over 1,500 new homes across London as well as providing greater shopping choice to our customers and generating new local jobs. Our £500 million project with Barratt London at Nine Elms will complement the new tube station development and will open in 2016/17. It will deliver 737 new homes, a new Sainsbury's store and 27,000 square feet of local shops, restaurants and office space. We have also developed plans for a replacement store at Whitechapel Square in Tower Hamlets alongside 600 new homes and improved public space surrounding Whitechapel Station. Mixed use development schemes are expected to deliver property profits of around £200 million in the next two years.

We are also actively exploring different supermarket formats; we see great potential in tailoring formats and product ranges to best meet customers' needs and these will form a blueprint for future investment.

Convenience store network – The trend towards frequent, local top-up shopping continues and our convenience store network is showing strong growth. We aim to open stores at a rate of one to two per week while taking a disciplined approach to new space. This year we opened 98 convenience stores during the year, reaching a total of 707 stores. The business now generates sales of over £2.1 billion and delivered over 16 per cent growth during the year with over seven million customer transactions each week. We took over £8 million on Christmas Eve - our biggest ever day for convenience sales and we were named Convenience Retailer of the Year for the fifth consecutive year at the Retail Industry Awards.

Our strategy of adapting our product range to serve the needs of the local community has started well. We will be trialling different convenience formats to cater for varying shopping missions such as 'food to go' and both smaller and larger format convenience stores. This will extend our understanding of customer shopping behaviour and open up the range of suitable locations for our convenience stores in the future. With fewer than one person in ten living within a 15 minute walk of a Sainsbury's Local, there is significant opportunity for growth.

Developing groceries online – Customers are looking to shop seamlessly across our channels, using laptops, mobile phones and tablets, and we are developing the technology to support this. We are also making online shopping more convenient, with a Click & Collect service for groceries being rolled out nationwide. We have also invested in the pricing and availability of delivery slots which has driven up order numbers and customer loyalty.

We are focused on profitable growth opportunities and we have invested in the successful upgrade of our online platform to enhance the customer shopping experience and improve availability. After the closure of the general merchandise website during the year, general merchandise is now incorporated on our groceries online site to give customers a convenient 'one click' option to include more everyday items in their online shop. This investment means that customers get access to a similar range of products online as they would in store.

We will continue to boost the infrastructure that supports online as a growth channel. In anticipation of demand in London, we are on track to open our first 'dark store' for online orders in Bromley-by-Bow in 2016.

Although the rate of growth of our online grocery business has slowed, we achieved over seven per cent growth during the year and on average we now deliver nearly 215,000 orders per week, up 13 per cent. We had our biggest online Christmas ever this year, and in the three days to 23 December 2014, our online team delivered more than 110,000 orders.

Netto UK trial – Our joint venture trial to bring Netto back to the UK continues and we now have five stores open. Our objective remains to open 15 stores by the end of the 2015/16 financial year. If successful, it will give us access to, and greater understanding of, the discount grocery sector and offer us exposure to an attractive growth channel.

Colleagues making the difference

Great customer service differentiates us from our competitors. We aim to make customers' lives easier by helping them to access the products and services that are right for them, whenever, wherever, and however they choose to shop with us.

Delivering great customer service

From being predominantly supermarket-based, more than one in twelve of our colleagues now works in our online operation and more than one in nine in our convenience stores. Our colleagues have demonstrated their ability to adapt to meet our customers' changing shopping needs and we work hard to support them.

Since we opened our new training college in Brixton last March, we have run 360 courses in management skills, coaching and operations attended by over 3,600 colleagues. To support the growth of our general merchandise and clothing businesses, over 2,500 colleagues have been trained in visual merchandising techniques. Since opening our seven Food Colleges, over 33,000 colleagues working on our fresh food counters and in our bakeries and cafes have received City & Guilds-accredited training. This equips them with the skills and product knowledge to serve our customers better. We also launched two new apprenticeship programmes designed to upskill colleagues working on our fish counters and in our in-store bakeries. We won the Training Initiative of the Year Award at the Retail Industry Awards for a programme designed to improve operational outcomes and customer experience.

We restructured the way we work at our store support centres ensuring we have the right talent in the right locations to serve our customers well into the future. Making these efficiencies reduced the number of roles at our store support centres by 500 and those colleagues were either re-deployed or left the business by the end of the financial year. We also announced a restructure of our stores in April 2015 to improve efficiency and customer service, which we expect to result in around 800 fewer roles. In addition we also created 480 specialist roles in London and Coventry, strengthening our in-house digital and technology capabilities.

We have invested in the right tools for the job to help colleagues work effectively together wherever they are located in our business. We recently introduced Yammer which allows colleagues to share best practice, get questions answered in real time and, importantly, to communicate and celebrate success. Future investments in technology include a new Colleague Portal launching in the summer that will make communicating more efficient, and we are trialling tablets for store managers, allowing them to spend more time with customers and colleagues on the sales floor.

We monitor the progress we are making in enabling our colleagues to be the best they can be in delivering great customer service. Our Mystery Shopper programme measures service levels in each store every fortnight and our stores continue to perform strongly year-on-year. We also measure product availability and in this financial year, 17 of our stores have won the Grocer 33 award for service and availability.

We know our customers better than anyone else

Customers are at the heart of our business and for our future success we need to understand what they want. We talk to customers regularly to get a detailed picture of how they shop with us across all our channels and to find out what they value, how their needs are changing and how we can serve them better.

This insight, combined with great products, a brand that people trust, the right retail space in good locations and technology that helps us deliver what our customers want gives us a competitive advantage, now and in the future.

We take every opportunity to talk to our customers through face-to-face, telephone and online conversations. Focus groups and accompanied shopping with customers in our stores help us understand what people want when it comes to products, service and values. Trolley Talk, our new online customer panel launched in September, enables us to reach around 4,000 people online every week. The insight we gain helps us identify what is important and we can action change quickly and effectively. For example, Trolley Talk highlighted that the price dairy farmers are paid for their milk was a concern to many people. As a result, we took the initiative to advertise that we pay our farmers a higher price for milk than many of our peers. We also get valuable feedback from store colleagues and through our customer Careline.

To make the most of our opportunities for growth, over time we are investing in ways to become increasingly effective in our customer interactions, giving them a smoother shopping experience such as through mobile 'scan and go'.

Our Nectar loyalty scheme is the source of much of our insight and gives us an important competitive advantage. Nearly 15.5 million Nectar card holders shopped with us during the year – in-store, online and through Sainsbury's Bank – giving us valuable information that increases our knowledge of how our customers are shopping and interacting with us.

With Nectar and coupon-at-till technology, we are able to reward customers in a targeted way, and this increases loyalty to Sainsbury's. Customers who shop all our channels spend more than twice as much as those who only shop for food in our stores. During the year we sent 35 million personalised mailings to Nectar card holders, using their shopping preferences to offer vouchers and other special offers for the products they want to buy.

In October, we announced changes to the way customers earn Nectar points, with customers accruing one instead of two points per £1 spend from April 2015. As part of this we are re-investing in the scheme by launching a programme of high-value bonus events, like 10x points on fuel that will help customers' points go further.

Our values make us different

Our values are part of our long-term strategy for growth and make good business sense. As we approach the half-way point in our *20x20 Sustainability Plan*, we are working to review our commitments to ensure we remain focused on delivering value and values for customers, suppliers, colleagues and shareholders. We anticipate that we will change our corporate responsibility commitments and key delivery goals, to further align with our new strategy.

Best for food and health
We are committed to producing healthier baskets and set tough salt reduction targets for our own-brand products over 15 years ago. Historically, around ten per cent of our products missed the Government's 2012 salt targets. We are addressing products such as bacon where, as signatories to the Government's Responsibility Deal 2017 pledge on salt, the targets present the greatest challenge in terms of customer perception. During the last year, we have also worked with our suppliers to reformulate our own-brand soft drinks and have removed 2,256 tonnes of sugar annually from our customers' baskets, equating to 8.9 billion calories per year.

Sourcing with integrity
British dairy farmers have come under pressure this year due to price volatility. Our dedicated Dairy Development Group protects members through a cost of production model that ensures they are paid a fair price and rewarded for environmental standards and animal welfare. We have nine other Agricultural Development Groups that contribute to our range of over 1,900 British own-brand products.

We continue to work with our suppliers to address the sustainability of our products. In 2007, we set a stretching commitment to use only sustainable palm oil by 2014, a target we did not reach. As of December 2014, 95 per cent of the palm oil we use to make own-brand products is certified sustainable. We continue to work with our suppliers to bring the remaining sustainable alternatives to market. We have also improved our seafood offer with the launch of the first Marine Stewardship Council ('MSC') certified tuna sandwich and our exclusive Freedom Food British rainbow trout. We have received external recognition for having the best own-brand seafood policy, coming joint top of the Marine Conservation Society's 2014 survey.

Respect for our environment
We delivered industry leading environmental initiatives, including our Cannock store becoming the first retail outlet in the UK to be powered by food waste alone. Our Portishead store became our first to run fridges powered by 'green' gas created using waste from sugar beet suppliers. We operate the UK's largest dual fuel lorry fleet and are working to increase this to beyond 12 per cent of our core fleet. We have also launched a unique lorry with a range of features designed to improve safety for cyclists and pedestrians.

Our pace of innovation for energy efficiency initiatives has slowed so we are searching for new ideas. Our existing efficiency programmes continue to deliver through award-winning initiatives such as the installation of over 100,000 LED lights. Our energy usage and associated emissions are discussed in more detail in our Annual Report.

Making a positive difference to our community
This year, with help from our customers, colleagues and suppliers, we raised £52 million for charitable causes, including around £7 million in support of The Royal British Legion and over £11.5 million for Red Nose Day 2015. Through our Active Kids scheme, we have now donated over £150 million worth of equipment and experiences to schools and clubs since 2005, and the scheme was recognised in March 2015 by the Prime Minister, David Cameron, with a Big Society Award.

We have 384 stores with a local food donation partner, 59 more stores than last year. However, 71 per cent of our stores are without a partner so we are focused on increasing this number.

A great place to work
Recognising that our colleagues make the difference, we have continued to provide training for a range of skills, introducing a new Level 2 Apprenticeship for Craft Skills for our fishmongers and bakers. We have also opened a new college for our Team Leaders and Store Managers, purely dedicated to leadership training.

Our business is changing, and as part of our strategic review we announced restructuring plans as well as a reduction in our store opening programme, which has disappointingly resulted in fewer job opportunities. We are, however, committed to being a good employer and work hard to promote the opportunities available. In the last year, over 450 colleagues pledged their time to mentor young people about careers in retail and since 2008, we have helped over 24,000 people who have faced barriers into work through our You Can scheme.

We are also proud to pay our fair share of tax. Whilst we are obliged to pay tax in accordance with the law, we also ensure that our taxation policy is aligned with our corporate values. We maintain good corporate practice and strict controls in order to protect our shareholders' funds. Further information about our values and our *20x20 Sustainability Plan* can be found at www.j-sainsbury.co.uk/responsibility.

Financial Review

Against the backdrop of a tough trading environment and food price deflation, Sainsbury's underlying Group sales (including VAT) declined by 0.9 per cent to £26,122 million (2013/14: £26,353 million). Underlying profit before tax ('UPBT') has declined by 14.7 per cent to £681 million (2013/14: £798 million). Over the past year, our market share has declined 25 basis points to 16.5 per cent as we continue to see customers changing the nature of their shop, strong growth from the discounters and a more competitive grocery market. This has resulted in our average trading intensity excluding fuel declining to £18.24 per sq ft per week (2013/14: £18.93 per sq ft per week). As a result of a £753 million charge to items excluded from underlying results, loss before tax was £72 million (2013/14: £898 million profit).

In response to this, Sainsbury's has made good progress against the strategy laid out in November 2014, which enables customers to shop whenever, wherever and however they want. We made a commitment to invest £150 million into the retail price of products. In practice, we have invested £50 million in the second half of 2014/15 and expect to invest a further £150 million in 2015/16, making our overall price investment £200 million. However, as a result of lowering our prices, volumes have increased, leading to a net cost to the business of £40 million in 2014/15 and an expected £110 million in 2015/16. To date, we have reduced the price of over 1,100 products and our price position versus our main competitors has never been better. We will continue to invest in price to remain competitive in the market. Our retail underlying operating profit decreased by 17.5 per cent to £720 million (2013/14: £873 million), and our retail underlying operating margin decreased by 58 basis points (62 basis points at constant fuel prices).

Growing our non-food and financial services businesses is an important part of our strategy. This is demonstrated by general merchandise, which grew by over seven per cent, and clothing, which grew by nearly 12 per cent. In its first full year fully consolidated, Sainsbury's Bank increased its total income by over 13 per cent to £260 million, and increased underlying operating profit to £62 million in 2014/15, compared with £53 million in 2013/14.

Our supermarkets are generally the right size and are located in densely populated and growing areas, which gives us a relative structural advantage. Nonetheless, as a result of the challenging market conditions, our supermarket sales declined by over two per cent. At the same time, we saw good growth in our other channels: our convenience business grew by over 16 per cent, ahead of the market, and annual sales are now over £2.1 billion; and our groceries online business grew by over seven per cent with annual sales of over £1.1 billion. In June 2014, we announced a joint venture ('JV') with Netto; this JV provides a great opportunity to gain exposure to the high growth discount channel and complements our convenience, online and non-food businesses, as well as our existing supermarket estate. We have now opened five stores, with a further ten to be opened by the end of 2015/16.

As part of our strategic review announced in November 2014, we reassessed our store pipeline and the potential to achieve an appropriate return on capital. This 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.

Core retail capital expenditure this year was £947 million (2013/14: £888 million). New space delivered a 1.7 per cent contribution to sales growth, slightly below our expectations, as a result of the timing of store openings during the year.

Our return on capital employed ('ROCE') decreased by 157 basis points to 9.7 per cent. ROCE excluding the pension fund deficit was 9.0 per cent, a decline of 149 basis points year-on-year. ROCE decline was driven by reduced profitability, although this was partly offset by the impairment of fixed assets, reducing closing capital employed.

Sainsbury's achieved around £140 million of operational cost savings, which more than offset the impact of inflationary pressures on costs during the year. The balance sheet remained stable and the business has funding in place of over £3.8 billion, including a revolving credit facility ('RCF') of over £1.1 billion, of which only £0.1 billion was drawn at the year-end. On 5 May 2015, the Group refinanced its unsecured RCF with a new secured recourse £1,150 million RCF, with a final maturity of 2020. The new secured corporate facility is the same size as, and has substantially similar economic terms to, the previous unsecured facility, and contains no financial covenants. Net debt ended the year at £2,343 million, lower than expected, driven by improvements in retail working capital.

Underlying basic earnings per share decreased to 26.4 pence (2013/14: 32.8 pence), a 19.5 per cent decline year-on-year. This decline was greater than the decline in underlying profit, due to the impact of a higher underlying tax rate and the effect of additional shares issued during the year. Basic loss per share was 8.7 pence in 2014/15 (2013/14: 37.7 pence earnings per share), lower than the underlying basic earnings per share mainly due to the impact of the £628 million impairment and onerous contract provisions.

The Board has recommended a final dividend of 8.2 pence (2013/14: 12.3 pence), making a full-year dividend of 13.2 pence (2013/14: 17.3 pence), down 23.7 per cent year-on-year and covered two times by underlying earnings. In 2015/16, Sainsbury's will continue to pay an affordable dividend at two times cover.

Despite the challenging market environment, next year will be an exciting one for Sainsbury's as we progress with our strategy, which includes the continuing programme to integrate Sainsbury's Bank into the business and our convenience store opening programme. Alongside this, our priority is to step up our cost saving programme including an increased focus on delivering cross-functional efficiency savings, improving operational cash flow and working capital management and driving returns from our investments.

Summary income statement 52 weeks to 14 March 2015	2015 £m	2014 £m	Change %
Underlying Group sales (including VAT)[1]	**26,122**	26,353	(0.9)
Retail sales (including VAT)	**25,813**	26,328	(2.0)
Underlying Group sales (excluding VAT)[1]	**23,752**	23,946	(0.8)
Retail sales (excluding VAT)	**23,443**	23,921	(2.0)
Underlying operating profit			
Retailing	**720**	873	(17.5)
Financial services – Sainsbury's Bank[2]	**62**	6	933.3
Total underlying operating profit	**782**	879	(11.0)
Underlying net finance costs[3]	**(107)**	(111)	3.6
Underlying share of post-tax profit from JVs[2,4]	**6**	30	(80.0)
Underlying profit before tax	**681**	798	(14.7)
Items excluded from underlying results	**(753)**	100	(853.0)
(Loss)/profit before tax	**(72)**	898	(108.0)
Income tax expense	**(94)**	(182)	48.4
(Loss)/profit for the financial period	**(166)**	716	(123.2)
Underlying basic earnings per share	**26.4p**	32.8p	(19.5)
Basic (loss)/earnings per share	**(8.7)p**	37.7p	(123.1)
Dividend per share	**13.2p**	17.3p	(23.7)

1 Underlying Group sales excludes a £23 million acquisition adjustment fair value unwind relating to Sainsbury's Bank (2013/14: £3 million).
2 In 2013/14 Sainsbury's Bank was recognised as a joint venture for 46 weeks and fully consolidated for four weeks (from 1 February 2014 to 28 February 2014).
3 Net finance costs before financing fair value movements and the IAS 19 pension financing charge.
4 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 2.0 per cent to £25,813 million (2013/14: £26,328 million). This includes a 1.6 per cent contribution from new space (excluding extensions and replacements) and a like-for-like ('LFL') sales decline of 3.6 per cent.

Retail sales growth (including VAT, including fuel) 52 weeks to 14 March 2015	2015 %	2014 %
Like-for-like sales	**(3.6)**	-
Net new space (excluding extensions and replacements)	**1.6**	2.7
Total sales growth	**(2.0)**	2.7

Retail sales (excluding fuel) decreased by 0.2 per cent, with a LFL decline of 1.9 per cent. This was a smaller decline than sales including fuel due to retail price deflation in fuel and lower LFL fuel volumes. The decline was due to the continued challenging market conditions, price deflation in many food categories and acceleration in more frequent, convenient shopping resulting in smaller basket sizes. Sainsbury's growth was behind the market, with market share declining 25 basis points year-on-year to 16.5 per cent for the 52 weeks to 1 March 2015 (as measured by Kantar).

The contribution from net new space (excluding extensions and replacements) of 1.7 per cent was slightly lower than Sainsbury's expectations, as a result of the timing of store openings during the year.

Our multi-channel strategy enables customers to shop whenever, wherever and however they want. The convenience business grew sales by over 16 per cent to over £2.1 billion, ahead of the market, and groceries online grew by over seven per cent year-on-year, lower than the previous year's growth reflecting increased competitor acquisition activity and customers shopping more frequently with smaller basket sizes across different channels. Sainsbury's non-food offer continued to grow sales ahead of the market, supported by continued range development and the roll-out of new space.

Retail sales growth (including VAT, excluding fuel)		
52 weeks to 14 March 2015	**2015**	2014
	%	%
Like-for-like sales[1]	**(1.9)**	0.2
Net new space (excluding extensions and replacements)	**1.7**	2.5
Total sales growth	**(0.2)**	2.7

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

Average trading intensity ('TI') excluding fuel declined to £18.24 per sq ft per week (2013/14: £18.93 per sq ft per week) due to the challenging market conditions, in particular declining supermarket food volumes. Convenience TI decreased £0.09 per sq ft to £26.90 per sq ft per week, primarily due to a slight fall in TI of newly opened stores.

Sainsbury's added a gross 733,000 sq ft of selling space in the year (including replacements and extensions), an increase of 3.3 per cent (2013/14: 1,013,000 sq ft, an increase of 4.8 per cent). Including the impact of closures, this translated into net space growth of 659,000 sq ft, an increase of 3.0 per cent since the start of the year (2013/14: 895,000 sq ft, an increase of 4.2 per cent).

In 2014/15, Sainsbury's opened eight new supermarkets, of which two were replacement stores (2013/14: 13 new supermarkets, of which three were replacements) and completed 13 supermarket refurbishments, five extensions and one closure (2013/14: 15 supermarket refurbishments, six extensions and one closure). Convenience continues to be a key area of growth, with 98 stores opened during the year (2013/14: 91 stores). Two convenience stores were closed (2013/14: three stores) and 43 were refurbished (2013/14: 39 stores).

Net of replacements, closures and disposals, closing space of 22,819,000 sq ft was 3.0 per cent higher than last year (2013/14: 22,160,000 sq ft).

Store numbers and retailing space						
52 weeks to 14 March 2015	**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	8	381	98	229	**106**	**610**
Disposals/closures	(3)	(66)	(2)	(8)	**(5)**	**(74)**
Extensions/refurbishments/downsizes	-	131	-	(8)	**-**	**123**
At 14 March 2015	**597**	**21,190**	**707**	**1,629**	**1,304**	**22,819**
Memorandum:						
Extensions	5	79	-	-	**5**	**79**
Refurbishments/downsizes	13	52	43	(8)	**56**	**44**
Total projects	**18**	**131**	**43**	**(8)**	**61**	**123**

In 2015/16, Sainsbury's expects LFL sales to be negative, driven by challenging market conditions and food price deflation. Contribution from net new space (excluding extensions and replacements) is expected to be slightly lower than 2014/15. Contribution from extensions is expected to be 0.1 per cent.

In 2015/16, Sainsbury's expects to deliver around 450,000 sq ft of gross new space, with one to two new convenience store openings per week.

Retail underlying operating profit

Retail underlying operating profit decreased by 17.5 per cent to £720 million (2013/14: £873 million), reflecting lower LFL sales and investment in the customer offer in order to remain price competitive. This was partly offset by increased cost savings year-on-year of around £140 million (2013/14: £120 million).

Retail underlying operating margin declined by 58 basis points year-on-year to 3.07 per cent (2013/14: 3.65 per cent), which resulted in a 62 basis points decline at constant fuel prices. Retail underlying EBITDAR margin decreased by 29 basis points to 7.76 per cent, or a 39 basis points decline to 7.66 per cent at constant fuel prices.

Retail underlying operating profit 52 weeks to 14 March 2015	**2015**	2014	Change	Change at constant fuel prices
Retail underlying operating profit (£m)[1]	**720**	873	(17.5)%	
Retail underlying operating margin (%)[2]	**3.07**	3.65	(58)bps	(62)bps
Retail underlying EBITDAR (£m)[3]	**1,819**	1,926	(5.6)%	
Retail underlying EBITDAR margin (%)[4]	**7.76**	8.05	(29)bps	(39)bps

1 Underlying earnings before interest, tax, Sainsbury's Bank underlying operating profit and Sainsbury's underlying share of post-tax profit 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 2015/16, Sainsbury's expects cost inflation at the lower end of the two to three per cent range and efficiency savings of around £200 million, in line with our plan to deliver £500 million of savings over the next three years.

We have invested £50 million in price in the second half of 2014/15 and expect to invest a further £150 million in 2015/16, making our overall price investment £200 million. However, as a result of lowering our prices, volumes have increased leading to a net cost to the business of £40 million in 2014/15 and an expected £110 million in 2015/16.

We will remain competitive on price in the market.

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 throughout 2014/15. The Bank contributed £62 million to Group underlying profit before tax (2013/14: £24 million).

Sainsbury's Bank results	**2015**[1]	2014[2]	Change %
Total income (£m)[3]	**260**	229	13.5
Underlying operating profit (£m)	**62**	53	17.0
Recognised as a joint venture (£m)	**-**	18	
Consolidated as a subsidiary (£m)	**62**	6	
Impact on Group underlying profit before tax (£m)	**62**	24	158.3
Net interest margin (%)[4]	**3.9**	3.1	79bps
Bad debt as a percentage of lending (%)[5]	**0.7**	1.1	40bps
Tier 1 capital ratio (%)[6]	**12.7**	13.6	(91)bps

1 12 months to 28 February 2015.
2 50 weeks to 28 February 2014.
3 Net interest and net commission income.
4 Net interest receivable divided by average interest-bearing assets.
5 Bad debt expense divided by gross lending as at year-end.
6 Year-end tier 1 capital divided by year-end risk-weighted assets.

Sainsbury's Bank total income increased by 13.5 per cent to £260 million (2013/14: £229 million), mainly due to lower market savings rates which resulted in a reduction in interest payable. In addition, lending increased, however this was offset by competition in the personal loans market causing headline rates to fall.

Sainsbury's Bank delivered an underlying operating profit of £62 million, a 17.0 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.

Net interest margin increased by 79 basis points year-on-year to 3.9 per cent (2013/14: 3.1 per cent) mainly driven by changes to the funding structure. Bad debt levels as a percentage of lending improved to 0.7 per cent (2013/14: 1.1 per cent) as a result of improved recovery processes, low market interest rates and improving economic conditions. The tier 1 capital ratio decreased by 91 basis points year-on-year to 12.7 per cent (28 February 2014: 13.6 per cent), reflecting increased customer lending and intangible assets and one-off costs associated with transitioning Sainsbury's Bank to a new, more flexible banking platform.

Whilst our transition plans remain on time and in line with budget to date, we see total costs (capital and revenue) for the project going forward rising by between £80 million and £120 million, taking our overall spend to between £340 million and £380 million. In 2015/16, Sainsbury's Bank is expected to deliver mid-single digit year-on-year growth in underlying operating profit. Capital injections to the Bank in 2015/16 are expected to be circa £80 million.

Property and other joint ventures ('JV')
Sainsbury's underlying share of post-tax profit from its JV with British Land was £13 million (2013/14: £14 million). Its underlying share of post-tax profit from the JV with Land Securities was £2 million (2013/14: £2 million).

An investment property fair value increase of £7 million was recognised within the share of post-tax profit from the JVs in the income statement (2013/14: £nil), with average property yields of the JVs decreasing to 5.0 per cent, 0.2 percentage points lower than the prior year (2013/14: 5.2 per cent), partly offset by rental increases.

In June 2014, Sainsbury's announced a 50 per cent JV with Dansk Supermarked to trial Netto, a discount retailer, within the UK market. Netto opened five stores in November 2014 in the north of England with the next 10 stores to be opened by the end of 2015/16.

Sainsbury's recognised a net £9 million share of loss (2013/14: net £4 million share of loss) from the three start-up JVs: Netto, *Mobile by Sainsbury's* and I^2C. This loss was driven by start-up costs.

In 2015/16, Sainsbury's expects the share of profit from the property JVs to be slightly lower year-on-year. Sainsbury's share of loss from the start-up JVs, including Netto, is expected to be similar to 2014/15.

Underlying net finance costs
Underlying net finance costs decreased by £4 million year-on-year to £107 million (2013/14: £111 million). This was mainly driven by a change in mix of borrowings, partly offset by a reduction in capitalised interest.

Underlying net finance costs[1] 52 weeks to 14 March 2015	**2015** **£m**	2014 £m
Underlying finance income	**19**	20
Interest costs	**(143)**	(157)
Capitalised interest	**17**	26
Underlying finance costs	**(126)**	(131)
Underlying net finance costs	**(107)**	(111)

1 Finance income/costs before financing fair value movements and the IAS 19 pension financing charge.

Sainsbury's expects underlying net finance costs in 2015/16 to increase slightly year-on-year driven by lower capitalised interest.

Items excluded from underlying results

Items excluded from underlying results totalled a charge of £753 million (2013/14: £100 million credit), mainly due to one-off items.

Items excluded from underlying results 52 weeks to 14 March 2015	**2015** **£m**	2014 £m
Profit on disposal of properties	**7**	52
Investment property fair value movements	**7**	-
Retail financing fair value movements	**(30)**	(8)
IAS 19 pension financing charge	**(31)**	(23)
Defined benefit pension scheme expenses	**(6)**	(7)
Acquisition adjustments	**13**	18
One-off items	**(713)**	68
Total items excluded from underlying results	**(753)**	100

One-off items

The charge to one-off items of £713 million (2013/14: £68 million credit) includes: a non-cash impairment and onerous contract charge of £628 million; costs of £53 million in relation to transitioning Sainsbury's Bank to a new, more flexible banking platform; £17 million pension compensation payments made to employees as a result of the closure of Sainsbury's defined benefit pension scheme to future accrual; and internal restructuring costs of £15 million.

The £628 million charge was announced in November 2014 following our strategic review, during which we reassessed our store pipeline and the potential to achieve an appropriate return on capital. This resulted in a decision that some sites will no longer be developed, for which a non-cash impairment charge of £257 million and onerous contract provisions of £30 million have been recognised. A charge of £341 million has also been incurred in relation to unprofitable and marginally profitable stores, comprising a £291 million impairment and £50 million of onerous lease provisions.

One-off items 52 weeks to 14 March 2015	**2015** **£m**	2014 £m
Impairment and onerous contract charge	**(628)**	(92)
Sainsbury's Bank costs	**(53)**	(45)
Pension past service credit and compensation payments	**(17)**	148
Nectar VAT	**-**	76
Other	**(15)**	(19)
Total one-off items	**(713)**	68

In 2015/16, 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 £75 million).

Property profits over the next two years from mixed-use developments are expected to be around £200 million.

Taxation

The income tax charge was £94 million (2013/14: £182 million), with an underlying tax rate of 25.8 per cent (2013/14: 21.9 per cent) and an effective tax rate of (130.6) per cent (2013/14: 20.3 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 52 weeks to 14 March 2015	**Profit** **£m**	**Tax** **£m**	**Rate** **%**
Profit before tax, and tax thereon	(72)	(94)	(130.6)
Adjustments (and tax thereon) for:			
Profit on disposal of properties	(7)	(10)	
Investment property fair value movements	(7)	-	
Retail financing fair value movements	30	(5)	
IAS 19 pension financing charge	31	(7)	
Defined benefit pension scheme expenses	6	(1)	
Acquisition adjustments	(13)	4	
One-off items	713	(63)	
Underlying profit before tax, and tax thereon	**681**	**(176)**	**25.8**

In 2015/16, Sainsbury's expects the underlying tax rate to be similar to 2014/15.

In the UK, there are a large number of taxes, of which many are relevant for Sainsbury's. In 2014/15, Sainsbury's paid £1.7 billion (2013/14: £1.8 billion) to the UK government, of which £854 million (2013/14: £825 million) was borne by Sainsbury's and the remaining £863 million (2013/14: £949 million) was collected on behalf of our colleagues, customers and suppliers. Sainsbury's participate in the Total Tax Contribution PwC Survey for The 100 Group of Finance Directors. In the year to March 2014, our total taxes borne ranked seventh amongst the survey participants.

The key taxes paid by Sainsbury's were business rates of £489 million (2013/14: £432 million), employers' national insurance of £145 million (2013/14: £141 million) and UK corporation tax of £90 million (2013/14: £140 million). Other taxes including customs duty, excise duty, VAT and energy taxes totalled £130 million (2013/14: £112 million). In addition, £1 million of corporation tax was paid to overseas governments.

Earnings per share

Underlying basic earnings per share decreased by 19.5 per cent to 26.4 pence (2013/14: 32.8 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 1,911.0 million (2013/14: 1,896.8 million), an increase of 14.2 million shares or 0.7 per cent. Basic loss per share was 8.7 pence (2013/14: 37.7 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 52 weeks to 14 March 2015	**2015** **pence per share**	2014 pence per share
Basic (loss)/earnings per share	**(8.7)**	37.7
Adjustments (net of tax) for:		
Profit on disposal of properties	**(0.9)**	(2.8)
Investment property fair value movements	**(0.4)**	-
Retail financing fair value movements	**1.3**	0.4
IAS 19 pension financing charge	**1.3**	0.9
Defined benefit pension scheme expenses	**0.3**	0.3
Acquisition adjustments	**(0.5)**	(0.9)
One-off items	**34.0**	(1.7)
Revaluation of deferred tax balances	**-**	(1.1)
Underlying basic earnings per share	**26.4**	32.8

Dividends
The Board has recommended a final dividend of 8.2 pence per share (2013/14: 12.3 pence). This will be paid on 10 July 2015 to shareholders on the Register of Members at the close of business on 15 May 2015, subject to approval by shareholders at the AGM. This will result in a decrease to the full-year dividend of 23.7 per cent to 13.2 pence per share (2013/14: 17.3 pence).

The proposed final dividend was recommended by the Board on 5 May 2015 and, as such, has not been included as a liability as at 14 March 2015.

In 2015/16, Sainsbury's will maintain dividend cover at two times our underlying earnings for the full year.

Financing
The Group's key financing objectives are to diversify funding sources, to minimise refinancing risk and to maintain appropriate standby liquidity. As at 14 March 2015, the Group had drawn borrowing facilities of £2.8 billion and undrawn but committed borrowing facilities of £1.0 billion at its disposal.

The principal elements of the Group's core borrowings comprise two long-term loans of £850 million due 2018 and £811 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, and £127 million of hire purchase facilities.

During the year, the Group maintained a syndicated committed revolving credit facility ('RCF') for £1,150 million. The 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 14 March 2015, £120 million had been drawn under Facility (A) (2013/14: £200 million) and £nil under Facility (B) (2013/14: £nil). The £1,150 million facility and bank 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 14 March 2015, Sainsbury's comfortably passed this covenant test.

On 5 May 2015, the Group refinanced its unsecured RCF with a new secured recourse £1,150 million RCF, with a final maturity of 2020. The new secured corporate facility is the same size as, and has substantially similar economic terms to, the previous unsecured facility, with the structure also maintained on a dual tranche basis (a £500 million Facility (A) due April 2018 and £650 million Facility (B) due April 2020). The new facility, which is secured against 60 supermarket properties, contains no financial covenants.

The Group also amended its £200 million unsecured bank loan due November 2019 and its €50 million unsecured bank loan due September 2016 into a secured recourse £200 million bank loan due November 2019 and a secured recourse €50 million bank loan due September 2016. The amended bank loans, which are secured against ten supermarket properties, contain no financial covenants.

Since March 2014, two bilateral bank loans have been repaid for a combined total of £65 million and in July 2014 the Group's £190 million convertible bond was repaid. The five unsecured private placement loans for £184 million were repaid in March 2015, before year-end. Of these, the $100 million (£63 million) tranche due March 2017 was prepaid before its maturity date.

A new five-year £450 million 1.25 per cent convertible bond was entered into in November 2014. A new bilateral bank loan for £200 million was drawn down in August 2014 and a new hire purchase loan for £30 million was entered into in May 2014.

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 14 March 2015, net debt was £2,343 million (15 March 2014: £2,384 million), a decrease of £41 million year-on-year. The year-on-year decrease was primarily driven by an improvement in retail working capital, partly offset by higher net capital expenditure, due to no sale and leaseback activity and a lower underlying operating profit.

Operating cash flows before changes in working capital decreased by 17.8 per cent to £1,123 million (2013/14: £1,366 million) and cash generated from operations decreased by 7.4 per cent to £1,136 million (2013/14: £1,227 million, 3.2 per cent decrease), mainly due to a lower underlying operating profit.

Total working capital decreased by £13 million from 15 March 2014, driven by a £313 million improvement in retail working capital, partly offset by a £300 million increase in Sainsbury's Bank working capital. The increase in Sainsbury's Bank working capital reflects positive steps taken by the Bank to optimise its funding position and support lending via the government's Funding for Lending Scheme. The £313 million improvement in retail working capital was mainly due to an increase in trade payables of £243 million as a result of operational efficiencies.

The net cash used in investing activities of £900 million was £310 million higher year-on-year (2013/14: £590 million), driven by lower proceeds from property transactions. Receipt of new debt of £674 million during the year mainly relates to a £200 million bilateral bank loan drawn down in August 2014 for a five-year term, £30 million from a five-year hire purchase agreement, and a new five-year £450 million convertible bond. The new debt offsets £659 million of borrowings repaid during the year.

Summary cash flow statement 52 weeks to 14 March 2015	**2015** **£m**	2014 £m
Operating cash flow before changes in working capital	**1,123**	1,366
Decrease/(increase) in retail working capital	**313**	(128)
Increase in Sainsbury's Bank working capital	**(300)**	(11)
Cash generated from operations	**1,136**	1,227
Interest paid	**(134)**	(148)
Corporation tax paid	**(91)**	(140)
Net cash from operating activities	**911**	939
Net cash used in investing activities	**(900)**	(590)
Acquisition of Sainsbury's Bank, net of cash acquired	**-**	1,016
Proceeds from issue of shares	**19**	19
Purchase of own shares	**(18)**	-
Receipt of new debt	**674**	450
Repayment of borrowings	**(659)**	(439)
Dividends paid	**(330)**	(320)
(Decrease)/increase in cash and cash equivalents	**(303)**	1,075
Elimination of net increase in Sainsbury's Bank cash and cash equivalents	**343**	(1,225)
Increase in debt	**(31)**	(27)
Fair value and other non-cash movements	**32**	(45)
Movement in net debt	**41**	(222)

Sainsbury's expects 2015/16 year-end net debt to reduce year-on-year and a small improvement in retail working capital.

Retail capital expenditure

Core retail capital expenditure increased by £59 million year-on-year to £947 million (2013/14: £888 million). Core retail capital expenditure as a percentage of retail sales (including fuel, including VAT) was 3.7 per cent (2013/14: 3.4 per cent).

Supermarket openings decreased by five during the year to eight (2013/14: 13 supermarkets). Sainsbury's stepped up its convenience opening programme in the year with 98 new convenience stores (2013/14: 91 convenience stores).

During the year, there were five extensions completed (2013/14: six extensions). Sainsbury's also delivered 56 refurbishments during the year (2013/14: 54 refurbishments) consisting of 13 supermarkets (2013/14: 15 supermarkets) and 43 convenience stores (2013/14: 39 convenience stores).

There were no sale and leaseback proceeds in the year (2013/14: £301 million), resulting in net retail capital expenditure of £941 million (2013/14: £628 million).

Retail capital expenditure 52 weeks to 14 March 2015	**2015**	2014
New store development (£m)	**425**	418
Extensions and refurbishments (£m)	**284**	274
Other – including supply chain and IT (£m)	**238**	196
Core retail capital expenditure (£m)	**947**	888
Acquisition of freehold and trading properties (£m)[1]	**(9)**	41
Proceeds from property transactions (£m)[2]	**3**	(301)
Net retail capital expenditure (£m)	**941**	628
Capex/sales ratio (%)[3]	**3.7**	3.4

1 2014/15 balance includes income from Harvest, our JV with Land Securities, relating to the repayment of a loan.
2 Includes movement in timing of capital debtors and creditors.
3 Core retail capital expenditure divided by retail sales (including fuel, including VAT).

In 2015/16, Sainsbury's expects core retail capital expenditure (excluding Sainsbury's Bank) to be around £550 million.

Return on capital employed

The return on capital employed ('ROCE') over the 52 weeks to 14 March 2015 was 9.7 per cent (2013/14: 11.3 per cent), a decrease of 157 basis points year-on-year. ROCE is enhanced by the net pension deficit, which reduces capital employed.

ROCE excluding the net pension deficit over the 52 weeks to 14 March 2015 was 9.0 per cent (2013/14: 10.4 per cent), a year-on-year decrease of 149 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 14 March 2015	**2015**	2014[2]
Underlying operating profit (£m)	**782**	879
Underlying share of post-tax profit from JVs (£m)	**6**	30
Underlying profit before interest and tax (£m)	**788**	909
Average capital employed (£m)[1]	**8,136**	8,073
Return on capital employed (%)	**9.7**	11.3
Return on capital employed (excluding pension fund deficit) (%)	**9.0**	10.4
52 week ROCE movement to 14 March 2015	**(157)bps**	
52 week ROCE movement to 14 March 2015 (excluding pension fund deficit)	**(149)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 14 March 2015 were £5,539 million (15 March 2014: £6,005 million), a decrease of £466 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 £240 million (excluding Sainsbury's Bank) since the year-end driven by the impairment, offset by continued space growth.

Net debt was £41 million lower than at 15 March 2014 driven by improvements in retail working capital, partly offset by increases in capital expenditure and lower profit.

Sainsbury's Bank net assets at 28 February 2015 of £504 million (28 February 2014: £485 million) have been consolidated and separately identified.

Adjusted net debt to EBITDAR was 4.1 times (2013/14: 3.9 times) and interest cover reduced to 7.4 times (2013/14: 8.2 times). Fixed charge cover reduced to 2.9 times (2013/14: 3.1 times). Gearing increased year-on-year to 42.3 per cent (15 March 2014: 39.7 per cent) as a result of the reduction in equity shareholder funds. Excluding the pension deficit, gearing increased to 37.9 per cent (15 March 2014: 35.7 per cent).

Summary balance sheet (Sainsbury's Bank separated) at 14 March 2015	**2015 £m**	2014 £m	Movement £m
Land and buildings (freehold and long leasehold)	**6,890**	7,127	(237)
Land and buildings (short leasehold)	**791**	751	40
Fixtures and fittings	**1,941**	1,984	(43)
Property, plant and equipment	**9,622**	9,862	(240)
Other non-current assets	**828**	790	38
Inventories	**997**	1,005	(8)
Trade and other receivables	**294**	290	4
Sainsbury's Bank assets[1]	**4,267**	4,113	154
Cash and cash equivalents	**403**	367	36
Debt	**(2,746)**	(2,751)	5
Net debt	**(2,343)**	(2,384)	41
Trade and other payables and provisions	**(3,712)**	(3,364)	(348)
Retirement benefit obligations, net of deferred tax	**(651)**	(679)	28
Sainsbury's Bank liabilities[1]	**(3,763)**	(3,628)	(135)
Net assets	**5,539**	6,005	(466)

Key financial ratios		
Adjusted net debt to EBITDAR[2]	**4.1 times**	3.9 times
Interest cover[3]	**7.4 times**	8.2 times
Fixed charge cover[4]	**2.9 times**	3.1 times
Gearing[5]	**42.3%**	39.7%
Gearing (excluding pension deficit)[6]	**37.9%**	35.7%

1 As at 28 February.
2 Net debt of £2,343 million plus capitalised lease obligations of £5,417 million (5.5 per cent discount rate), divided by Group underlying EBITDAR of £1,890 million.
3 Underlying profit before interest and tax divided by underlying net finance costs.
4 Group underlying EBITDAR divided by net rent and underlying net finance costs.
5 Net debt divided by net assets.
6 Net debt divided by net assets, excluding pension deficit.

As at 14 March 2015, Sainsbury's estimated market value of properties, including our 50 per cent share of properties held within property JVs, was £11.1 billion (15 March 2014: £12.0 billion). The £0.9 billion decrease year-on-year was mainly due to a reduction in market rental values which has impacted the portfolio value by £0.6 billion, as well as a £0.2 billion non-cash impairment taken in the first half. 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 (Sainsbury's Bank consolidated) at 14 March 2015	2015 £m	2014 £m	Movement £m
Land and buildings (freehold and long leasehold)	**6,892**	7,127	(235)
Land and buildings (short leasehold)	**791**	751	40
Fixtures and fittings	**1,965**	2,002	(37)
Property, plant and equipment	**9,648**	9,880	(232)
Other non-current assets	**2,411**	2,234	177
Inventories	**997**	1,005	(8)
Trade and other receivables	**2,070**	1,716	354
Sainsbury's Bank cash and cash equivalents	**882**	1,225	(343)
Cash and cash equivalents	**403**	367	36
Debt	**(2,746)**	(2,751)	5
Net debt	**(2,343)**	(2,384)	41
Trade and other payables and provisions	**(7,475)**	(6,992)	(483)
Retirement benefit obligations, net of deferred tax	**(651)**	(679)	28
Net assets	**5,539**	6,005	(466)

Defined benefit pensions

As at 14 March 2015, the post-tax pension deficit was £651 million, an improvement of £28 million year-on-year (15 March 2014: £679 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 that increased the present value of funded obligations. Sainsbury's defined benefit pension scheme was closed to future accrual from September 2013.

Retirement benefit obligations at 14 March 2015	2015 £m	2014 £m
Present value of funded obligations	**(7,680)**	(6,855)
Fair value of plan assets	**6,988**	6,131
Pension deficit	**(692)**	(724)
Present value of unfunded obligations	**(16)**	(13)
Retirement benefit obligations	**(708)**	(737)
Deferred income tax asset	**57**	58
Net retirement benefit obligations	**(651)**	(679)

Enhanced disclosure

In response to the Financial Reporting Council issued press notice in December 2014, calling on boards of retailers, suppliers and other businesses to provide investors with sufficient information on their accounting policies, judgements and estimates arising from their complex supplier arrangements, we have provided additional information explaining the types of supplier income at Sainsbury's and any significant judgements and estimates.

Supplier incentives, rebates and discounts, collectively known as 'supplier income', are recognised within cost of sales on an accruals basis as they are earned for each relevant supplier contract. These fall into three key categories:

- Discounts and supplier incentives, representing the majority of all supplier income, linked to individual unit sales. The incentive is typically based on an agreed sum per item sold on promotion for a period. These are calculated through a mechanical process with no judgement and estimation involved in recording the income received, which is collected in a timely manner throughout the period.
- Fixed amounts agreed with suppliers primarily to support in-store activity including promotions, such as utilising specific space. These involve a degree of judgement and estimation in ensuring the appropriate cut-off of arrangements for fixed amounts which span period-end. These require judgement to confirm that the terms of the arrangement are satisfied and that amounts are recognised in the correct period.

- Supplier rebates are typically agreed on an annual basis, aligned with the financial year and are earned based on pre-agreed targets, mainly linked to sales. These require estimates of the income earned up to the balance sheet date, for each relevant supplier contract. Where agreements span a financial period-end, estimations are required of projected turnover and judgement may also need to be applied to determine the rebate level earned as agreements may involve multiple tiers. In order to minimise any risk arising from estimation, supplier confirmations are also obtained to agree the value to be recognised at year-end, prior to it being invoiced. Rebates represent the smallest element of Sainsbury's supplier income and by aligning the agreements to Sainsbury's financial year where possible, judgements required are minimised.

Supplier income represents a material deduction to cost of sales and directly affects the Group's reported margin. The supplier arrangements resulting in this supplier income can be complex, with income spanning multiple products over different time periods, and there can be multiple triggers and discounts.

We have not disclosed the quantum of supplier income within the Group income statement as this information is commercially sensitive. We have not disclosed the quantum of supplier income within the balance sheet as the amounts are considered to be not significant in the context of the balance sheet as a whole and give no further understanding or comparability to others companies for the reader of the financial statements.

Group income statement
for the 52 weeks to 14 March 2015

	Note	2015 £m	2014 £m
Revenue	4	**23,775**	23,949
Cost of sales		**(22,567)**	(22,562)
Gross profit		**1,208**	1,387
Administrative expenses		**(1,132)**	(444)
Other income		**5**	66
Operating profit		**81**	1,009
Finance income	5	**19**	20
Finance costs	5	**(180)**	(159)
Share of post-tax profit from joint ventures and associates		**8**	28
(Loss)/profit before tax		**(72)**	898
Analysed as:			
Underlying profit before tax		**681**	798
Profit on disposal of properties	3	**7**	52
Investment property fair value movements	3	**7**	-
Retail financing fair value movements	3	**(30)**	(8)
IAS 19 pension financing charge	3	**(31)**	(23)
Defined benefit pension scheme expenses	3	**(6)**	(7)
Acquisition adjustments	3	**13**	18
One-off items	3	**(713)**	68
		(72)	898
Income tax expense	6	**(94)**	(182)
(Loss)/profit for the financial year		**(166)**	716
(Loss)/earnings per share	7	**pence**	pence
Basic		**(8.7)**	37.7
Diluted		**(8.7)**	36.9
Underlying basic		**26.4**	32.8
Underlying diluted		**25.7**	32.2
Dividends per share	8	**pence**	pence
Interim		**5.0**	**5.0**
Proposed final (not recognised as a liability at balance sheet date)		**8.2**	**12.3**

Group statement of comprehensive income
for the 52 weeks to 14 March 2015

	2015 £m	2014 £m
(Loss)/profit for the financial year	**(166)**	716
Items that will not be reclassified subsequently to the income statement		
Remeasurements on defined benefit pension schemes	**(19)**	(326)
Current tax relating to items not reclassified	**6**	34
Deferred tax relating to items not reclassified	**(1)**	19
	(14)	**(273)**
Items that may be reclassified subsequently to the income statement		
Currency translation differences	**3**	(2)
Available-for-sale financial assets fair value movements		
Group	**(39)**	34
Items reclassified from available-for-sale assets reserve	**1**	-
Cash flow hedges effective portion of fair value movements		
Group	**(13)**	(43)
Joint ventures and associates	**3**	2
Items reclassified from cash flow hedge reserve	**21**	4
Current tax relating to items that may be reclassified	**-**	(1)
Deferred tax relating to items that may be reclassified	**9**	(2)
	(15)	(8)
Total other comprehensive loss for the financial year (net of tax)	**(29)**	(281)
Total comprehensive (loss)/income for the financial year	**(195)**	435

Group balance sheet

At 14 March 2015 and 15 March 2014

	Note	2015 £m	2014 £m
Non-current assets			
Property, plant and equipment		**9,648**	9,880
Intangible assets		**325**	286
Investments in subsidiaries		**-**	-
Investments in joint ventures and associates		**359**	404
Available-for-sale financial assets		**184**	255
Other receivables		**83**	26
Amounts due from Sainsbury's Bank customers		**1,412**	1,292
Derivative financial instruments		**21**	28
		12,032	12,171
Current assets			
Inventories		**997**	1,005
Trade and other receivables		**471**	433
Amounts due from Sainsbury's Bank customers		**1,599**	1,283
Derivative financial instruments		**69**	49
Cash and bank balances	9b	**1,285**	1,592
		4,421	4,362
Non-current assets held for sale		**84**	7
		4,505	4,369
Total assets		**16,537**	16,540
Current liabilities			
Trade and other payables		**(2,961)**	(2,692)
Amounts due to Sainsbury's Bank customers and banks		**(3,395)**	(3,245)
Borrowings		**(260)**	(534)
Derivative financial instruments		**(75)**	(65)
Taxes payable		**(188)**	(189)
Provisions		**(44)**	(40)
		(6,923)	(6,765)
Net current liabilities		**(2,418)**	(2,396)
Non-current liabilities			
Other payables		**(265)**	(204)
Amounts due to Sainsbury's Bank customers and banks		**(266)**	(302)
Borrowings		**(2,506)**	(2,250)
Derivative financial instruments		**(38)**	(21)
Deferred income tax liability		**(215)**	(227)
Provisions		**(77)**	(29)
Retirement benefit obligations	11	**(708)**	(737)
		(4,075)	(3,770)
Net assets		**5,539**	6,005
Equity			
Called up share capital		**548**	545
Share premium account		**1,108**	1,091
Capital redemption reserve		**680**	680
Other reserves		**146**	127
Retained earnings		**3,057**	3,560
Equity attributable to owners of the parent		**5,539**	6,003
Non-controlling interests		**-**	2
Total equity		**5,539**	6,005

Group cash flow statement
for the 52 weeks to 14 March 2015

	Note	2015 £m	2014 £m
Cash flows from operating activities			
Cash generated from operations	9a	**1,136**	1,227
Interest paid		**(134)**	(148)
Corporation tax paid		**(91)**	(140)
Net cash generated from operating activities		**911**	939
Cash flows from investing activities			
Purchase of property, plant and equipment		**(951)**	(916)
Purchase of intangible assets		**(78)**	(13)
Proceeds from disposal of property, plant and equipment		**40**	335
Acquisition of subsidiaries net of cash acquired		**(6)**	1,016
Increase in loans to joint ventures		**-**	(7)
Investment in joint ventures		**(12)**	(13)
Proceeds from repayment of loan to joint venture		**17**	4
Interest received		**20**	20
Dividends and distributions received		**70**	-
Net cash (used in)/generated from investing activities		**(900)**	426
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**19**	19
Proceeds from short-term borrowings		**-**	200
Repayment of short-term borrowings		**(381)**	(200)
Proceeds from long-term borrowings		**674**	250
Repayment of long-term borrowings		**(240)**	(206)
Purchase of own shares		**(18)**	**-**
Repayment of capital element of obligations under finance lease payments		**(29)**	(25)
Interest elements of obligations under finance lease payments		**(9)**	(8)
Dividends paid	8	**(330)**	(320)
Net cash used in financing activities		**(314)**	(290)
Net (decrease)/increase in cash and cash equivalents		**(303)**	1,075
Net opening cash and cash equivalents		**1,579**	504
Closing cash and cash equivalents	9b	**1,276**	1,579

Group statement of changes in equity
for the 52 weeks to 14 March 2015

	Note	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 year		**-**	**-**	**-**	**(166)**	**(166)**	**-**	**(166)**
Other comprehensive (loss)/income:								
Currency translation differences		**-**	**-**	**3**	**-**	**3**	**-**	**3**
Remeasurements on defined benefit pension schemes (net of tax)		**-**	**-**	**-**	**(14)**	**(14)**	**-**	**(14)**
Available-for-sale financial assets fair value movements (net of tax):								
Group		**-**	**-**	**(30)**	**-**	**(30)**	**-**	**(30)**
Items reclassified from available-for-sale financial asset reserve		**-**	**-**	**1**	**-**	**1**	**-**	**1**
Cash flow hedges effective portion of changes in fair value (net of tax):								
Group		**-**	**-**	**(13)**	**-**	**(13)**	**-**	**(13)**
Joint ventures		**-**	**-**	**3**	**-**	**3**	**-**	**3**
Items reclassified from cash flow hedge reserve		**-**	**-**	**21**	**-**	**21**	**-**	**21**
Total comprehensive loss for the year ended 14 March 2015		**-**	**-**	**(15)**	**(180)**	**(195)**	**-**	**(195)**
Transactions with owners:								
Dividends paid	8	**-**	**-**	**-**	**(330)**	**(330)**	**-**	**(330)**
Convertible bond – equity component		**-**	**-**	**39**	**-**	**39**	**-**	**39**
Amortisation of convertible bond - equity component		**-**	**-**	**(5)**	**5**	**-**	**-**	**-**
Share-based payment (net of tax)		**-**	**-**	**-**	**21**	**21**	**-**	**21**
Purchase of own shares		**-**	**-**	**-**	**(18)**	**(18)**	**-**	**(18)**
Shares vested		**-**	**-**	**-**	**9**	**9**	**-**	**9**
Allotted in respect of share option schemes		**3**	**17**	**-**	**(12)**	**8**	**-**	**8**
Purchase of non-controlling interest		**-**	**-**	**-**	**2**	**2**	**(2)**	**-**
At 14 March 2015		**548**	**1,108**	**826**	**3,057**	**5,539**	**-**	**5,539**
At 17 March 2013		541	1,075	820	3,401	5,837	1	5,838
Profit for the year		-	-	-	716	716	-	716
Other comprehensive income/(loss):								
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 (loss)/income for the year ended 15 March 2014		-	-	(8)	443	435	-	435
Transactions with owners:								
Dividends paid	8	-	-	-	(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

Notes to the financial information

1 Status of financial information

The financial information, which comprises the Group income statement, Group statement of comprehensive income, Group balance sheet, Group cash flow statement, Group statement of changes in equity and related notes, is derived from the full Group financial statements for the 52 weeks to 14 March 2015 and does not constitute full accounts within the meaning of section 435 (1) and (2) of the Companies Act 2006.

The Group Annual Report and Financial Statements 2015 on which the auditors have given an unqualified report and which does not contain a statement under section 498(2) or (3) of the Companies Act 2006, will be delivered to the Registrar of Companies in due course, and made available to shareholders in June 2015.

The financial year represents the 52 weeks to 14 March 2015 (prior financial year 52 weeks to 15 March 2014). The consolidated financial statements for the 52 weeks to 14 March 2015 comprise the financial statements of the Company and its subsidiaries (the 'Group') and the Group's share of the post-tax results of its joint ventures and associates.

2 Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and International Financial Reporting Interpretations Committee ('IFRICs') and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

The financial statements are presented in sterling, rounded to the nearest million ('£m') unless otherwise stated. They have been prepared on a going concern basis under the historical cost convention, except for derivative financial instruments, investment properties and available-for-sale financial assets that have been measured at fair value.

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.

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:

- 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
- IFRIC 21, 'Levies'

The Group has concluded that above new standards, interpretations and amendments are either not relevant to the Group or that they do not have a significant impact on the Group's financial statements, apart from additional disclosure.

3 Non-GAAP performance measures

Certain items recognised in reported loss or 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 – these are fair value gains and losses on non-derivative financial assets and liabilities carried at amortised cost, on derivatives relating to financing activities and on hedged items in fair value hedges;
- Impairment of goodwill;
- The financing element of IAS 19;
- Defined benefit pension scheme expenses;
- Acquisition adjustments – these reflect the adjustments arising from the Sainsbury's Bank acquisition including the fair value unwind, the amortisation of acquired intangibles and, in the prior year, the remeasurement of the previously held equity interest in Sainsbury's Bank; and
- One-off items – these are items which are material and infrequent in nature and do not relate to the Group's underlying performance.

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

	2015 £m	2014 £m
Underlying profit before tax	**681**	798
Profit on disposal of properties[1]	**7**	52
Investment property fair value movements	**7**	-
Retail financing fair value movements[2]	**(30)**	(8)
IAS 19 pension financing charge	**(31)**	(23)
Defined benefit pension scheme expenses	**(6)**	(7)
Acquisition adjustments[3]	**13**	18
One-off items	**(713)**	68
Total adjustments	**(753)**	100
(Loss)/profit before tax	**(72)**	898

1 Profit on disposal of properties for the financial year comprised £5 million for the Group (2014: £51 million) and £2 million for the property joint ventures (2014: £1 million).
2 Retail financing fair value movements for the financial year comprised a £23 million loss for the Group (2014: £5 million loss) and a £7 million loss for the joint ventures (2014: £3 million loss).
3 Acquisition adjustments include £23 million (2014: £3 million) fair value unwind included in revenue, £nil (2014: £15 million) remeasurement of the previously held equity interest included in other income, £8 million (2014: £1 million) fair value unwind included in cost of sales offset by £18 million (2014: £1 million) acquired intangible amortisation included in administrative expenses.

The tax impact of adjusted items is included within note 6.

One-off items

One-off items of £713 million includes: a non-cash impairment and onerous contract charge of £628 million; restructuring costs of £15 million; costs of £53 million in relation to transitioning Sainsbury's Bank to a new, more flexible banking platform; and £17 million of pension compensation payments.

3 Non-GAAP performance measures (continued)

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 £256 million of property plant and equipment which is all land and buildings, £1 million of goodwill, and £30 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 £284 million of property plant and equipment, comprised of £156 million land and buildings and £128 million of fixtures and fittings, £7 million intangible assets, comprised of £2 million goodwill and £5 million of other intangibles, and onerous lease provisions of £50 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 £17 million were made in the current year 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.

The prior year credit to one-off items of £68 million included the impact of a past service credit net of compensation payments of £148 million as a result of the closure of the Sainsbury's defined benefit pension scheme to future accrual; a store pipeline impairment of £92 million; costs of £45 million in relation to the Sainsbury's Bank acquisition; a Nectar VAT upside of £76 million and other one-off costs of £19 million mainly in relation to restructuring and a provision for a commercial item, for which we continue to defend our position.

4 Segment reporting

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

- Retailing (supermarkets and convenience);
- Financial services (Sainsbury's Bank); and
- Property investments (joint ventures with the British Land Company PLC and Land Securities Group PLC).

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 within retailing there is an increase in trading in the period leading up to Christmas.

Sainsbury's Bank was accounted for as a 50 per cent owned joint venture for the 46 weeks to 31 January 2014 and consolidated as a 100 per cent owned subsidiary for the four weeks to 28 February 2014 and for the 2014/15 financial year. Results for the periods pre and post the acquisition of the additional 50 per cent of shares in Sainsbury's Bank are included in the financial services segment.

Revenue from operating segments is measured on a basis consistent with the revenue number in the income statement. 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. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

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/(loss) before tax.

4 Segment reporting (continued)

52 weeks to 14 March 2015	Retailing £m	Financial services £m	Property investments £m	Group £m
Segment revenue				
Retail sales to external customers	**23,443**	**-**	**-**	**23,443**
Financial services to external customers	**-**	**309**	**-**	**309**
Underlying revenue	**23,443**	**309**	**-**	**23,752**
Acquisition adjustment fair value unwind[1]	**-**	**23**	**-**	**23**
Revenue	**23,443**	**332**	**-**	**23,775**
Underlying operating profit	**720**	**62**	**-**	**782**
Underlying finance income	**19**	**-**	**-**	**19**
Underlying finance costs	**(126)**	**-**	**-**	**(126)**
Underlying share of post-tax (loss)/profit from joint ventures and associates	**(9)**	**-**	**15**	**6**
Underlying profit before tax	**604**	**62**	**15**	**681**
Profit on disposal of properties	**5**	**-**	**2**	**7**
Investment property fair value movements	**-**	**-**	**7**	**7**
Retail financing fair value movements	**(23)**		**(7)**	**(30)**
IAS 19 pension financing charge	**(31)**	**-**	**-**	**(31)**
Defined benefit pension scheme expenses	**(6)**	**-**	**-**	**(6)**
Acquisition adjustments	**-**	**13**	**-**	**13**
One-off items	**(660)**	**(53)**	**-**	**(713)**
(Loss)/profit before tax	**(111)**	**22**	**17**	**(72)**
Income tax expense				**(94)**
Loss for the financial year				**(166)**
Assets	**11,908**	**4,270**	**-**	**16,178**
Investment in joint ventures and associates	**8**	**-**	**351**	**359**
Segment assets	**11,916**	**4,270**	**351**	**16,537**
Segment liabilities	**(7,232)**	**(3,766)**	**-**	**(10,998)**
Other segment items				
Capital expenditure[2]	**968**	**82**	**-**	**1,050**
Depreciation expense	**540**	**5**	**-**	**545**
Amortisation expense[3]	**14**	**20**	**-**	**34**
Impairment[4]	**548**	**-**	**-**	**548**
Share-based payments	**21**	**-**	**-**	**21**

1 Represents fair value unwind on loans and advances to customers resulting from the Sainsbury's Bank acquisition in 2013/14.
2 Retail capital expenditure consists of property, plant and equipment additions of £951 million and intangible asset additions of £17 million. Financial services capital expenditure consists of property, plant and equipment additions of £14 million and intangible asset additions of £68 million.
3 Amortisation expense within the financial services segment includes £18 million of intangible asset amortisation arising from Sainsbury's Bank acquisition fair value adjustments.
4 Impairment charge includes £540 million recognised against property, plant and equipment and £8 million against intangible assets.

4 Segment reporting (continued)

52 weeks to 15 March 2014	Retailing £m	Financial services £m	Property investments £m	Group £m
Segment revenue				
Retail sales to external customers	23,921	-	-	23,921
Financial services 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 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 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)
Other segment items				
Capital expenditure (including acquisitions through business combinations)[2]	994	131	-	1,125
Depreciation expense	536	-	-	536
Amortisation expense[3]	14	1	-	15
Impairment	92	-	-	92
Share-based payments	33	-	-	33

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

2 Retail capital expenditure consists of property, plant and equipment additions of £975 million and intangible asset additions of £19 million. Financial services capital expenditure consists of property, plant and equipment additions of £18 million acquired as part of the Sainsbury’s Bank acquisition and intangible asset additions (including goodwill) of £113 million of which £88 million was acquired as part of the Sainsbury’s Bank acquisition.

3 Amortisation expense within the financial services segment includes £1 million of intangible asset amortisation arising from acquisition fair value adjustments.

5 Finance income and finance costs

	2015 £m	2014 £m
Interest on bank deposits and other financial assets	**19**	20
Finance income	**19**	20
Borrowing costs:		
Secured borrowings	**(84)**	(91)
Unsecured borrowings	**(47)**	(56)
Obligations under finance leases	**(9)**	(8)
Provisions – amortisation of discount	**(3)**	(2)
	(143)	(157)
Other finance costs:		
Interest capitalised – qualifying assets	**17**	26
Retail financing fair value movements[1]	**(23)**	(5)
IAS 19 pension financing charge	**(31)**	(23)
	(37)	(2)
Finance costs	**(180)**	(159)

1 Retail financing fair value movements includes net fair value movements on derivative financial instruments not designated in a hedging relationship of £(18) million (2014: £(4) million) and fair value movements on early repayment of bank loans carried at amortised cost of £(5) million (2014: £(1) million).

6 Income tax expense

	2015 £m	2014 £m
Current tax expense	**98**	214
Deferred tax credit	**(4)**	(32)
Total income tax expense in income statement	**94**	182

The effective tax rate of (130.6) per cent (2014: 20.3 per cent) is lower than (2014: lower than) the standard rate of corporation tax in the UK. The differences are explained below:

	2015 £m	2014 £m
(Loss)/profit before tax	**(72)**	898
Income tax at UK corporation tax rate of 21.09% (2014: 23.04%)	**(15)**	207
Effects of underlying items:		
Disallowed depreciation on UK properties	**30**	31
Over provision in prior years	**(5)**	(7)
Revaluation of deferred tax balances	**1**	(31)
Other	**6**	(3)
Effects of non-underlying items:		
Profit on disposal of properties	**(6)**	(16)
Investment property fair value movements	**(1)**	-
Revaluation of deferred tax balances	**-**	(20)
(Over)/under provision in prior years	**(1)**	3
Impairment	**84**	21
Other one-off items	**1**	-
Other	**-**	(3)
Total income tax expense in income statement	**94**	182

On 20 March 2013, the Chancellor announced that the main rate of UK corporation tax would reduce to 20.0 per cent from 1 April 2015. This was substantively enacted on 2 July 2013 and hence the effect of the change on the deferred tax balances was included in the 2014 figures above.

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, retail financing fair value movements, impairment of goodwill, IAS 19 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.

	2015 million	2014 million
Weighted average number of shares in issue	**1,911.0**	1,896.8
Weighted average number of dilutive share options	**17.3**	25.4
Weighted average number of dilutive convertible bonds	**62.3**	46.3
Total number of shares for calculating diluted earnings per share	**1,990.6**	1,968.5

	£m	£m
(Loss)/profit for the financial year	**(166)**	716
Add interest on convertible bonds, net of tax[1]	**-**	11
Diluted (loss)/earnings for calculating diluted earnings per share	**(166)**	727

	£m	£m
(Loss)/profit for the financial year attributable to owners of the parent	**(166)**	716
(Less)/add (net of tax):		
Profit on disposal of properties	**(17)**	(53)
Investment property fair value movements	**(7)**	-
Retail financing fair value movements	**25**	7
IAS 19 pension financing charge	**24**	18
Defined benefit pension scheme expenses	**5**	5
Acquisition adjustments	**(9)**	(17)
One-off items	**650**	(33)
Revaluation of deferred tax balances	**-**	(20)
Underlying profit after tax	**505**	623
Add interest on convertible bonds, net of tax	**7**	11
Diluted underlying profit after tax	**512**	634

	pence per share	pence per share
Basic (loss)/earnings	**(8.7)**	37.7
Diluted (loss)/earnings[1]	**(8.7)**	36.9
Underlying basic earnings	**26.4**	32.8
Underlying diluted earnings	**25.7**	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

	2015 pence per share	2014 pence per share	2015 £m	2014 £m
Amounts recognised as distributions to equity holders in the year:				
Final dividend of prior financial year	**12.3**	11.9	**234**	225
Interim dividend of current financial year	**5.0**	5.0	**96**	95
	17.3	16.9	**330**	320

After the balance sheet date, a final dividend of 8.2 pence per share (2014: 12.3 pence per share) was proposed by the Directors in respect of the 52 weeks to 14 March 2015, resulting in a total final proposed dividend of £157 million (2014: £234 million). The proposed final dividend has not been included as a liability at 14 March 2015.

9 Notes to the cash flow statement

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

	2015 £m	2014 £m
(Loss)/profit before tax	**(72)**	898
Net finance costs	**161**	139
Share of post-tax profits of joints ventures	**(8)**	(28)
Operating profit	**81**	1,009
Adjustments for:		
Depreciation expense	**545**	536
Amortisation expense	**34**	15
Non-cash acquisition adjustments[1]	**(31)**	(19)
Sainsbury's Bank impairment losses on loans and advances	**21**	2
Profit on disposal of properties	**(5)**	(51)
Impairment of property, plant and equipment	**540**	92
Impairment of intangible assets	**8**	1
Nectar VAT recovery	**-**	(14)
Foreign exchange differences	**(12)**	6
Share-based payments expense	**21**	33
Retirement benefit obligations[2]	**(79)**	(244)
Operating cash flows before changes in working capital	**1,123**	1,366
Changes in working capital:		
Decrease/(increase) in inventories	**6**	(19)
Decrease in available-for-sale financial assets	**32**	-
(Increase)/decrease in trade and other receivables	**(57)**	13
Increase in amounts due from Sainsbury's Bank customers	**(426)**	(23)
Increase/(decrease) in trade and other payables	**294**	(118)
Increase in amounts due to Sainsbury's Bank customers	**114**	6
Increase in provisions	**50**	2
Cash generated from operations	**1,136**	1,227

1 Refer to note 3 for details of acquisition adjustments. This excludes £18 million (2014: £1 million) amortisation on acquired intangibles included within amortisation in this note.

2 The adjustment for retirement benefit obligations reflects the difference between the service charge of £nil million (2014: £34 million) for the defined benefit scheme, defined benefit pension scheme expenses of £6 million (2014: £7 million), one-off past service credit of £nil million (2014: £(158) million) and the cash contributions of £85 million made by the Group to the defined benefit scheme (2014: £127 million).

9 Notes to the cash flow statement (continued)
(b) Cash and cash equivalents

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

	2015 £m	2014 £m
Cash in hand and bank balances	**970**	409
Money market funds and deposits	**262**	656
Treasury bills	**53**	527
Cash and bank balances	**1,285**	1,592
Bank overdrafts	**(9)**	(13)
Net cash and cash equivalents	**1,276**	1,579

10 Analysis of net debt

	Group 2015 £m	Sainsbury's Bank £m	Adjusted Group 2015[1] £m	Group 2014 £m	Sainsbury's Bank £m	Adjusted Group 2014[1] £m
Non-current assets						
Interest bearing available-for-sale financial assets	**37**	**-**	**37**	37	-	37
Derivative financial instruments	**21**	**(1)**	**20**	28	(1)	27
	58	**(1)**	**57**	65	(1)	64
Current assets						
Cash and cash equivalents	**1,285**	**(882)**	**403**	1,592	(1,225)	367
Derivative financial instruments	**69**	**-**	**69**	49	-	49
	1,354	**(882)**	**472**	1,641	(1,225)	416
Current liabilities						
Bank overdrafts	**(9)**	**-**	**(9)**	(13)	-	(13)
Borrowings	**(221)**	**-**	**(221)**	(494)	-	(494)
Finance leases	**(30)**	**-**	**(30)**	(27)	-	(27)
Derivative financial instruments	**(75)**	**1**	**(74)**	(65)	-	(65)
	(335)	**1**	**(334)**	(599)	-	(599)
Non-current liabilities						
Borrowings	**(2,337)**	**-**	**(2,337)**	(2,089)	-	(2,089)
Finance leases	**(169)**	**-**	**(169)**	(161)	-	(161)
Derivative financial instruments	**(38)**	**6**	**(32)**	(21)	6	(15)
	(2,544)	**6**	**(2,538)**	(2,271)	6	(2,265)
Total net debt	**(1,467)**	**(876)**	**(2,343)**	(1,164)	(1,220)	(2,384)

1 The Group's definition of net debt excludes Sainsbury's Bank's own net debt balances (2014: The Group's definition of net debt includes the cost of acquiring Sainsbury's Bank, but excludes Sainsbury's Bank's own net debt balances).

Reconciliation of net cash flow to movement in net debt

	2015 £m	2014 £m
Net debt at 16 March 2014	**(2,384)**	(2,162)
Net (decrease)/increase in cash and cash equivalents	**(303)**	1,075
Elimination of net decrease/(increase) in Sainsbury's Bank cash and cash equivalents	**343**	(1,225)
Net (increase)/decrease in borrowings[1]	**(20)**	1
Net increase of obligations under finance leases	**(11)**	(28)
Fair value movements	**(7)**	(45)
Equity component of convertible bond	**39**	-
Net debt at 14 March 2015	**(2,343)**	(2,384)

1 Excluding fair value and Sainsbury's Bank derivative movements.

11 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 senior employees. The Scheme is governed by a Trustee board, and the assets of the Scheme are held separately from the Group's assets. The Scheme is a Registered pension plan with HMRC, subject to UK legislation with oversight from the Pensions Regulator. The governance of the Scheme is the responsibility of the Trustee; the Trustee comprises 11 Directors – five selected from members, five appointed by the Company and one Independent Chairman. In accordance with legislation, the Trustee consults with the Company regarding the Scheme's investment strategy and agrees an appropriate funding plan with the Company.

The Scheme has three different benefit categories; Final Salary, Career Average and Cash Balance. For Final Salary and Career Average members, benefits at retirement are determined by length of service and salary. For Cash Balance members, benefits are determined by the accrued retirement account credits.

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 2013/14 as a result as disclosed in note 3. The assets of the Scheme are valued at bid price and are held separately from the Group's assets.

The Scheme was subject to a triennial actuarial valuation, carried out by Towers Watson, at 17 March 2012 on the projected unit basis. The results of this valuation were finalised in August 2013 and a recovery plan agreed. Under the Scheme's recovery plan, the Company will pay annual deficit contributions of £49 million per annum for eight consecutive financial years to 2020. This plan is reviewed once every three years, with the next valuation effective date in March 2015 and statutory completion date in June 2016.

The retirement benefit obligations at the year-end have been calculated by KPMG, as actuarial advisers to the Group, using the projected unit credit method and based on adjusting the position at 17 March 2012 for known events and changes in market conditions as allowed under IAS 19.

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 amounts recognised in the balance sheet are as follows:

	2015	2014
	£m	£m
Present value of funded obligations	**(7,680)**	(6,855)
Fair value of plan assets	**6,988**	6,131
	(692)	(724)
Present value of unfunded obligations	**(16)**	(13)
Retirement benefit obligations	**(708)**	(737)
Deferred income tax asset	**57**	58
Net retirement benefit obligations	**(651)**	(679)

The retirement benefit obligations and the associated deferred income tax balance are shown within different line items on the face of the balance sheet.

The principal actuarial assumptions used at the balance sheet date are as follows:

	2015	2014
	%	%
Discount rate	**3.50**	4.25
Inflation rate - RPI	**3.00**	3.40
Inflation rate - CPI	**2.00**	2.40
Future salary increases	**n/a**	n/a
Future pension increases	**1.80 – 2.85**	2.15 – 3.20

12 Post balance sheet event

On 5 May 2015, the Group refinanced its unsecured £1,150 million syndicated revolving credit facility due 2019 with a new secured recourse £1,150 million syndicated revolving credit facility due 2020. The new secured corporate facility is the same size as, and has substantially similar economic terms to, the previous unsecured facility, with the structure also maintained on a dual tranche basis (a £500 million Facility (A) due April 2018 and £650 million Facility (B) due April 2020). The new facility, which is secured against 60 supermarket properties with a net book value of £1.4 billion, contains no financial covenants.

On 5 May 2015, the Group amended its £200 million unsecured bank loan due November 2019 and its €50 million unsecured bank loan due September 2016 into a secured recourse £200 million bank loan due November 2019 and a secured recourse €50 million bank loan due September 2016. The amended bank loans, which are secured against ten supermarket properties with a net book value of £0.2 billion, contain no financial covenants.