4 May 2016

J Sainsbury plc

Preliminary Results for the 52 weeks to 12 March 2016

Significant progress made delivering our strategy in a competitive market

- **Volume and transaction growth driven by: product quality improvements, our simpler pricing strategy to focus on lower regular prices and market-leading service and availability**
- **Multi-channel strategy delivering strong growth in convenience and online**
- **Non-food continues to grow with strong performance in clothing, general merchandise and financial services**

Mike Coupe, Chief Executive of Sainsbury's, said: "We are making good progress against the strategy we outlined to shareholders in November 2014. We continue to outperform our main supermarket peers and maintain market share in a competitive, deflationary environment. We deliver great quality products and services at fair prices, whenever and wherever customers want to shop – and with volumes and transactions up, it is clear customers are responding positively to our offer. Our core food business performed well, underpinned by our quality investment programme, our simpler pricing strategy and lower regular prices. We also saw strong growth in clothing and general merchandise, as well as in our convenience and online channels. These results reflect the multi-product, multi-channel shopping experience customers are looking for today and our proposed acquisition of Home Retail Group plc will accelerate our strategy in this direction.

"We continue to manage our costs and capital expenditure carefully and, after making operating cost savings of £225 million this year, we are on track to deliver our three-year £500 million cost saving programme by the end of 2017/18. Ongoing pricing pressures and food price deflation have impacted our sales and operating margins. As a result, underlying profit and earnings per share are down this year versus last year.

"The market is competitive, and it will remain so for the foreseeable future. We believe we have the right strategy in place and are taking the right decisions to achieve our vision to be the most trusted retailer where people love to work and shop."

	2015/16	2014/15	% Total Change
Business Performance			
Underlying Group sales (inc VAT)[1]	£25,829m	£26,122m	(1.1)%
Retail sales (inc VAT, ex fuel)			0.4%
Like-for-Like sales (inc VAT, ex fuel)			(0.9)%
Underlying profit before tax[2]	£587m	£681m	(13.8)%
Underlying basic earnings per share[3]	24.2p	26.4p	(8.3)%
Return on capital employed[4]	8.8%	9.7%	(88)bps
Statutory Reporting*			
Group sales (ex VAT, inc fuel)	£23,506m	£23,775m	
Items excluded from underlying results	£(39)m	£(753)m	
Profit/(loss) before tax	£548m	£(72)m	
Basic earnings/(loss) per share	23.9p	(8.7)p	
Proposed final dividend	8.1p	8.2p	(1.2)%
Proposed full year dividend	12.1p	13.2p	(8.3)%
Return on capital employed excluding net retirement benefit obligations	8.3%	9.0%	

**Variation between Business Performance and Statutory Reporting is due to items excluded from underlying results*

David Tyler, Chairman of Sainsbury's, added: "Our strategy is built on the fundamental strengths of our business - great heritage, quality food, fair prices and strong values. It recognises that customers will increasingly shop through multiple channels and according to their varying needs. Our business will continue to evolve and adapt to changing shopping needs, ensuring that we exceed customer expectations in an increasingly fast-paced, digital world.

"We are focused on building shareholder value and are confident that by following our established strategy, driving efficiencies and managing costs carefully, we will achieve this. We are committed to paying an affordable dividend to our shareholders and have maintained this at 2.0 times cover. We are therefore recommending a final dividend of 8.1 pence per share this year, making the proposed full year dividend 12.1 pence per share."

Strategic and operational highlights

Our vision is to be the most trusted retailer where people love to work and shop. We are delivering this through the five pillars of our strategy. This year we have made significant progress against each pillar which has meant we have grown volumes and customer transactions and maintained our market share[(5)].

We know our customers better than anyone else

- We introduced a new customer insights system and customer relationship management platform which give us an even greater understanding of our customers and allow us to meet their individual needs better
- In response to customer feedback, we have tailored our ranges and simplified our pricing strategy to offer greater choice and flexibility for shoppers. We will become the first major retailer in the UK to remove the vast majority of multi-buy promotions across our grocery business by August 2016 in favour of lower regular prices. In April, 2016, we announced we are replacing Brand Match with lower regular prices on products that matter most to customers
- Our 2015 *Christmas is for Sharing* advert was credited as the most popular Christmas advertising campaign by online views and by industry critics

Great products and services at fair prices

- We are making improvements to the quality of 3,000 own-brand products, with 750 improved to date and we continue to lead on quality perception[(6)]
- Our *Taste the Difference* range grew volumes by nearly two per cent and was voted best supermarket range by the *Good Housekeeping Institute* for the third year running
- We have invested in the price of everyday products, which continues to drive improved price satisfaction scores and ensure we remain competitive
- We delivered a good performance from general merchandise, which grew sales by 3.5 per cent. Clothing grew sales by 8.5 per cent, ahead of the market [(7)]
- Sainsbury's Bank performed well, achieving £65 million underlying profit and trading performance supports plans to launch mortgages. We are making good progress on our transition to a new, more flexible banking platform and total transition costs are forecast to be at the top of the £340 million to £380 million range

There for our customers

- We now trade in 601 supermarkets. New formats are being trialled in six of these stores
- Convenience now generates sales of over £2.3 billion; we opened 69 convenience stores during the year and delivered over nine per cent sales growth
- Groceries Online achieved nearly nine per cent sales growth and order growth of nearly 15 per cent. We have 101 Click & Collect grocery sites with a plan to increase this to 200 by the end of the next financial year
- Working with our partner Dansk Supermarked, we have opened 15 Netto stores. We have trialled a variety of location types to help build our insight and continue to benefit from operational insights in our core business. We will now review the performance of the business in light of the overall market and we will communicate our next steps for the business at our Interim Results in November 2016

Colleagues making the difference

- We have won a significant number of awards for our high levels of customer service this year, including the industry-leading Grocer Gold Customer Service and Availability Awards for the third year running. We were named Grocer 33 Store of the Week 19 times in the year, the highest of any grocer, proving that our colleagues really do make the difference
- We are proud of the strong loyalty within our workforce – nearly 28,000 of our colleagues have worked at Sainsbury's for 15 years or more
- Colleague training and development continues to be a key area of investment. We are growing our digital capability to prepare us for the future, hiring 480 new digital-focused colleagues

Our values make us different

- *Living Healthier Lives:* We launched a *My Goodness!* ready meals range review: the new range includes at least one five-a-day fruit or vegetable serving. Innovative, healthy prepared vegetables such as courgetti (spiralized courgette) and boodles (butternut squash noodles) significantly exceeded sales expectations since launch in January
- *Sourcing with integrity*: By working with our 822 sheep farmers, we extended our British lamb season by five weeks
- *Respect for our environment:* An ambitious £10 million five-year project to tackle household food waste, *Waste less, Save more,* is well under way with the launch of our innovation test-bed town, Swadlincote, South Derbyshire
- *Making a positive difference to our community:* More than £1.5 million raised from the book and companion toy from our 2015 Mog's Christmas Calamity campaign was donated to Save the Children's literacy campaign *Read on, Get on;* we have now raised over £100 million for Comic & Sport Relief since 1999
- *Great place to work:* We were proud to co-sponsor the largest ever survey of race equality in the UK workplace. The survey was run by Business in the Community and completed by 24,000 working people (including over 4,000 Sainsbury's colleagues) to better understand the experience of ethnic minorities at work in the UK

Notes:

1. Underlying group sales excludes an £11 million adjustment (2014/15: £23 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, IAS 19 pension financing element and defined benefit pension scheme expenses, acquisition adjustments and one-off items that are material and infrequent in nature, but after the coupons on the perpetual subordinated capital securities and perpetual subordinated convertible bonds.

3. Underlying basic earnings per share: Underlying profit, net of attributable taxation, divided by the weighted average number of ordinary shares in issue during the year, excluding those held by the Employee Share Ownership Plan 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. Kantar Worldpanel 52 week Till Roll data ending 28 February 2016.

6. HPI Brand & Communications Tracker – National sample data of Sainsbury's customers between 2014 and 2016.

7. Kantar Worldpanel (24 weeks ended 14 February 2016).

8. 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.

9. Sainsbury's will report its 2015/16 First Quarter Trading Statement at 07:00 (GMT) on 8 June 2016.

10. An interview with Mike Coupe, Chief Executive, about the Preliminary Results will be available to download from 11.30am on 4 May, 2016 in video and transcript form at: www.j-sainsbury.co.uk

A results presentation for analysts and investors will be held at 09:30 on 4 May 2016.

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 678 1161 (or +44 (0)1296 311 600 if you are unable to use the primary number). The pass code for the event is 534 877. 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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Strategic report

Market context

The UK food retail market is changing rapidly. We will continue to adapt to reflect changing customer needs.

The market

Over the last two years, UK household disposable incomes have continued to rise thanks to wage growth coupled with falling fuel and food prices. The food retail sector has yet to benefit from this growth, as consumers are choosing to spend their discretionary income on items that they gave up during the recession such as holidays and eating out. In recent months, as deflation gradually eases and pay growth stabilises, there have been signs that household income growth is slowing.

The grocery sector has experienced sustained food price deflation for nearly two years, driven in part by lower commodity prices and in part by the competitive pricing environment. The continued expansion of the discount retailers, offering a limited number of products at low prices, has forced the established grocery retailers to cut their prices and tailor their offer. Food price deflation has eased slightly in recent months and we anticipate macro-economic factors will eventually lead to the return of food inflation. There are also encouraging signs in volume growth with customers buying more items than previously, albeit not enough to offset the deflationary effects.

Shopping habits

Shopping habits are evolving with customers choosing to buy their groceries more frequently and from the broader range of channels now available to them. We expect volumes will continue to reduce in the supermarket channel as consumers shop more often in convenience stores, online and with discount retailers. However, we anticipate the supermarket will remain the most popular destination for customers. It is therefore important that this channel adapts to reflect and meet changing customer needs. With conflicting demands and increasingly busy lifestyles, consumers are seeking greater convenience in their shopping missions. Grocery retailers need to respond to this by offering them greater flexibility in how they shop and making it easier for them to buy the products they need whenever and wherever they want, whilst enjoying great value.

Future retail trends

The UK food retail landscape is changing rapidly. The disruptive impact of technology is empowering customers and heightening their expectations of how retailers will serve them in the future. Customers are increasingly developing deeper relationships with retailers, sharing a greater amount of data and insight about their purchases as part of more sophisticated loyalty programmes. The grocery retailers in particular have an unrivalled insight into the weekly shopping habits of customers and will need to invest in customer insight tools to anticipate and better serve changing customer needs. In addition, the rise of the smart phone and increased levels of connectivity are enabling customers to research easily any planned purchase online. The transaction may then take place either in store or online, with a range of delivery options: in store, to home, or via Click & Collect. Grocery retailers are again uniquely positioned to serve customers in all of these ways. As customer shopping habits evolve as a result of these new retail capabilities so too will their expectations. Those food retailers that will be successful in the future will need to develop new technologies increasing the speed, flexibility and convenience of their offer.

We know our customers better than anyone else

During the year we introduced a new customer database system that gives us a more holistic view of our customers, resulting in an even better understanding of our customers, allowing us to meet their needs in a personalised and more effective way.

We consult with our customers regularly in a number of different ways. We launched our online consumer panel, Trolley Talk, 18 months ago through which we talk to 4,000 customers every week on a range of issues. The insight we gain from these conversations helps us to make the right strategic decisions.

We conducted considerable research with our customers on pricing. They told us that multi-buy promotions do not meet their shopping needs today, that they are confusing, create storage challenges in the home and unnecessary waste. This led us to simplify our pricing, reducing prices on hundreds of lines across our grocery ranges in favour of lower regular prices. We will be the first major retailer in the UK to remove multi-buy promotions across the vast majority of our grocery business by August 2016.

This year we are replacing our Brand Match scheme with lower regular prices. All the money from the scheme will be reinvested into lowering the price of popular products. We will continue to monitor the prices of branded products to ensure we remain competitive, and offer customers great value.

Since we introduced this simpler pricing strategy our price satisfaction scores have increased[1] and we have seen growth in volumes and transactions.

Similarly, we asked thousands of customers what was important to them about Christmas, and we developed our award-winning *'Christmas is for Sharing'* campaign, featuring Mog the Cat. It was deemed the most popular Christmas advertising campaign in terms of online views and by industry experts. Mog's Christmas Calamity book topped the UK book charts for four weeks and, together with author Judith Kerr and publisher Harper Collins, we donated more than £1.5 million to Save the Children to support their literacy campaign in the UK.

Our Nectar loyalty scheme is another key source of customer insight. Over 15 million Nectar card holders shop with us in stores, online and with Sainsbury's Bank. We can reward them for their loyalty across our different products and services. Bonus point events, such as *Nectar Double-Up*, *Swipe and Win* and *10x Nectar points on fuel*, are extremely popular, with more customers participating every year.

Our *Little Twists* campaign inspired many of our customers to break from their routine and give everyday dishes a delicious new twist, such as adding horseradish to macaroni cheese and ginger beer to a traditional roast lamb.

Great products and services at fair prices

Our customers trust us to deliver great quality at fair prices across all of our products. Our commitment to deliver on this is at the heart of our strategy.

Leading on quality

The quality, range and provenance of our food differentiates us from our competitors and we continue to lead on quality perception[2]. This year we have tailored many of our ranges, focusing on the products that we know are loved by customers. The depth and variety of the product ranges we offer is a point of difference for us and we will continue to make sure customers have choice across all price tiers.

We are investing in further improving the quality of 3,000 own-brand products. During the year we improved the quality of around 70 of our own-brand fish lines, pairing our fish with delicious new sauces and butters and introducing innovative vacuum pack technology that helps to improve freshness and reduce waste. Our commitment to responsible sourcing remains of critical importance to us; we are the UK's biggest retailer of Marine Stewardship Council (MSC) certified seafood for the sixth consecutive year. We have over 180 MSC-labelled products, more than twice as many as any other UK retailer.

We also improved our in-store bakery products, and expanded our core *by* Sainsbury's bread range. Our new *Taste the Difference* loaves are freshly baked in-store every day and we have added artisan breads made from grains such as spelt, rye and quinoa to the range. The provenance of our ingredients is important to our customers, and the vast majority of wheat we use is sourced from the UK. We are focused on offering our customers nutritious, tasty food with a wide choice of healthy meal options. This year we launched 19 new lines in our *My Goodness!* range including four innovative raw fish products that are steam-cooked in the pack when microwaved, ensuring a fresh, tasty result. We continue to reformulate the sugar, salt and saturated fat content of our own-brand products to make them healthier, and in each of the past two years we have removed more than 2,370 tonnes of sugar from our own-brand soft drinks.

Our own-brand ranges account for around half of our food sales. Our premium *Taste the Difference* range grew volumes by nearly two per cent and continues to gain industry recognition, voted the Best Supermarket Range by the *Good Housekeeping Institute* for the third year running.

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[1] CSI – Customer Satisfaction Tracking for superstores 2015/16

[2] HPI Brand & Communications Tracker – National sample data of Sainsbury's customers between 2014 and 2016

Strong value proposition
At Sainsbury's we offer customers a strong value proposition that helps them to *Live Well for Less*. As well as improving the quality of our food we have also invested in our prices. Our price satisfaction scores have increased again this year[3] and our investment in lower regular prices is driving volume and transaction growth, making us the only one of our main supermarket peers to maintain market share this year.

We have simplified our trading strategy in favour of lower regular prices, and reduced the number of promotions. By the summer we will have phased out the vast majority of multi-buy promotions.

Growth opportunities in clothing, general merchandise and financial services
We have seen strong growth in our clothing and general merchandise businesses this year, both in stores and online as we continue to invest in our ranges to give our customers high street style at supermarket prices. Our strategy for growth focuses on increasing our non-food ranges in stores, and growing our *Tu* online business, alongside changing visual merchandising more frequently and emphasising our quality and design-led approach.

Clothing: Our clothing business is well established and we continue to increase sales and market share across womenswear, menswear, childrenswear and lingerie. Our *Tu* clothing brand is now the UK's sixth largest clothing retailer by volume and tenth largest by value[4]. Our talented in-house design teams source good quality, fashionable clothing, and our long-standing partnership with Gok Wan and the more recent collaboration with the Admiral men's sportswear brand are proving popular with our customers. We are one of the UK's biggest retailers of dressing-up outfits for children and we had great success in the run-up to Halloween, Christmas and World Book Day with strong growth across all these events. We launched *Tu* online nationwide in August 2015, giving our customers access to our full clothing offer. This channel is proving popular, and the majority of customers collect their orders from more than 700 in-store collection points.

General merchandise: We have a general merchandise business of scale, comprising homeware, cookware, small domestic appliances, toys, books, stationery and entertainment ranges. This is a strong area of growth for us and we have increased our market share across all categories. We now design more than half our ranges in-house and offer customers new products more often. Events including Halloween and Christmas enabled us to grow sales this year as we invested in our ranges and the presence given to these occasions in store.

Sainsbury's Entertainment: Our on demand online music site was re-launched in January 2016, giving customers a one-stop-shop for eBooks, magazines and now music. The site offers customers more music choice than ever before, with over 20 million tracks and 2.5 million albums available for download as high quality MP3s.

Financial Services: Sainsbury's Bank offers customers innovative, good value products and services. Underlying profit this year was up nearly five per cent to £65 million and total income was up over five per cent to £274 million. Total accounts held by customers now stand at nearly 1.7 million. We performed strongly in the competitive personal loans market, with 15 per cent year-on-year growth in the number of advances to new customers. The Bank's portfolio of insurance products continued to perform well, resulting in new business growth of over ten per cent year-on-year. This year we saw a particularly strong performance in home insurance where sales of new policies increased by more than 25 per cent year-on-year. The Bank also introduced a double Nectar points offer to new Travel Insurance customers taking out an Annual Trip policy which, in its first month, resulted in a ten per cent uplift in sales year-on-year. We now have 207 Travel Money bureaux and have enjoyed a strong performance in this area, with a 30 per cent increase in transactions year-on-year. The Bank's free-to-use ATM estate grew by over four per cent to 1,646, ATM transactions grew by nearly two per cent year-on-year to nearly 240 million and £1 of every £11 dispensed from a LINK ATM transaction is from Sainsbury's Bank.

Given the Bank's strong trading performance and the trust people have in the Sainsbury's brand, we have decided to launch new mortgage products in 2017. We believe these products will complement our existing financial services portfolio and we expect customers to respond well.

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[3] CSI – Customer Satisfaction Tracking for superstores 2015/16
[4] Kantar Worldpanel for the 52 weeks to 28th February 2016

Against a backdrop of other credit card providers reducing or removing rewards from their products, Sainsbury's Bank has maintained its Nectar loyalty reward, as well as increasing points offers (for a limited period) to new card customers.

The Bank Transition Programme to move to a new, more flexible banking platform continues to progress and this year we took delivery of the new technology platform, which is a key milestone in building a standalone bank and creating long-term shareholder value. Although the build of the platform is materially complete, testing continues and we plan to migrate savings customers by late summer 2016. The migration of cards and loans customers is currently being re-planned, particularly in the light of the Group's potential acquisition of Home Retail Group plc. We expect total transition costs to remain at the top of the £340 million to £380 million range.

Pharmacy: In July 2015, we announced a strategic partnership that will see LloydsPharmacy acquire Sainsbury's pharmacy business for £125 million. In addition, we will receive commercial annual rent payments from LloydsPharmacy for each of the 277 in-store pharmacies. The Competition and Markets Authority is currently undergoing the final stages of a phase two regulatory review. Provisional findings announced in April 2016 found that Celesio may have to sell pharmacies in 13 areas of England and Wales. The final outcome and completion of the deal are expected in the summer of 2016.

Mobile *by* Sainsbury's: Our joint venture with Vodafone ceased to operate in January 2016. We know that mobile is important to our customers and we are looking at other network options. Customers can still buy phones and accessories and access other mobile operator contracts and pay as you go options online and in our 38 Phone Shops.

Alibaba: In September 2015, we began a partnership with the Alibaba Group, becoming the first UK grocer to export goods to China through Tmall Global, Alibaba's online store.

<u>There for our customers</u>

Customer shopping behaviour is changing, driven by competitive dynamics and the growth of technology. People increasingly want the flexibility to shop in a number of different ways and we have developed our multi-channel strategy to make it easy for them to shop with us whenever and wherever they want.

Supermarkets

Supermarkets represent our biggest source of turnover and we now trade in 601 supermarkets across the UK. In the financial year we opened six stores including two replacements, and also refurbished seven supermarkets.

Given the size and locations of our stores, we have a structurally advantaged estate which enables us to meet our customers' varied and changing shopping needs. Around a quarter of our stores will have some under-utilised space over the next five years. This space is being used to extend our clothing and general merchandise offer to more of our stores, as well as widening the existing selection in stores that already sell non-food ranges. A comprehensive non-food range is now available in 439 of our supermarkets so there are significant opportunities to expand into more stores to reach more customers. The remaining excess space is being used to enhance customer choice and convenience with carefully selected concession partners such as Argos, Timpsons, Centre for Dentistry and Explore Learning. In this way we are giving customers increased choice, achieving the best use of our supermarket space, and making our stores destination shopping locations. With customer shopping patterns continuing to change, we believe there is great potential in tailoring our store formats and product ranges to meet evolving needs. We have been trialling new formats in our supermarkets, testing different store layouts to cater for a wider range of shopping missions. As part of this trial we are reviewing how we can offer customers easier and quicker ways to shop, checkout and pay in our stores.

The estimated market value of properties, including our 50 per cent share of properties held within property joint ventures, is £10.6 billion. The £0.5 billion decrease during the year was mainly due to a reduction in market rental values and a yield movement. We are maximising the value of our property assets by working with joint venture partners to develop new leisure, residential and commercial opportunities while also adding trading space to our estate. Our £500 million development at Nine Elms will launch in 2016/17 with a new Sainsbury's supermarket, 730 homes and shops and offices. We are also developing plans for replacement stores at Whitechapel and Ilford which will provide 1,240 homes and new jobs.

We are investing in the right infrastructure to support the growth of our business and to help us serve our customers better. We operate 23 distribution centres to service our supermarkets, convenience stores and online businesses. We opened a new one million sq ft general merchandise depot at Daventry International Rail Freight Terminal, potentially creating 900 jobs, and upgraded our Basingstoke distribution centre.

Convenience
Customers increasingly top up their shopping locally and our convenience store business generates sales of over £2.3 billion. Our convenience business delivered over nine per cent sales growth during the year despite the business being impacted by a higher proportion of categories that are experiencing food price deflation. We have taken a disciplined approach to new space this year, opening 69 convenience stores, and by the end of the year we traded out of 773 convenience stores.

We are trialling new convenience formats, both smaller and larger than our standard convenience stores. Our new 'micro' 753 sq ft store in Richmond is the smallest Sainsbury's Local to date, and it is designed to meet the needs of people working in the area who want to buy 'food for now'.

We were delighted to be named Convenience Retailer of the Year for the sixth consecutive year at the Retail Industry Awards.

Online
Our online business continues to grow across both food and clothing. Groceries online grew by nearly nine per cent with orders increasing by nearly 15 per cent. We had a record week in the run up to Christmas, delivering over 289,000 orders, both to customers' homes and to the 101 grocery Click & Collect sites we have opened at our stores across the country. These sites have proved to be popular with our customers and we are aiming to double the number of Click & Collect sites by the end of the financial year.

We pick our grocery online orders from stores; this makes good commercial, logistical and operational sense as we are using existing resources that are within easy reach of where our customers live. As Click & Collect gains in popularity, picking orders in-store saves time and minimises additional transport and handling costs. However, demand for groceries online in the densely populated and fast-growing London area is so great that we will open a purpose-built online fulfilment centre in Bromley-by-Bow, East London this year. This will provide us with the additional capacity we need to meet this increasing customer demand.

Netto
Working with our partner Dansk Supermarked, we have opened 15 Netto stores. We have trialled a variety of location types to help build our insight and continue to benefit from operational insights in our core business. We will now review the performance of the business in light of the overall market and we will communicate our next steps for the business at our Interim Results in November 2016.

Colleagues making the difference
Committed, well-trained colleagues provide our customers with great service day in, day out, creating a major point of differentiation from our competitors. In stores, online or over the phone, colleagues work hard to help customers and to meet their changing shopping needs. We have exceeded all our customer service targets again this year.

Our colleagues deliver industry leading customer service and we are committed to rewarding them well for their hard work. In August, we announced a four per cent pay increase for 137,000 colleagues who work in our stores across the country. Our new standard hourly rate is well above the Government's National Living Wage and will also apply to around 40,000 colleagues under the age of 25.

It is important that colleagues are fully engaged with business activities that directly relate to them, and that they have the opportunity to communicate their views to management. Every location has a 'Great Place to Work' forum comprising colleagues nominated by their peers to represent them. These have been designed to give colleagues a voice and an opportunity to get involved in helping to shape and guide change in the business. They are supported by a number of other initiatives used to understand and respond to the needs of our colleagues, such as our 'Talkback' survey, performance reviews, listening groups and a colleague suggestion scheme.

We were named *Grocer* magazine's Grocer 33 Store of the Week 19 times during the year[5], the highest of any grocery retailer, and we also won the Grocer Gold Customer Service and Availability Awards for the third year running. We offer colleagues job satisfaction, a wide range of job roles, career progression and flexibility. This helps to generate strong loyalty within our workforce, and nearly 28,000 of our colleagues have worked with Sainsbury's for 15 years or more. Over Christmas and New Year we recruited nearly 12,000 temporary colleagues to serve our customers at the busiest time of year, giving them valuable experience and a stepping stone into the workplace.

We provide extensive skills training, which helps colleagues serve our customers better. We have seven Food Colleges for colleagues who work on our fresh food counters and in our store cafés. The courses on offer enhance craft and customer service skills and can lead to apprenticeship diplomas. We are also growing our digital capability to prepare us for the future, hiring 480 new digital-focused colleagues.

We support colleagues who want to develop and progress their career within our business and have a robust process in place to identify and nurture talent. There is further opportunity within our business for women and minority groups at senior levels of management and we have established a business-wide mentoring scheme to help colleagues overcome barriers to career progression.

Our values make us different

The market context we operate in has changed significantly since we launched our original Sustainability Plan in 2011. Consequently, we have updated the plan to focus on the issues that are most important to our customers, colleagues and stakeholders now, and on the areas in which we can make the most positive impact. Our five values, outlined below, underpin our strategy, make good business sense and give us real competitive advantage.

Living healthier lives

The sugar content of food has received significant media coverage, and a 'sugar tax' was announced in the Government's 2016 Budget. During the year we removed sugar from our chilled juice drinks, Oriental Ready Meals and 16 *by Sainsbury's* yoghurts. Taking our combined previous sales of these products, we anticipate that this will remove a total of 80.3 tonnes of sugar from our customers' baskets per year, equivalent to 321 million calories.

We launched new prepared produce lines in January, demonstrating that we can help our customers achieve their 5-a-day through product innovation and inspiration. Sales of *by Sainsbury's* 'courgetti' have exceeded sales forecasts and fresh courgette sales are also 15 per cent higher than last year.

We have increased the number of healthier products we carry, particularly in our 'better for you' ranges such as Be Good to Yourself and *My Goodness!*, where we have introduced new and inspirational meal solutions. Our *My Goodness!* range currently has 33 ready meals for customers to choose from. Now in its 12th year, we have continued to develop our Active Kids programme, encouraging children to lead healthier, active lives. We will continue to develop Active Kids, with emphasis on both calories in and calories out, helping children to understand the importance of both diet and exercise.

Sourcing with integrity

Customers care about where the products they buy come from and they put their trust in us to do the right thing on their behalf. This is why sourcing with integrity is key to our work with farmers, growers and suppliers in the UK and around the world.

We continue to invest in the future of British farming and work closely with our farmers and growers across the UK. Initiatives include supporting five agriculture apprentices who are working within our poultry and livestock supply chains to develop knowledge and expertise in the industry. In addition, seven British farmers and growers completed our first Sainsbury's farming scholarship Programme in partnership with Imperial College London, supported by Dr Alastair Leake from the Allerton Trust.

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[5] The Grocer 33 Service & Availability wins year-to-date 2015/16

By working closely with our 822 sheep farmers we were able to extend our British lamb season by five weeks compared to the 2014 season. This ensured great quality and availability for our customers, and gave confidence to our sheep farmers at a time of low market prices. We have shown similar support to our Sainsbury's Dairy Development Group ('SDDG') farmers at a time when sections of the British dairy industry were facing issues with volatile pricing. Since 2012, we have paid the 280 SDDG farmers who supply our own-brand milk on a Cost of Production model which directly reflects their costs, builds in a profit for them, and rewards outstanding animal welfare and environmental standards.

Respect for our environment

In 2015 we launched *Waste less, Save more*, an ambitious initiative to tackle high levels of food waste across the UK. Food waste is an important issue for our customers, with the average household throwing away £700 worth of food each year. We are investing £10 million over five years to identify practical, easy ways to help people across the UK reduce their household waste. From the 189 towns that applied, Swadlincote in South Derbyshire won the opportunity to be our innovation test-bed town, and to receive our initial £1 million investment.

In 2015 we were one of only 37 companies on the FTSE 350 Climate Disclosure Leadership Index ('CDLI'), and the only UK retailer on the CDLI to achieve a Band A rating. We were identified as a UK leader in environmental performance and recognised for the quality and transparency of information disclosed to investors through the Carbon Disclosure Project.

Our 355,000 sq ft distribution centre in Tamworth was fitted with over 4,000 solar panels as well as the infrastructure to export surplus power back to the National Grid at times of peak national demand. In some stores we have started to trial aerofoil technology on our fridge systems to reduce the amount of cool air that escapes from fridge units, thereby using less energy to keep the fridge units cool and to keep shopping aisles warm. These innovations have contributed to a 1.07 per cent reduction in energy used in 2015/16.

Making a positive difference to our community

During the year, we donated nearly £46 million to charities, including over £7 million raised for charities which are local to our stores and distribution centres, and which are selected by colleagues and customers. 343 charities received an additional £69,000 through our Local Heroes scheme, which provides financial support to charities where our colleagues volunteer in their free time. We also supported flooded communities located near our stores in the north west of England and Yorkshire, donating over £100,000 worth of emergency supplies.

Nationally, it was a milestone year for our partnership with Carers UK, as the charity celebrated its 50th anniversary and we marked our fifth year of support. We also raised over £7 million for this year's Sport Relief campaign, and have now raised over £100 million for Comic and Sport Relief since our partnership began in 1999. We continue to support the Royal British Legion, raising over £2 million, and our colleagues went the extra mile to ensure the safety of Poppy Appeal collectors by banking funds raised in store on their behalf. Our 2015 Mog's Christmas Calamity campaign raised more than £1.5 million for Save the Children's literacy campaign Read on, Get on and we also signed the Vision for Literacy Business Pledge 2016, to support the National Literacy Forum and help close the literacy gap.

A great place to work

We know we can do more to ensure that the make-up of our workforce reflects the diversity of the customers we serve, particularly at a managerial level. Over 55 per cent of our colleagues are female and we want to help them develop their careers with us.

External and internal research shows that mentoring is a great way to support women with their career development, so we have launched a new initiative that makes mentoring available to up-and-coming female colleagues who have the potential and desire to progress their careers. So far over 1,400 colleagues have signed up to be mentored through the scheme. We are also proud to be co-sponsors of the largest ever survey of race at work in the UK. The survey, run by Business in the Community, was completed by 24,000 working people (over 4,000 of whom were Sainsbury's colleagues) to better understand the experience of ethnic minorities at work in the UK. We want to help all our colleagues fulfil their potential, so we are using the results of this survey to build on our own action plans and understand how we can help colleagues from all backgrounds progress in their careers with us.

Financial Review

Sainsbury's continues to operate in a competitive trading environment experiencing sustained food price deflation. However, over the past year, Sainsbury's has maintained market share at 16.5 per cent as a result of both volume and transaction growth. Sainsbury's underlying Group sales (including VAT) declined by 1.1 per cent to £25,829 million (2014/15: £26,122 million) and underlying profit before tax ('UPBT') declined by 13.8 per cent to £587 million (2014/15: £681 million). Profit before tax of £548 million (2014/15: £72 million loss) was £39 million lower than UPBT, due to items that are excluded from underlying results.

As a result of our strategy to simplify our pricing and invest in lower regular prices, we have seen volume and transaction growth. Since November 2014, we have reduced the price of over 1,900 products and our price position against our main peers remains as competitive as it has ever been. We will continue to remain competitive on price in the market.

Despite an improvement in volume and transactions, our investment in price and underlying food price deflation led to negative like-for-like ('LFL') sales for the second year running, down 0.9 per cent. Our supermarket sales declined by 1.6 per cent. At the same time, we saw strong growth in our other channels: our convenience business grew by over nine per cent and our Groceries Online business grew by nearly nine per cent.

Growing our non-food and financial services businesses remains an important part of our strategy. This is demonstrated by clothing, which grew by 8.5 per cent, including the national launch of *Tu* Online, and general merchandise, which grew by 3.5 per cent. Sainsbury's Bank increased its total income by over five per cent to £274 million, and increased underlying operating profit to £65 million in 2015/16, compared with £62 million in 2014/15.

We achieved £225 million (2014/15: £140 million) of operational cost savings. This significant step-up year-on-year is due to an increase in the savings delivered from the core operational efficiency programme and one-off benefits relating to a review of our commercial expenditure and of the organisational structures within our stores and store support centres. The Group is now expecting to deliver operational cost savings of around £120 million in 2016/17 and we are on track to deliver the three-year £500 million target by the end of 2017/18. During the year, savings more than offset the impact of inflationary pressures on costs. In 2016/17, Sainsbury's expects cost inflation to be at the lower end of the two to three per cent range.

Price investment and underlying food price deflation, partly offset by the increased cost savings of £225 million, resulted in our retail underlying operating profit decreasing by 11.8 per cent to £635 million (2014/15: £720 million) and our retail underlying operating margin decreasing by 33 basis points to 2.74 per cent (39 basis points at constant fuel prices to 2.68 per cent).

Core retail capital expenditure was £542 million (2014/15: £947 million), reflecting the reduction announced in the November 2014 Strategic Review. New space delivered a 1.3 per cent contribution to sales growth, with six new supermarkets (including two replacement stores) and 69 new convenience stores opened in the year.

Our return on capital employed ('ROCE') decreased by 88 basis points to 8.8 per cent. ROCE excluding the net retirement benefit obligations was 8.3 per cent, a decline of 68 basis points year-on-year. ROCE decline was driven by reduced profitability.

During the year, the Group has taken steps to ensure continued financial flexibility and to maintain the strength of the balance sheet. On 5 May 2015, the unsecured Revolving Credit Facility ('RCF') was refinanced with a new secured recourse £1,150 million RCF, with no financial covenants. On 30 July 2015, the Group issued £250 million perpetual subordinated capital securities and £250 million perpetual subordinated convertible bonds (together, £500 million of 'perpetual securities'), enabling a £125 million exceptional contribution to the pension fund in the year, with a further £125 million exceptional contribution to take place in August 2016. Including both the RCF, which was undrawn at the end of the year, and the perpetual securities, which are accounted for as equity, the Group has total facilities in place of £4.1 billion. All of this has led to a reduction in net debt of £517 million since the start of the year to £1,826 million (note that if the perpetual securities were treated as debt, net debt would be £2,320 million, £23 million lower than last year). The coupons associated with the perpetual securities, together with lower capitalised interest, have increased full-year underlying net finance costs by £14 million.

Underlying basic earnings per share decreased to 24.2 pence (2014/15: 26.4 pence), an 8.3 per cent decline year-on-year. Basic earnings per share were 23.9 pence for the year (2014/15: 8.7 pence loss per share), lower than the underlying basic earnings per share mainly due to the impact of one-off items excluded from underlying profit.

The Board has recommended a final dividend of 8.1 pence per share (2014/15: 8.2 pence), making a full-year dividend of 12.1 pence per share (2014/15: 13.2 pence) down 8.3 per cent year-on-year and covered two times by underlying earnings. In 2016/17, Sainsbury's will continue to pay an affordable dividend at two times cover.

While continuing to drive the growth of the business, we remain focused on our cost saving programme, improving operational cash flow and working capital management. We currently expect the proposed acquisition of Home Retail Group plc to take place in the third quarter of the calendar year, at which point we will give further guidance on how we will account for and report on the acquisition.

Summary income statement 52 weeks to 12 March 2016	**2016** **£m**	2015 £m	Change %
Underlying Group sales (including VAT)[1]	**25,829**	26,122	(1.1)
Retail sales (including VAT)	**25,502**	25,813	(1.2)
Underlying Group sales (excluding VAT)[1]	**23,495**	23,752	(1.1)
Retail sales (excluding VAT)	**23,168**	23,443	(1.2)
Underlying operating profit			
Retailing	**635**	720	(11.8)
Financial services – Sainsbury's Bank	**65**	62	4.8
Total underlying operating profit	**700**	782	(10.5)
Underlying net finance costs[2]	**(121)**	(107)	(13.1)
Underlying share of post-tax profit from JVs[3]	**8**	6	33.3
Underlying profit before tax	**587**	681	(13.8)
Items excluded from underlying results	**(39)**	(753)	94.8
Profit/(loss) before tax	**548**	(72)	n/a
Income tax expense	**(77)**	(94)	18.1
Profit/(loss) for the financial period	**471**	(166)	n/a
Underlying basic earnings per share	**24.2p**	26.4p	(8.3)
Basic earnings/(loss) per share	**23.9p**	(8.7)p	n/a
Dividend per share	**12.1p**	13.2p	(8.3)

1 Underlying Group sales excludes an £11 million acquisition adjustment fair value unwind relating to Sainsbury's Bank (2014/15: £23 million).
2 Net finance costs including perpetual securities coupons before financing fair value movements and the IAS 19 pension financing charge.
3 The underlying share of post-tax profit from JVs is stated before investment property fair value movements, financing fair value movements and profit on disposal of properties.

Retail sales (including VAT) and space

Retail sales (including fuel) decreased by 1.2 per cent to £25,502 million (2014/15: £25,813 million). This includes a 1.3 per cent contribution from new space (excluding extensions and replacements) and a like-for-like ('LFL') sales decline of 2.5 per cent.

Retail sales growth (including VAT, including fuel) 52 weeks to 12 March 2016	**2016** **%**	2015 %
Like-for-like sales	**(2.5)**	(3.6)
Net new space (excluding extensions and replacements)	**1.3**	1.6
Total sales growth	**(1.2)**	(2.0)

Excluding fuel, which experienced significant retail price deflation, retail sales increased by 0.4 per cent, with a LFL decline of 0.9 per cent. LFL sales (excluding fuel) declined 2.1 per cent in the first quarter, but this improved throughout the year with a LFL growth of 0.1 per cent in the fourth quarter; the first positive LFL sales performance since the third quarter of 2013/14. The improvement throughout the year was a result of several factors: simpler pricing and regular lower prices caused volumes and transactions to grow; average basket spend stabilised in supermarkets: and there was an improved performance of a number of seasonal events throughout the year. On a 52 week rolling basis, our market share has been maintained at 16.5 per cent which is an improving trend (as measured by Kantar).

The contribution from net new space (excluding extensions and replacements) of 1.3 per cent was in line with Sainsbury's expectations.

Our multi-channel strategy enables customers to shop whenever and wherever they want. The convenience business grew sales by over nine per cent to over £2.3 billion. Groceries Online grew by nearly nine per cent year-on-year, a step-on from last year's growth rate, driven by nearly 15 per cent growth in order numbers, partly offset by a smaller average basket size due to price investment, food price deflation and a lower number of items per basket. 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 12 March 2016	**2016** **%**	2015 %
Like-for-like sales[1]	**(0.9)**	(1.9)
Net new space (excluding extensions and replacements)	**1.3**	1.7
Total sales growth	**0.4**	(0.2)

1 This includes a 0.1 per cent contribution from stores extended in 2015/16, net of disruptions (2014/15: 0.2 per cent).

Average trading intensity ('TI') including VAT, excluding fuel, excluding Sainsbury's Bank (sales per sq ft per week) declined to £17.88 per sq ft per week (2014/15: £18.24 per sq ft per week) due to the challenging market conditions, in particular price deflation. Convenience TI decreased £0.57 per sq ft to £26.33 per sq ft, primarily due to price deflation in fresh categories as well as a fall in TI of newly opened stores.

Sainsbury's added a gross 454,000 sq ft of selling space in the year (including replacements), an increase of 2.0 per cent (2014/15: 733,000 sq ft, an increase of 3.3 per cent). Including the impact of closures and refurbishments, this translated into net space growth of 383,000 sq ft, an increase of 1.7 per cent since the start of the year (2014/15: 659,000 sq ft, an increase of 3.0 per cent) with closing space of 23,202,000 sq ft (2014/15: 22,819,000 sq ft).

In 2015/16, Sainsbury's opened six new supermarkets, of which two were replacement stores (2014/15: eight new supermarkets, of which two were replacements) and completed seven supermarket refurbishments (2014/15: 13 supermarket refurbishments, five extensions and one closure). Convenience continues to be a key area of growth, with 69 stores opened during the year (2014/15: 98 stores). Three convenience stores were closed (2014/15: two stores), six were refurbished (2014/15: 43 stores) and one extended (2014/15: no extensions).

Store numbers and retailing space 52 weeks to 12 March 2016	**Supermarkets** Number	 Area 000 sq ft	**Convenience** Number	 Area 000 sq ft	**Total** **Number**	 **Area** **000 sq ft**
At 14 March 2015	597	21,190	707	1,629	**1,304**	**22,819**
New stores	6	263	69	175	**75**	**438**
Disposals/closures	(2)	(67)	(3)	(4)	**(5)**	**(71)**
Extensions/refurbishments/downsizes	-	16	-	-	-	**16**
At 12 March 2016	**601**	**21,402**	**773**	**1,800**	**1,374**	**23,202**
Memorandum:						
Extensions	-	-	1	2	**1**	**2**
Refurbishments/downsizes	7	16	6	(2)	**13**	**14**
Total projects	**7**	**16**	**7**	**-**	**14**	**16**

In 2016/17, contribution from net new space (excluding extensions and replacements) is expected to be around 1.0 per cent.

In 2016/17, Sainsbury's expects to deliver around 250,000 sq ft of gross new space, including 40 to 50 Convenience stores and five new Supermarkets.

Retail underlying operating profit

Retail underlying operating profit decreased by 11.8 per cent to £635 million (2014/15: £720 million), reflecting the underlying food price deflation, price investment and operating cost inflation, partly offset by increased cost savings year-on-year of £225 million (2014/15: £140 million).

Retail underlying operating margin declined by 33 basis points year-on-year to 2.74 per cent (2014/15: 3.07 per cent), equivalent to a 39 basis points decline at constant fuel prices. Retail underlying EBITDAR margin decreased by 18 basis points to 7.58 per cent, or a 34 basis points decline to 7.42 per cent at constant fuel prices.

Retail underlying operating profit 52 weeks to 12 March 2016	**2016**	2015	Change	Change at constant fuel prices
Retail underlying operating profit (£m)[1]	**635**	720	(11.8)%	
Retail underlying operating margin (%)[2]	**2.74**	3.07	(33)bps	(39)bps
Retail underlying EBITDAR (£m)[3]	**1,755**	1,819	(3.5)%	
Retail underlying EBITDAR margin (%)[4]	**7.58**	7.76	(18)bps	(34)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 2016/17, Sainsbury's expects cost inflation at the lower end of the two to three per cent range. Operational cost savings are expected to be around £120 million. Sainsbury's remains on track to deliver our three-year £500 million cost saving programme by the end of 2017/18.

Sainsbury's will remain competitive on price in the market. Food price deflation is likely to continue in to the second half of 2016/17.

Supplier arrangements

We have considered our disclosures in respect of supplier arrangements, and as a result of this we have decided to disclose quantified balance sheet and income statement amounts for any areas of supplier arrangements that involve a level of judgement or estimation, but not those which are calculated through a mechanical process. We believe this represents best practice disclosure.

The two types of supplier arrangements that involve a level of judgement or estimation are:

• Fixed amounts – these are agreed with suppliers primarily to support in-store activity including promotions, such as utilising specific space.

• Supplier rebates – these are typically agreed on an annual basis, aligned with the financial year, with the rebate amount linked to pre-agreed targets such as sales volumes.

Supplier arrangement amounts are offset against cost of sales, and have reduced by £268 million to £371 million (2014/15: £639 million). The year-on-year reduction has been driven by the conscious decision to move away from supplier arrangements and towards a reduction in the base cost of goods.

Supplier arrangements 52 weeks to 12 March 2016	**2016 £m**	2015 £m
Supplier rebates	**69**	88
Fixed amounts	**302**	551
Total supplier arrangements	**371**	639

Of the above amounts, the following was outstanding and held on the balance sheet at 12 March 2016:

Supplier arrangements As at 12 March 2016	**2016 £m**	2015 £m
Within current trade receivables		
Supplier arrangements due	**6**	13
Within current trade payables		
Supplier arrangements due	**39**	94
Accrued supplier arrangements	**25**	47

Financial services - Sainsbury's Bank

Sainsbury's Bank delivered an underlying operating profit of £65 million, a 4.8 per cent increase year-on-year. This increase was driven by higher total income and favourable bad debt levels, partly offset by additional administrative costs as a result of taking full ownership of the Travel Money operation.

Sainsbury's Bank results

	2016[1]	2015[2]	Change %
Total income (£m)[3]	**274**	260	5.4
Underlying operating profit (£m)	**65**	62	4.8
Net interest margin (%)[4]	**4.1**	3.9	24bps
Bad debt as a percentage of lending (%)[5]	**0.4**	0.7	22bps
Tier 1 capital ratio (%)[6]	**15.8**	12.7	313bps

1 12 months to 29 February 2016.
2 12 months to 28 February 2015.
3 Net interest, net commission and other operating income.
4 Net interest receivable divided by average interest-bearing assets.
5 Bad debt expense divided by average gross lending.
6 Tier 1 capital divided by risk-weighted assets.

Net interest margin increased by 24 basis points year-on-year to 4.1 per cent (2014/15: 3.9 per cent) driven by the growth in the personal loans book and an in-year reclassification of certain credit card fees from commission to interest income. Bad debt levels as a percentage of lending improved to 0.4 per cent (2014/15: 0.7 per cent) as a result of continued improvement in recovery processes, low market interest rates and stable economic conditions. The Tier 1 capital ratio increased by 313 basis points year-on-year to 15.8 per cent (2014/15: 12.7 per cent), reflecting profit retained for the year and ongoing capital injections in support of transitioning the Bank to a new, more flexible banking platform.

J Sainsbury plc completed its purchase of the remaining 50 per cent share of Sainsbury's Bank on 31 January 2014. Since then Sainsbury's Bank has embarked upon a business transformation programme to exit from Lloyds Banking Group and build a new, more flexible banking platform. The migration of savings customers to the new banking platform is expected to be in late summer 2016 and the timing of the migration of cards and loans customers is currently being re-planned, particularly in light of the Group's proposed acquisition of Home Retail Group plc. Total transition costs are forecast to be at the top of the £340 million to £380 million range.

In 2016/17, Sainsbury's expects Bank operating profit to be around ten per cent lower year-on-year due to investment required to enter the mortgage market and the impact of reduced interchange fees. Results prior to the impact of entering the mortgage market and the reduced interchange fees, would result in a year-on-year profit improvement.

Capital injections to the Bank in 2016/17 are expected to be circa £20 million.

Property and other joint ventures ('JV')

Sainsbury's underlying share of post-tax profit from its JV with British Land was £14 million (2014/15: £13 million). The underlying share of post-tax profit from the JV with Land Securities was £1 million (2014/15: £2 million).

An investment property fair value decrease of £18 million was recognised outside underlying profit (2014/15: £7 million increase), driven by the average property yield of the British Land JV increasing to 5.1 per cent, 13 basis points higher than the prior year (2014/15: 5.0 per cent).

Sainsbury's recognised a net £7 million share of loss (2014/15: net £9 million share of loss) from the three start-up JVs: Netto, Mobile *by* Sainsbury's and I^{2}C. This loss was driven by start-up costs alongside closure costs of Mobile *by* Sainsbury's. On 14 October 2015, it was announced that Mobile *by* Sainsbury's, a joint venture with Vodafone, would close on 15 January 2016.

In 2016/17, 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 slightly higher year-on-year.

Underlying net finance costs

Underlying net finance costs increased by £14 million year-on-year to £121 million (2014/15: £107 million), as a result of a reduction in capitalised interest and the perpetual securities coupons.

Underlying net finance costs[1] 52 weeks to 12 March 2016	**2016** **£m**	2015 £m
Underlying finance income	**19**	19
Interest costs	**(132)**	(143)
Perpetual securities coupons	**(15)**	-
Capitalised interest	**7**	17
Underlying finance costs	**(140)**	(126)
Underlying net finance costs	**(121)**	(107)

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

Sainsbury's expects underlying net finance costs in 2016/17 to be slightly higher year-on-year. Capitalised interest is expected to be similar year-on-year.

Items excluded from underlying results

Items excluded from underlying results totalled a charge of £39 million (2014/15: £753 million charge), mainly due to one-off items.

Items excluded from underlying results 52 weeks to 12 March 2016	**2016** **£m**	2015 £m
Profit on disposal of properties	**101**	7
Investment property fair value movements	**(18)**	7
Retail financing fair value movements	**(22)**	(30)
IAS 19 pension financing charge and scheme expenses	**(28)**	(37)
Perpetual securities coupons[1]	**15**	-
Acquisition adjustments	**3**	13
One-off items	**(90)**	(713)
Total items excluded from underlying results	**(39)**	(753)

1 Perpetual securities coupons are added back as accounting standards determine that for statutory reporting purposes they are treated as dividends.

One-off items

The charge to one-off items of £90 million (2014/15: £713 million) includes: costs of £59 million in relation to transitioning Sainsbury's Bank to a new, more flexible banking platform (capital costs relating to the transition were £19 million), £15 million of costs mainly relating to the proposed acquisition of Home Retail Group plc; and £15 million of internal restructuring costs.

One-off items 52 weeks to 12 March 2016	**2016** **£m**	2015 £m
Net impairment and onerous contract charge	**(1)**	(628)
Sainsbury's Bank transition	**(59)**	(53)
Pension compensation payments	**-**	(17)
Internal restructuring	**(15)**	(15)
Transaction costs[1]	**(15)**	-
Total one-off items	**(90)**	(713)

1 Transaction costs in 2016 are those incurred as part of the approach to Home Retail Group plc and the sale of the pharmacy business.

In 2016/17, Sainsbury's Bank transition costs are expected to be around £40 million. Capital costs relating to the transition are also expected to be around £40 million

Property profits mainly from mixed-use developments, are expected to be just over £100 million in 2016/17.

The sale of our pharmacy business to LloydsPharmacy is expected to complete in 2016/2017, subject to Competition and Markets Authority approval. Sainsbury's expect to recognise a profit on disposal of around £100 million.

Taxation

The income tax charge was £77 million (2014/15: £94 million), with an underlying tax rate of 20.8 per cent (2014/15: 25.8 per cent) and an effective tax rate of 14.1 per cent (2014/15: (130.6) per cent). The underlying rate is lower than last year, mainly due to the revaluation of deferred tax balances from 20 to 18 per cent reducing the rate in the current year. The effective tax rate was lower than the underlying rate also as a result of the revaluation of non-underlying deferred tax balances and the majority of profits on the disposal of properties not being taxable.

Underlying tax rate 52 weeks to 12 March 2016	**Profit £m**	**Tax £m**	**Rate %**
Underlying profit before tax, and tax thereon	587	(122)	20.8
Adjustments, and tax thereon, for:			
Profit on disposal of properties	101	2	
Investment property fair values movements	(18)	-	
Retail financing fair value movements	(22)	4	
IAS 19 pension financing charge and scheme expenses	(28)	6	
Perpetual securities coupons	15	(3)	
Acquisition adjustments	3	1	
One-off items	(90)	20	
Revaluation of deferred tax balance	-	15	
Profit before tax, and tax thereon	**548**	**(77)**	**14.1**

In 2016/17, Sainsbury's expects the full-year underlying tax rate to be between 22 and 23 per cent.

In the UK, there are a large number of taxes, of which many are relevant for Sainsbury's. During the year ended 12 March 2016, Sainsbury's paid £1.7 billion (2014/15: £1.7 billion) to the UK Government, of which £890 million (2014/15: £854 million) was borne by Sainsbury's and the remaining £822 million (2014/15: £863 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 Finance Directors. For the year ended 14 March 2015, our total taxes borne ranked sixth (in the year to 15 March 2014: sixth) amongst the survey participants. The results of the Total Tax Contribution Survey for 2016 had not been published at the date of this report.

The key taxes paid by Sainsbury's were business rates of £483 million (2014/15: £489 million), employers' national insurance of £141 million (2014/15: £145 million) and UK corporation tax of £117 million (2014/15: £90 million). Other taxes including customs duty, excise duty, VAT and energy taxes, totalled £149 million (2014/15: £130 million).

Earnings per share

Underlying basic earnings per share decreased by 8.3 per cent to 24.2 pence (2014/15: 26.4 pence) reflecting the fall in underlying profits and the effect of additional shares issued during the year, partly offset by a lower underlying tax rate year-on-year.

The weighted average number of shares in issue was 1,920.8 million (2014/15: 1,911.0 million), an increase of 9.8 million shares or 0.5 per cent. Basic earnings per share were 23.9 pence (2014/15: 8.7 pence loss). The basic earnings per share is lower than the underlying basic earnings per share due to items that are excluded from underlying results.

Underlying earnings per share 52 weeks to 12 March 2016	**2016** **pence per share**	2015 pence per share
Basic earnings/(loss) per share attributable to ordinary shareholders	**23.9**	(8.7)
Adjustments (net of tax) for:		
Profit on disposal of properties	**(5.4)**	(0.9)
Investment property fair value movements	**0.9**	(0.4)
Retail financing fair value movements	**0.9**	1.3
IAS 19 Revised pension financing charge and scheme expenses	**1.1**	1.6
Acquisition adjustments	**(0.2)**	(0.5)
Deferred tax rate change	**(0.8)**	-
One-off items	**3.8**	34.0
Underlying basic earnings per share attributable to ordinary shareholders[1]	**24.2**	26.4

1 Underlying EPS calculation is based on underlying profit after tax attributable to ordinary shareholders. Therefore the coupons on the perpetual securities are not added back.

Dividends

The Board has recommended a final dividend of 8.1 pence per share (2014/15: 8.2 pence). This will be paid on 8 July 2016 to shareholders on the Register of Members at the close of business on 13 May 2016, subject to approval by shareholders at the AGM. This will result in a decrease to the full-year dividend of 8.3 per cent to 12.1 pence per share (2014/15: 13.2 pence).

The proposed final dividend was recommended by the Board on 3 May 2016 and, as such, has not been included as a liability as at 12 March 2016.

In 2016/17, Sainsbury's will maintain dividend cover at two times our underlying earnings.

Financing

The Group's key financing objectives are to diversify funding sources, to minimise refinancing risk and to maintain appropriate contingent liquidity. As at 12 March 2016, the Group had drawn debt facilities of £2.9 billion (including the perpetual securities) and undrawn but committed borrowing facilities of £1.2 billion at its disposal.

The principal elements of the Group's drawn debt facilities comprise two long-term loans of £764 million maturing 2018 and £779 million maturing 2031, both secured over property assets. In addition, the Group has further secured loans of £200 million maturing August 2019 and €50 million maturing September 2016, a five-year £450 million Convertible Bond maturing November 2019 and £175 million hire purchase facilities and finance leases.

On 5 May 2015, the Group refinanced its unsecured Revolving Credit Facility ('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. The new facility is secured against supermarket properties, and contains no financial covenants. The facility is split into two tranches, a £500 million Facility (A) maturing in April 2018 and a £650 million Facility (B) maturing in April 2020. As at 12 March 2016, £nil had been drawn from Facility (A) (March 2014/15: £120 million) and £nil from Facility (B) (March 2014/15: £nil). As part of this transaction, two further bank loans totalling £244 million were secured on supermarket properties.

On 30 July 2015, the Group issued £250 million of Perpetual Subordinated Non-Convertible Bonds and £250 million of Perpetual Subordinated Convertible Bonds. Costs of £6 million directly associated with the issue have been set off against the value of the proceeds. In line with accounting standards, both instruments have been accounted for as equity and the coupon cost as dividends. In addition, the coupon cost has been included within Sainsbury's definition of underlying finance costs and UPBT.

Since 14 March 2015 two bilateral bank loans, amounting to £95 million have matured and were repaid.

Net debt and cash flows

Group net debt includes the capital injections in to Sainsbury's Bank, but excludes Sainsbury's Bank's own net debt balances[1]. As at 12 March 2016, net debt was £1,826 million (14 March 2015: £2,343 million), a decrease of £517 million year-on-year. The year-on-year decrease was primarily driven by the issue of the perpetual securities and improved working capital, partly offset by a £125 million exceptional pension contribution. Net debt, treating the perpetual securities as debt, was £2,320 million, a decrease of £23 million year-on-year.

Retail operating cash flow before changes in working capital increased by 3.8 per cent to £1,126 million (2014/15: £1,085 million), however retail cash generated from operations decreased 17.8 per cent to £1,149 million (2014/15; £1,398 million) mainly due to a reduction in the improvement of retail working capital year-on-year. The £23 million improvement in retail working capital was driven by operational efficiencies within trade payables and a decrease in inventories year-on-year, partly offset by a reduction in Fuel trade payables due to price deflation.

Bank working capital has increased by £429 million from 14 March 2015 driven by positive steps taken within the Bank to increase customer lending and diversify funding sources.

The net cash used in investing activities of £525 million was £375 million lower year-on-year (2014/15: £900 million), driven by lower capital spend The £494 million proceeds from the issue of the perpetual securities, net of fees, was partly offset by a repayment of borrowings of £372 million during the year.

1 Net debt balances within Sainsbury's Bank's balance sheet are required for business as usual activities and as such are excluded from Sainsbury's definition of Group Net debt.

Summary cash flow statement 52 weeks to 12 March 2016	**2016** **£m**	2015 £m
Retail operating cash flow before changes in working capital	**1,126**	1,085
Decrease in retail working capital	**23**	313
Retail cash generated from operations	**1,149**	1,398
Bank operating cash flow before changes in working capital	**29**	38
Increase in Sainsbury's Bank working capital	**(429)**	(300)
Group cash generated from operations[1]	**749**	1,136
Interest paid	**(108)**	(134)
Corporation tax paid	**(124)**	(91)
Net cash generated from operating activities	**517**	911
Proceeds from sale of pharmacy business	**125**	-
Net cash used in investing activities	**(525)**	(900)
Proceeds from issue of ordinary shares	**8**	19
Purchase of own shares	**(20)**	(18)
Receipt of new debt	**-**	674
Proceeds from issue of perpetual securities	**247**	-
Proceeds from issue of convertible bonds	**247**	-
Repayment of borrowings	**(372)**	(659)
Exceptional pension contribution	**(125)**	-
Dividends paid on ordinary shares	**(234)**	(330)
Dividends paid on perpetual securities	**(4)**	-
Decrease in cash and cash equivalents	**(136)**	(303)
Elimination of net increase in Sainsbury's Bank cash and cash equivalents	**316**	343
Decrease/(increase) in debt	**353**	(31)
Fair value and other non-cash movements	**(16)**	32
Movement in net debt	**517**	41

1 Statutory definition of cash generated from operations includes exceptional pension contribution of £125 million

Sainsbury's expects 2016/17 year-end net debt to reduce year-on-year and a small improvement in retail working capital.

Retail capital expenditure
Core retail capital expenditure decreased by £405 million year-on-year to £542 million (2014/15: £947 million). Core retail capital expenditure as a percentage of retail sales (including fuel, including VAT) was 2.1 per cent (2014/15: 3.7 per cent).

Supermarket openings decreased by two during the year to six (2014/15: eight supermarkets). Sainsbury's opened 69 new convenience stores in the year (2014/15: 98 convenience stores).

During the year, there were no supermarket extensions completed (2014/15: five extensions) and one convenience extension (2014/15: nil extensions). Sainsbury's also delivered 13 refurbishments during the year (2014/15: 56 refurbishments) consisting of seven supermarkets (2014/15: 13 supermarkets) and six convenience stores (2014/15: 43 convenience stores).

There were no sale and leaseback proceeds in the year (2014/15: £nil), resulting in net retail capital expenditure of £543 million (2014/15: £941 million).

Retail capital expenditure 52 weeks to 12 March 2016	**2016** **£m**	2015 £m
New store development (£m)	**207**	425
Extensions and refurbishments (£m)	**183**	284
Other – including supply chain and digital & technology (£m)	**152**	238
Core retail capital expenditure (£m)	**542**	947
Acquisition of freehold and trading properties (£m)[1]	**-**	(9)
Debtor/Creditor movements	**1**	3
Net retail capital expenditure	**543**	941
Capex/sales ratio (%)[2]	**2.1**	3.7

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

In 2016/17, Sainsbury's expects core retail capital expenditure (excluding Sainsbury's Bank) to be around £550 million.

2015/16 year-on-year increase in depreciation was impacted by the impairment taken in 2014/15. 2016/17 depreciation is expected to increase by around £20 million year-on-year primarily due to investment in Digital & Technology assets that are depreciated over a short lifetime.

Return on capital employed
The return on capital employed ('ROCE') over the 52 weeks to 12 March 2016 was 8.8 per cent (2014/15: 9.7 per cent), a decrease of 88 basis points year-on-year. ROCE is enhanced by the net retirement benefit obligations, which reduces capital employed.

ROCE excluding the net retirement benefit obligations over the 52 weeks to 12 March 2016 was 8.3 per cent (2014/15: 9.0 per cent), a year-on-year decrease of 68 basis points. ROCE decline was mainly due to the fall in underlying operating profit.

Return on capital employed 52 weeks to 12 March 2016	**2016**	2015
Total underlying operating profit (£m)	**700**	782
Underlying share of post-tax profit from JVs (£m)	**8**	6
Underlying profit before interest and tax (£m)	**708**	788
Average capital employed[1] (£m)	**8,037**	8,136
Return on capital employed (%)	**8.8**	9.7
Return on capital employed (%) (excluding net retirement benefit obligations)	**8.3**	9.0
52 week ROCE movement to 12 March 2016	**(88)bps**	
52 week ROCE movement to 12 March 2016 (excluding net retirement benefit obligations)	**(68)bps**	

1 Average of opening and closing net assets before net debt.

Summary balance sheet

Total equity as at 12 March 2016 was £6,365 million (14 March 2015: £5,539 million), an increase of £826 million, mainly attributable to the issue of the perpetual securities, net of fees, of £494 million, £181 million due to trade and other receivables and £116 million due to property, plant and equipment.

Net debt was £517 million lower than at 14 March 2015 primarily driven by the issue of the perpetual securities.

Sainsbury's Bank net assets at 29 February 2016 of £650 million (28 February 2015: £504 million) have been consolidated and separately identified.

Accounting for the perpetual securities as equity, adjusted net debt to EBITDAR was 4.0 times (2014/15: 4.1 times). Gearing decreased during the year to 28.7 per cent (14 March 2015: 42.3 per cent) as a result of the increase in equity shareholder funds. Excluding the net retirement benefit obligations, gearing decreased to 27.0 per cent (14 March 2015: 37.9 per cent). Treating the perpetual securities as debt, adjusted net debt to EBITDAR increases to 4.3 times. Gearing increases to 39.5 per cent and gearing excluding the net retirement benefit obligations increases to 37.1 per cent.

Interest cover reduced year-on-year to 5.9 times (2014/15: 7.4 times). Fixed charge cover reduced year-on-year to 2.7 times (2014/15: 2.9 times). Excluding the perpetual securities coupon from underlying net finance costs, interest cover increases to 6.7 times and fixed charge cover increases to 2.8 times.

Summary balance sheet (Sainsbury's Bank separated) at 12 March 2016	**2016** **£m**	2015 £m	Movement £m
Land and buildings (Freehold & long leasehold)	**6,978**	6,890	88
Land and buildings (Short leasehold)	**820**	791	29
Fixtures and fittings	**1,926**	1,941	(15)
Property, plant and equipment	**9,724**	9,622	102
Other non-current assets	**736**	828	(92)
Inventories	**968**	997	(29)
Trade and other receivables	**338**	294	44
Sainsbury's Bank Assets[1]	**4,531**	4,267	264
Cash and cash equivalents	**577**	403	174
Debt	**(2,403)**	(2,746)	343
Net debt	**(1,826)**	(2,343)	517
Trade and other payables and provisions	**(3,836)**	(3,712)	(124)
Retirement benefit obligations, net of deferred tax	**(389)**	(651)	262
Sainsbury's Bank Liabilities[1]	**(3,881)**	(3,763)	(118)
Net assets	**6,365**	5,539	826

1 As at 29 February 2016.

Impact of perpetual securities on key financial ratios	**Perpetual securities accounted for as equity** **As at 12 March 2016**	**Perpetual securities treated as debt** **As at 12 March 2016**	As at 14 March 2015
Net debt[1]	**(1,826)**	**(2,320)**	(2,343)
Adj. net debt to EBITDAR[2]	**4.0 times**	**4.3 times**	4.1 times
Gearing[3]	**28.7%**	**39.5%**	42.3%
Gearing (excluding net retirement benefit obligations)[4]	**27.0%**	**37.1%**	37.9%

Impact on key financial ratios of recognising perpetual securities coupon within underlying finance costs[5]	**UPBT ex. perpetual securities coupon** **52 weeks to 12 March 2016**	**UPBT inc. perpetual securities coupon** **52 weeks to 12 March 2016**	52 weeks to 14 March 2015
Interest cover[6]	**6.7 times**	**5.9 times**	7.4 times
Fixed charge cover[7]	**2.8 times**	**2.7 times**	2.9 times

1 Treating the perpetual securities, net of transaction fees, as debt increases net debt to £2,320 million, and reduces net assets to £5,871 million.
2 Net debt of £1,826 million plus capitalised lease obligations of £5,500 million (5.5 per cent discount rate), divided by Group underlying EBITDAR of £1,830 million, calculated for a 52 week period to 12 March 2016.
3 Net debt divided by net assets.
4 Net debt divided by net assets, excluding net retirement benefit obligations.
5 Excluding the perpetual securities coupons, underlying net finance costs reduces to £106 million.
6 Underlying profit before interest and tax divided by underlying net finance costs.
7 Group underlying EBITDAR divided by net rent and underlying net finance costs.

As at 12 March 2016, Sainsbury's estimated market value of properties, including our 50 per cent share of properties held within property JVs, was £10.6 billion (14 March 2015: £11.1 billion). The £0.5 billion decrease year-on-year was due to property valuation movements relating to rental value decrease of £0.2 billion, a yield movement of £0.2 billion and British Land JV valuation decline of £0.1 billion. The summary balance sheet 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 12 March 2016	**2016** **£m**	2015 £m	Movement £m
Land and buildings (Freehold & long leasehold)	**6,981**	6,892	89
Land and buildings (Short leasehold)	**820**	791	29
Fixtures and fittings	**1,963**	1,965	(2)
Property, plant and equipment	**9,764**	9,648	116
Other non-current assets	**2,748**	2,411	337
Inventories	**968**	997	(29)
Trade and other receivables	**2,251**	2,070	181
Sainsbury's Bank cash and cash equivalents	**566**	882	(316)
Cash and cash equivalents	**577**	403	174
Debt	**(2,403)**	(2,746)	343
Net debt	**(1,826)**	(2,343)	517
Trade and other payables and provisions	**(7,717)**	(7,475)	(242)
Retirement benefit obligations, net of deferred tax	**(389)**	(651)	262
Net assets	**6,365**	5,539	826

Defined benefit pensions

As at 12 March 2016, the post-tax pension deficit was £389 million, an improvement of £262 million since the year-end (14 March 2015: £651 million). The reduction in the deficit was mainly driven by a contribution of £206 million to the Group's pension scheme which included the first 50 per cent of a one-off £250 million contribution, with the second 50 per cent to follow in 2016/17, and an increase in the discount rate, partly offset by lower fair value of plan assets.

Retirement benefit obligations at 12 March 2016	**2016** **£m**	2015 £m
Present value of funded obligations	**(7,625)**	(7,680)
Fair value of plan assets	**7,235**	6,988
Pension deficit	**(390)**	(692)
Present value of unfunded obligations	**(18)**	(16)
Retirement benefit obligations	**(408)**	(708)
Deferred income tax asset	**19**	57
Net retirement benefit obligations	**(389)**	(651)

The scheme is subject to a triennial actuarial valuation at 14 March 2015, carried out by Willis Towers Watson on the projected units basis. The results of this valuation are expected to be finalised in June 2016.

Group income statement
for the 52 weeks to 12 March 2016

	Note	2016 £m	2015 £m
Revenue	4	**23,506**	23,775
Cost of sales		**(22,050)**	(22,567)
Gross profit		**1,456**	1,208
Administrative expenses		**(850)**	(1,132)
Other income		**101**	5
Operating profit		**707**	81
Finance income	5	**19**	19
Finance costs	5	**(167)**	(180)
Share of post-tax (loss)/profit from joint ventures and associates		**(11)**	8
Profit/(loss) before tax		**548**	(72)
Analysed as:			
Underlying profit before tax	3	**587**	681
Profit on disposal of properties	3	**101**	7
Investment property fair value movements	3	**(18)**	7
Retail financing fair value movements	3	**(22)**	(30)
IAS 19 pension financing charge and scheme expenses	3	**(28)**	(37)
Perpetual securities coupons	3	**15**	-
Acquisition adjustments	3	**3**	13
One-off items	3	**(90)**	(713)
		548	(72)
Income tax expense	6	**(77)**	(94)
Profit/(loss) for the financial year		**471**	(166)

Earnings/(loss) per share	7	**pence**	pence
Basic		**23.9**	(8.7)
Diluted		**22.5**	(8.7)
Underlying basic		**24.2**	26.4
Underlying diluted		**22.8**	25.7

Dividends per share	8	**pence**	pence
Interim		**4.0**	5.0
Proposed final (not recognised as a liability at balance sheet date)		**8.1**	8.2

Group statement of comprehensive income
for the 52 weeks to 12 March 2016

	2016 £m	2015 £m
Profit/(loss) for the financial year	**471**	(166)
Items that will not be reclassified subsequently to the income statement		
Remeasurement on defined benefit pension schemes	**121**	(19)
Current tax relating to items not reclassified	**-**	6
Deferred tax relating to items not reclassified	**(36)**	(1)
	85	(14)
Items that may be reclassified subsequently to the income statement		
Currency translation differences	**2**	3
Available-for-sale financial assets fair value movements		
Attributable to Group	**(1)**	(39)
Items reclassified from available-for-sale assets reserve	**-**	1
Cash flow hedges effective portion of fair value movements		
Attributable to Group	**4**	(13)
Attributable to joint ventures and associates	**1**	3
Items reclassified from cash flow hedge reserve	**7**	21
Deferred tax relating to items that may be reclassified	**3**	9
	16	(15)
Total other comprehensive income/(expense) for the financial year (net of tax)	**101**	(29)
Total comprehensive income/(expense) for the financial year	**572**	(195)

Group balance sheet
At 12 March 2016 and 14 March 2015

	Note	2016 £m	2015 £m
Non-current assets			
Property, plant and equipment		**9,764**	9,648
Intangible assets		**329**	325
Investments in joint ventures and associates		**327**	359
Available-for-sale financial assets		**340**	184
Other receivables		**103**	83
Amounts due from Sainsbury's Bank customers		**1,649**	1,412
Derivative financial instruments		**17**	21
		12,529	12,032
Current assets			
Inventories		**968**	997
Trade and other receivables		**508**	471
Amounts due from Sainsbury's Bank customers		**1,695**	1,599
Available-for-sale financial assets		**48**	-
Derivative financial instruments		**51**	69
Cash and bank balances	9b	**1,143**	1,285
		4,413	4,421
Assets held for sale		**31**	84
		4,444	4,505
Total assets		**16,973**	16,537
Current liabilities			
Trade and other payables		**(3,077)**	(2,961)
Amounts due to Sainsbury's Bank customers and banks		**(3,173)**	(3,395)
Borrowings		**(223)**	(260)
Derivative financial instruments		**(43)**	(75)
Taxes payable		**(158)**	(188)
Provisions		**(46)**	(44)
		(6,720)	(6,923)
Liabilities held for sale		**(4)**	-
		(6,724)	(6,923)
Net current (liabilities)/assets		**(2,280)**	(2,418)
Non-current liabilities			
Other payables		**(269)**	(265)
Amounts due to Sainsbury's Bank customers and other deposits		**(582)**	(266)
Borrowings		**(2,190)**	(2,506)
Derivative financial instruments		**(69)**	(38)
Deferred income tax liability		**(237)**	(215)
Provisions		**(129)**	(77)
Retirement benefit obligations	11	**(408)**	(708)
		(3,884)	(4,075)
Net assets		**6,365**	5,539
Equity			
Called up share capital		**550**	548
Share premium account		**1,114**	1,108
Capital redemption reserve		**680**	680
Other reserves		**155**	146
Retained earnings		**3,370**	3,057
Total equity before perpetual securities		**5,869**	5,539
Perpetual capital securities		**248**	-
Perpetual convertible bonds		**248**	-
Total equity		**6,365**	5,539

Group cash flow statement
for the 52 weeks to 12 March 2016

	Note	**2016 £m**	2015 £m
Cash flows from operating activities			
Cash generated from operations	9a	**624**	1,136
Interest paid		**(108)**	(134)
Corporation tax paid		**(124)**	(91)
Net cash generated from operating activities		**392**	911
Cash flows from investing activities			
Purchase of property, plant and equipment		**(646)**	(951)
Purchase of intangible assets		**(34)**	(78)
Proceeds from disposal of property, plant and equipment		**109**	40
Receipt of advance disposal proceeds		**125**	-
Acquisition of subsidiaries net of cash acquired		**-**	(6)
Investment in joint ventures		**(18)**	(12)
Disposal of subsidiaries		**(1)**	-
Proceeds from repayment of loan to joint venture		**-**	17
Interest received		**19**	20
Dividends and distributions received		**46**	70
Net cash used in from investing activities		**(400)**	(900)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**8**	19
Repayment of short-term borrowings		**(95)**	(381)
Proceeds from long-term borrowings		**-**	674
Repayment of long-term borrowings		**(238)**	(240)
Proceeds from issue of perpetual capital securities		**247**	-
Proceeds from issue of perpetual convertible bonds		**247**	-
Purchase of own shares		**(20)**	(18)
Repayment of capital element of obligations under finance lease payments		**(30)**	(29)
Interest elements of obligations under finance lease payments		**(9)**	(9)
Dividends paid on ordinary shares	8	**(234)**	(330)
Dividends paid on perpetual securities		**(4)**	-
Net cash used in from financing activities		**(128)**	(314)
Net decrease in cash and cash equivalents		**(136)**	(303)
Net opening cash and cash equivalents		**1,276**	1,579
Closing cash and cash equivalents	9b	**1,140**	1,276

Group statement of changes in equity

for the 52 weeks to 12 March 2016

	Note	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Retained earnings £m	Total equity before perpetual securities £m	Perpetual capital securities £m	Perpetual convertible bonds £m	Total equity £m
At 15 March 2015		**548**	**1,108**	**826**	**3,057**	**5,539**	**-**	**-**	**5,539**
Profit for the year		**-**	**-**	**-**	**452**	**452**	**13**	**6**	**471**
Other comprehensive income:									
Currency translation differences		**-**	**-**	**2**	**-**	**2**	**-**	**-**	**2**
Remeasurements on defined benefit pension schemes (net of tax)		**-**	**-**	**-**	**85**	**85**	**-**	**-**	**85**
Available-for-sale financial assets fair value movements (net of tax):									
Attributable to Group		**-**	**-**	**2**	**-**	**2**	**-**	**-**	**2**
Cash flow hedges effective portion of changes in fair value (net of tax):									
Attributable to Group		**-**	**-**	**4**	**-**	**4**	**-**	**-**	**4**
Attributable to joint ventures		**-**	**-**	**1**	**-**	**1**	**-**	**-**	**1**
Items reclassified from cash flow hedge reserve		**-**	**-**	**7**	**-**	**7**	**-**	**-**	**7**
Total comprehensive income for the year ended 12 March 2016		**-**	**-**	**16**	**537**	**553**	**13**	**6**	**572**
Transactions with owners:									
Dividends paid	8	**-**	**-**	**-**	**(234)**	**(234)**	**-**	**-**	**(234)**
Issue of perpetual subordinated capital securities and perpetual subordinated convertible bonds (net of tax)		**-**	**-**	**-**	**-**	**-**	**248**	**248**	**496**
Distributions to holders of perpetual subordinated convertible bonds (net of tax)		**-**	**-**	**-**	**-**	**-**	**(13)**	**(6)**	**(19)**
Amortisation of convertible bond equity component		**-**	**-**	**(7)**	**7**	**-**	**-**	**-**	**-**
Share-based payment (net of tax)		**-**	**-**	**-**	**23**	**23**	**-**	**-**	**23**
Purchase of own shares		**-**	**-**	**-**	**(20)**	**(20)**	**-**	**-**	**(20)**
Allotted in respect of share option schemes		**2**	**6**	**-**	**-**	**8**	**-**	**-**	**8**
At 12 March 2016		**550**	**1,114**	**835**	**3,370**	**5,869**	**248**	**248**	**6,365**

Group statement of changes in equity
for the 52 weeks to 12 March 2016

	Note	Called up share capital	Share premium account	Capital redemption and other reserves	Retained earnings	Total	Non-controlling interests	Total equity
		£m	£m	£m	£m	£m	£m	£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 income/(expense):								
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):								
Attributable to 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):								
Attributable to Group		-	-	(13)	-	(13)	-	(13)
Attributable to joint ventures		-	-	3	-	3	-	3
Items reclassified from cash flow hedge reserve		-	-	21	-	21	-	21
Total comprehensive expense 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)
Allotted in respect of share option schemes		3	17	-	(3)	17	-	17
Purchase of non-controlling interest		-	-	-	2	2	(2)	-
At 14 March 2015		548	1,108	826	3,057	5,539	-	5,539

Notes to the financial statements

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 12 March 2016 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 2016 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 2016.

The financial year represents the 52 weeks to 12 March 2016 (prior financial year 52 weeks to 14 March 2015). The consolidated financial statements for the 52 weeks to 12 March 2016 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, defined benefit scheme assets and liabilities, 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 amendments to published standards that are effective for the Group for the financial year beginning 15 March 2015 and concluded that they are either not relevant to the Group or that they do not have a significant impact on the Group's financial statements. These standards and interpretations have been endorsed by the European Union.

- Amendments to IFRS 2, 'Share-based payments' on the definition of vesting conditions
- Amendments to IFRS 3, 'Business combinations' on scope exclusions for joint ventures and the subsequent measurement of contingent considerations
- Amendments to IFRS 8, 'Operating segments' on aggregation of operating segments and reconciliations of assets
- Amendments to IFRS 13, 'Fair value measurements' on application of the portfolio exception
- Amendments to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' on the proportionate restatement of accumulated depreciation/amortisation
- Amendments to IAS 19, 'Employee benefits' on the recognition of employee contributions to defined benefit plans
- Amendments to IAS 24, 'Related party disclosures' on entities providing key management personnel services
- Amendments to IAS 40, 'Investment property' on the interrelationship between IFRS 3 and IAS 40

3 Non-GAAP performance measures

Certain items recognised in reported profit or loss 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. In addition the coupons on the perpetual securities, whilst accounted for as equity in line with IAS 32 'Financial instruments: Presentation', are accrued on a straight-line basis and included as an expense within underlying profit.

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 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;
- The financing element of IAS 19 and defined benefit pension scheme expenses;
- Coupons on perpetual securities – these are accounted for as equity in line with IAS 32 'Financial instruments: Presentation', however are accrued on a straight-line basis and included as an expense within underlying profit;
- Acquisition adjustments – these reflect the adjustments arising from the Sainsbury's Bank acquisition including the fair value unwind and amortisation of acquired intangibles; and
- One-off items – these are items which are material and infrequent in nature and do not relate to the Group's underlying performance.

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

	2016 £m	2015 £m
Underlying profit before tax	**587**	681
Profit on disposal of properties[1]	**101**	7
Investment property fair value movements	**(18)**	7
Retail financing fair value movements[2]	**(22)**	(30)
IAS 19 pension financing charge and scheme expenses[3]	**(28)**	(37)
Perpetual securities coupons[4]	**15**	-
Acquisition adjustments[5]	**3**	13
One-off items	**(90)**	(713)
Total adjustments	**(39)**	(753)
Profit/(loss) before tax	**548**	(72)

1 Profit on disposal of properties for the financial year comprised £100 million for the Group (2015: £5 million) and £1 million for the property joint ventures (2015: £2 million).
2 Retail financing fair value movements for the financial year comprised £(20) million for the Group (2015: £(23) million) and £(2) million for the joint ventures (2015: £(7) million).
3 Comprises pension financing charge of £(22) million (2015: £(31) million) and defined benefit scheme expenses of £(6) million (2015: £(6) million).
4 The coupons on the perpetual subordinated capital securities and the perpetual subordinated convertible bonds are accounted for as equity in line with IAS 32 'Financial instruments: Presentation', however are accrued on a straight-line basis and included as an expense within underlying profit before tax;
5 Acquisition adjustments include £11 million (2015: £23 million) fair value unwind included in revenue, £2 million (2015: £8 million) fair value unwind included in cost of sales offset by £(10) million (2015: £(18) million) acquired intangible amortisation included in administrative expenses.

3 Non-GAAP performance measures (continued)

One-off items

One-off items of £(90) million (2015: £(713) million) include:

	2016 £m	2015 £m
Net impairment and onerous contract charge	(1)	(628)
Sainsbury's Bank transition	(59)	(53)
Pension compensation payments	-	(17)
Internal restructuring	(15)	(15)
Transaction costs[1]	(15)	-
	(90)	(713)

1 Transaction costs in 2016 are those incurred as part of the approach to Home Retail Group plc and the sale of the pharmacy business

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 has 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.

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 12 March 2016	Retailing £m	Financial services £m	Property investments £m	Group £m
Segment revenue				
Retail sales to external customers	**23,168**	**-**	**-**	**23,168**
Financial services to external customers	**-**	**327**	**-**	**327**
Underlying revenue	**23,168**	**327**	**-**	**23,495**
Acquisition adjustment fair value unwind[1]	**-**	**11**	**-**	**11**
Revenue	**23,168**	**338**	**-**	**23,506**
Underlying operating profit	**635**	**65**	**-**	**700**
Underlying finance income	**19**	**-**	**-**	**19**
Underlying finance costs[2]	**(140)**	**-**	**-**	**(140)**
Underlying share of post-tax (loss)/profit from joint ventures and associates	**(7)**	**-**	**15**	**8**
Underlying profit before tax	**507**	**65**	**15**	**587**
Profit on disposal of properties	**100**	**-**	**1**	**101**
Investment property fair value movements	**-**	**-**	**(18)**	**(18)**
Retail financing fair value movements	**(20)**	**-**	**(2)**	**(22)**
IAS 19 pension financing charge and scheme expenses	**(28)**	**-**	**-**	**(28)**
Perpetual securities coupons[2]	**15**	**-**	**-**	**15**
Acquisition adjustments	**-**	**3**	**-**	**3**
One-off items:				
Net impairment and onerous contract charge	**(1)**	**-**	**-**	**(1)**
Sainsbury's Bank transition	**-**	**(59)**	**-**	**(59)**
Internal restructuring	**(15)**	**-**	**-**	**(15)**
Transaction costs	**(15)**	**-**	**-**	**(15)**
Profit/(loss) before tax	**543**	**9**	**(4)**	**548**
Income tax expense				**(77)**
Profit for the financial year				**471**
Assets	**12,115**	**4,531**	**-**	**16,646**
Investment in joint ventures and associates	**16**	**-**	**311**	**327**
Segment assets	**12,131**	**4,531**	**311**	**16,973**
Segment liabilities	**(6,727)**	**(3,881)**	**-**	**(10,608)**
Other segment items				
Capital expenditure[3]	**654**	**35**	**-**	**689**
Depreciation expense	**552**	**7**	**-**	**559**
Amortisation expense[4]	**14**	**11**	**-**	**25**
Net impairment and onerous contract charge[5]	**(1)**	**-**	**-**	**(1)**
Share-based payments	**22**	**1**	**-**	**23**

1 Represents fair value unwind on loans and advances to customers resulting from the Sainsbury's Bank acquisition.
2 The coupons on the perpetual capital securities and the perpetual convertible bonds are accounted for as equity in line with IAS 32 'Financial instruments: Presentation', however are accrued on a straight-line basis and included as an expense within underlying finance costs, as detailed in note 3.
3 Retail capital expenditure consists of property, plant and equipment additions of £635 million and intangible asset additions of £19 million. Financial services capital expenditure consists of property, plant and equipment additions of £20 million and intangible asset additions of £15 million.
4 Amortisation expense within the financial services segment includes £10 million of intangible asset amortisation arising from Sainsbury's Bank acquisition fair value adjustments.
5 Net impairment and onerous contract charge includes a £9 million impairment reversal recognised against property, plant and equipment.

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 and scheme expenses	(37)	-	-	(37)
Acquisition adjustments	-	13	-	13
One-off items:				
Impairment and onerous contract charge	(628)	-	-	(628)
Sainsbury's Bank transition	-	(53)	-	(53)
Internal restructuring	(17)	-	-	(17)
Pension compensation payments	(15)	-	-	(15)
(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.
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.

5 Finance income and finance costs[1,2]

	2016 £m	2015 £m
Interest on bank deposits and other financial assets	**19**	19
Finance income	**19**	19
Interest costs:		
Secured borrowings	**(88)**	(84)
Unsecured borrowings	**(30)**	(47)
Obligations under finance leases	**(9)**	(9)
Provisions – amortisation of discount	**(5)**	(3)
	(132)	(143)
Other finance costs:		
Interest capitalised – qualifying assets	**7**	17
Retail financing fair value movements[3]	**(20)**	(23)
IAS 19 pension financing charge	**(22)**	(31)
	(35)	(37)
Finance costs	**(167)**	(180)

1 Sainsbury's Bank's interest income is reported in revenue and interest cost is reported in cost of sales, and therefore not included in this note.
2 The coupons on the perpetual capital securities and the perpetual convertible bonds (included within underlying profit – see note 3) are accounted for as dividends in accordance with IAS 32 'Financial instruments: Presentation' and hence are not a finance cost.
3 Retail financing fair value movements includes net fair value movements on derivative financial instruments not designated in a hedging relationship of £(20) million (2015: £(18) million) and fair value movements on early repayment of bank loans carried at amortised cost of £nil (2015: £(5) million).

6 Income tax expense

	2016 £m	2015 £m
Current tax expense	**88**	98
Deferred tax credit	**(11)**	(4)
Total income tax expense in income statement	**77**	94

The effective tax rate of 14.1 per cent (2015: (130.6) per cent) is lower than (2015: lower than) the standard rate of corporation tax in the UK. The differences are explained below:

	2016 £m	2015 £m
Profit/(loss) before tax	**548**	(72)
Income tax at UK corporation tax rate of 20.05% (2015: 21.09%)	**110**	(15)
Effects of underlying items:		
Disallowed depreciation on UK properties	**26**	30
Over-provision in prior years	**(1)**	(5)
Revaluation of deferred tax balances	**(20)**	1
Other	**(1)**	6
Effects of non-underlying items:		
Profit on disposal of properties	**(21)**	(6)
Investment property fair value movements	**4**	(1)
Revaluation of deferred tax balances	**(15)**	-
Over-provision in prior years	**(9)**	(1)
Impairment	**-**	84
Other one-off items	**4**	1
Total income tax expense in income statement	**77**	94

Reductions in the UK corporation tax rate were substantively enacted in the year. The main rate of corporation tax was reduced from 20 per cent to 19 per cent effective from 1 April 2017 and to 18 per cent from 1 April 2020. Deferred tax on temporary differences and tax losses as at the balance sheet date is calculated at the substantively enacted rates at which the temporary differences and tax losses are expected to reverse. A further reduction in the corporation tax rate to 17 per cent, rather than 18 per cent, from 1 April 2020 was announced in the 2016 Budget. However, this further rate change was not substantively enacted at the balance sheet date, so its effect is not reflected in these financial statements.

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 senior convertible bonds (net of tax) and by the coupons on the perpetual subordinated 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 senior convertible bonds and perpetual subordinated 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 and defined benefit pension scheme expenses, acquisition adjustments and one-off items that are material and infrequent in nature (see note 3). 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.

7 Earnings per share (continued)

	2016 million	2015 million
Weighted average number of shares in issue	**1,920.8**	1,911.0
Weighted average number of dilutive share options	**14.6**	17.3
Weighted average number of dilutive senior convertible bonds	**131.4**	62.3
Weighted average number of dilutive subordinated perpetual convertible bonds	**41.4**	-
Total number of shares for calculating diluted earnings per share	**2,108.2**	1,990.6

	£m	£m
Profit/(loss) for the financial year (net of tax)	**471**	(166)
Less profit attributable to:		
Holders of perpetual capital securities	**(8)**	-
Holders of perpetual convertible bonds	**(4)**	-
Profit/(loss) for the financial year attributable to ordinary shareholders[1]	**459**	(166)

	£m	£m
Profit/(loss) for the financial year attributable to ordinary shareholders	**459**	(166)
Add interest on senior convertible bonds, net of tax[2]	**11**	-
Add coupon on subordinated perpetual convertible bonds, net of tax	**4**	-
Diluted earnings/(loss) for calculating diluted earnings per share	**474**	(166)

	£m	£m
Profit/(loss) for the financial year attributable to ordinary shareholders of the parent	**459**	(166)
Adjusted for (net of tax):		
Profit on disposal of properties	**(103)**	(17)
Investment property fair value movements	**18**	(7)
Retail financing fair value movements	**18**	25
IAS 19 pension financing charge and scheme expenses	**22**	29
Acquisition adjustments	**(4)**	(9)
One-off items	**70**	650
Revaluation of deferred tax balances	**(15)**	**-**
Underlying profit after tax attributable to ordinary shareholders of the parent[3]	**465**	505
Add interest on convertible bonds, net of tax	**11**	7
Add coupon on subordinated perpetual convertible bonds, net of tax	**4**	-
Diluted underlying profit after tax attributable to ordinary shareholders of the parent	**480**	512

	Pence per share	Pence per share
Basic earnings/(loss)	**23.9**	(8.7)
Diluted earnings/(loss)[2]	**22.5**	(8.7)
Underlying basic earnings	**24.2**	26.4
Underlying diluted earnings	**22.8**	25.7

1 Profit attributable to ordinary shareholders of the parent is calculated in accordance with IAS 33 'Earnings per share'.
2 Dilutive share options and convertible bonds have been excluded from the calculation in 2015, as in accordance with IAS 33 'Earnings per share', they are only included where the impact is dilutive.
3 Underlying earnings per share calculation is based on underlying profit after tax attributable to ordinary shareholders. Therefore the coupons on the perpetual securities are not added back.

8 Dividend

	2016 Pence per share	2015 Pence per share	2016 £m	2015 £m
Amounts recognised as distributions to ordinary shareholders in the year:				
Final dividend of prior financial year	**8.2**	12.3	**157**	234
Interim dividend of current financial year	**4.0**	5.0	**77**	96
	12.2	17.3	**234**	330

After the balance sheet date, a final dividend of 8.1 pence per share (2015: 8.2 pence per share) was proposed by the Directors in respect of the 52 weeks to 12 March 2016, resulting in a total final proposed dividend of £155 million (2015: £157 million). The proposed final dividend has not been included as a liability at 12 March 2016. The dividend was approved by the Board on 3 May 2016.

9 Notes to the cash flow statements
(a) Reconciliation of operating profit to cash generated from operations

	2016 £m	2015 £m
Profit/(loss) before tax	**548**	(72)
Net finance costs	**148**	161
Share of post-tax profits/(losses) of joint ventures	**11**	(8)
Operating profit	**707**	81
Adjustments for:		
Depreciation expense	**559**	545
Amortisation expense	**25**	34
Non-cash acquisition adjustments[1]	**(13)**	(31)
Sainsbury's Bank impairment losses on loans and advances	**15**	21
Profit on disposal of properties	**(100)**	(5)
(Release)/impairment of property, plant and equipment	**(9)**	540
Impairment of intangible assets	**-**	8
Foreign exchange differences	**24**	(12)
Share-based payments expense	**23**	21
Retirement benefit obligations[2]	**(201)**	(79)
Operating cash flows before changes in working capital	**1,030**	1,123
Changes in working capital:		
Decrease in inventories	**12**	6
(Increase)/decrease in investment securities	**(202)**	32
Increase in trade and other receivables	**(25)**	(57)
Increase in amounts due from Sainsbury's Bank customers and other deposits	**(318)**	(426)
(Decrease)/increase in trade and other payables	**(16)**	294
Increase in amounts due to Sainsbury's Bank customers and other deposits	**95**	114
Increase in provisions and other liabilities	**48**	50
Cash generated from operations	**624**	1,136

1 Refer to note 3 for details of acquisition adjustments. This excludes £10 million (2015: £18 million) amortisation on acquired intangibles included within amortisation in this note.

2 The adjustment for retirement benefit obligations reflects the difference between the defined benefit pension scheme expenses of £6 million (2015: £6 million), and the cash contributions of £207 million made by the Group to the defined benefit scheme (2015: £85 million).

9 Notes to the cash flow statements (continued)

(b) Cash and cash equivalents

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

	Group 2016 £m	Group 2015 £m
Cash in hand and bank balances	**374**	485
Money market funds and deposits	**480**	262
Treasury bills	**20**	53
Deposits at central banks	**269**	485
Cash and bank balances	**1,143**	1,285
Bank overdrafts	**(3)**	(9)
Net cash and cash equivalents	**1,140**	1,276

10 Analysis of net debt

	Group 2016 £m	Sainsbury's Bank 2016 £m	Adjusted Group 2016[1,2] £m	Group 2015 £m	Sainsbury's Bank 2015 £m	Adjusted Group 2015[1] £m
Non-current assets						
Interest bearing available-for-sale financial assets	**35**	**-**	**35**	37	-	37
Available-for-sale investment securities	**156**	**(156)**	**-**	-	-	-
Derivative financial instruments	**17**	**(4)**	**13**	21	(1)	20
	208	**(160)**	**48**	58	(1)	57
Current assets						
Cash and cash equivalents	**1,143**	**(566)**	**577**	1,285	(882)	403
Interest bearing available-for-sale financial assets	**48**	**(48)**	**-**	-	-	-
Derivative financial instruments	**51**	**-**	**51**	69	-	69
	1,242	**(614)**	**628**	1,354	(882)	472
Current liabilities						
Bank overdrafts	**(3)**	**-**	**(3)**	(9)	-	(9)
Borrowings	**(182)**	**-**	**(182)**	(221)	-	(221)
Finance leases	**(38)**	**-**	**(38)**	(30)	-	(30)
Derivative financial instruments	**(43)**	**2**	**(41)**	(75)	1	(74)
	(266)	**2**	**(264)**	(335)	1	(334)
Non-current liabilities						
Borrowings	**(2,053)**	**-**	**(2,053)**	(2,337)	-	(2,337)
Finance leases	**(137)**	**-**	**(137)**	(169)	-	(169)
Derivative financial instruments	**(69)**	**21**	**(48)**	(38)	6	(32)
	(2,259)	**21**	**(2,238)**	(2,544)	6	(2,538)
Total net debt	**(1,075)**	**(751)**	**(1,826)**	(1,467)	(876)	(2,343)

1 The Group's definition of net debt excludes Sainsbury's Bank's own net debt balances.
2 The perpetual capital securities and perpetual convertible bonds are accounted for as equity in accordance with IAS 32 'Financial instruments: Presentation' and therefore are not included within net debt.

Reconciliation of net cash flow to movement in net debt

	2016 £m	2015 £m
Net debt as at the beginning of the year	**(2,343)**	(2,384)
Net decrease in cash and cash equivalents	**(136)**	(303)
Elimination of net decrease in Sainsbury's Bank cash and cash equivalents	**316**	343
Net decrease/(increase) in borrowings[1]	**329**	(20)
Net decrease/(increase) of obligations under finance leases	**24**	(11)
Fair value movements	**(16)**	(7)
Equity component of convertible bond	**-**	39
Net debt as at the end of the year	**(1,826)**	(2,343)

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.

11 Retirement benefit obligations (continued)

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 benefit accrual on 28 September 2013. 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 Willis Towers Watson for the Trustee, as at 14 March 2015 on the projected unit basis. The results of this valuation are expected to be finalised 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 (being the date of the previous triennial valuation) for known events and changes in market conditions as allowed under IAS 19, 'Employee benefits'.

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:

	2016	2015
	£m	£m
Present value of funded obligations	**(7,625)**	(7,680)
Fair value of plan assets	**7,235**	6,988
	(390)	(692)
Present value of unfunded obligations	**(18)**	(16)
Retirement benefit obligations	**(408)**	(708)
Deferred income tax asset	**19**	57
Net retirement benefit obligations	**(389)**	(651)

The retirement benefit obligation 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:

	2016	2015
	%	%
Discount rate	**3.65**	3.50
Inflation rate - RPI	**3.15**	3.00
Inflation rate - CPI	**2.15**	2.00
Future salary increases	**n/a**	n/a
Future pension increases	**1.90 – 3.00**	1.80 – 2.85