3 May 2017

J Sainsbury plc

Preliminary Results for the 52 weeks to 11 March 2017
A pivotal year for the Sainsbury's Group; clear growth strategy

Highlights

Delivering our differentiated strategy of creating a leading multi-channel Food, General Merchandise, Clothing and Financial Services retailer

- Food performance resilient; ongoing investment in quality, price and innovation
- Total transactions have increased by nearly three per cent to 26 million per week
- Investing in channels of future growth: Groceries Online grew by over eight per cent and Convenience grew by over six per cent
- Outperformance of the market in Sainsbury's and Argos's General Merchandise and Clothing
- Will deliver £160 million EBITDA synergy target from Argos acquisition six months early; accelerating plan to open 250 Argos Digital stores in Sainsbury's supermarkets
- Successfully implemented new savings and ATM banking platform at Sainsbury's Bank and launched mortgages. The Bank is well set to deliver strong profit growth
- On track to deliver three-year £500 million cost saving programme by the end of 2017/18, with further £500 million cost savings target over three years from 2018/19
- Strong balance sheet with net debt reduced by £349 million to £1,477 million

	2016/17	2015/16	Variance
Business Performance			
Group sales (inc VAT)	£29,112m	£25,829m	12.7%
Sainsbury's like-for-like sales (inc VAT, ex fuel)	(0.6)%	(0.9)%	
Underlying profit before tax(1)	£581m	£587m	(1.0)%
Underlying basic earnings per share(1)	21.8p	24.2p	(9.9)%
Proposed final dividend	6.6p	8.1p	(18.5)%
Proposed full year dividend	10.2p	12.1p	(15.7)%
Net debt	£1,477m	£1,826m	£349m
Return on capital employed(1)	8.8%	8.8%	(4) bps
Statutory Reporting			
Group sales (ex VAT, inc fuel)	£26,224m	£23,506m	11.6%
Items excluded from underlying results	£(78)m	£(39)m	£(39)m
Profit before tax	£503m	£548m	(8.2)%
Basic earnings per share	17.5p	23.9p	(26.8)%

- Group sales (inc VAT) up 12.7 per cent mainly as a result of the Argos contribution
- Underlying profit before tax of £581 million reflects investment in the customer offer and cost inflation, offset by cost savings of £130 million and a contribution from Argos of £77 million
- Underlying basic earnings per share of 21.8 pence and full year dividend per share of 10.2 pence, reflecting dilution due to new shares issued to Home Retail Group plc shareholders

Mike Coupe, Group Chief Executive of J Sainsbury plc, said: "This has been a pivotal year and we have made significant progress delivering and accelerating our strategy. Sainsbury's Group offers customers market-leading product choice, value and convenience, whenever and wherever they shop with us.

"Food is the core of our business and we are committed to helping customers live well for less. Our food business remains resilient in a challenging market and we continue to innovate in quality and to invest in price. We are also investing in growth areas of the business to meet the changing ways that customers shop. Sainsbury's design-led General Merchandise and Clothing both outperformed the market and we saw strong growth in Sainsbury's Groceries Online and Convenience channels.

"We are pleased with the progress made since we acquired Argos. We have opened 59 Argos Digital stores in Sainsbury's supermarkets and they are performing well. We are therefore accelerating our plan to open a total of 250 Argos Digital stores in Sainsbury's supermarkets and will deliver our £160 million EBITDA synergy target by March 2019, six months ahead of schedule.

"Sainsbury's Bank has achieved an important milestone with the migration of savings customers and ATMs onto our new banking platform. We are confident in the growth opportunities at Sainsbury's Bank and are well set to deliver strong profit growth.

"We continue to find ways to simplify our business and reduce costs. We are on track to deliver our three-year £500 million cost saving programme by the end of 2017/18 and we will deliver a further £500 million of cost savings over three years from 2018/19. We benefit from a strong balance sheet and have reduced our net debt by £349 million to £1,477 million.

"The quality and range of our products, combined with our market-leading service, availability and channels set us apart from our competitors. Our values support our growth and our vision to be the most trusted retailer where people love to work and shop. I would like to thank our 195,000 colleagues across the Group for the difference they make to our customers every day."

Dividend

Our final dividend is 6.6 pence per share, bringing our full year dividend to 10.2 pence per share, reflecting our affordable dividend policy of 2.0x cover. In the last five years, we have returned £1.4 billion in cash dividends to shareholders, equivalent to 69.5 pence per share.

Outlook

The market remains competitive and the impact of cost price pressures remains uncertain. However, we are well placed to navigate the external environment and we remain focused on delivering our strategy.

Strategic report

The strategy we set out in November 2014 is designed to address the changing nature of retail and the way people shop. It is based on five pillars: knowing our customers better than anyone else; great products and services at fair prices; being there for our customers whenever and wherever; colleagues making the difference and our values making us different. To deliver this strategy we have prioritised four key areas of our business where we can differentiate ourselves, grow and create value:

Four key priorities

1. Further enhance our differentiated food proposition

- Sainsbury's own-brand food accounts for around half of our food sales and our customers rank us ahead of our supermarket competitors on quality perception.(2) Our core *by Sainsbury's* range has grown volumes by two per cent as a result of our quality and price investments
- We have invested to increase sales and market share in new and growing categories such as our *On the Go* and *Deliciously FreeFrom* ranges
- We continue to invest in price and customers are responding to our lower regular prices. Total transactions have increased by nearly three per cent to 26 million per week
- We have removed multi-buy promotions, which gives customers more choice and helps to reduce waste at home and across our business. Promotional participation has decreased by almost six per cent to 25 per cent
- We opened six supermarkets and 41 convenience stores in the year, bringing the totals to 605 and 806 respectively (3)
- Supermarket sales declined by nearly two per cent and Convenience grew by over six per cent
- Groceries Online grew by over eight per cent. Our Groceries App launched almost 12 months ago and already accounts for over ten per cent of orders to our Groceries Online channel, demonstrating changing customer shopping behaviour
- Our colleagues continue to deliver market-leading customer service and availability. We have won the Grocer Gold Awards for Service and Availability for the past four years

2. Grow General Merchandise and Clothing and deliver synergies

- Sainsbury's General Merchandise grew sales by over two per cent and Clothing by over four per cent, outperforming the market[(4)]
- Argos grew sales 4.1 per cent[(5)]
- We now have 59 Argos stores in Sainsbury's supermarkets and 207 digital collection points. Like-for-like sales at Argos stores in Sainsbury's supermarkets that have been open for more than one year are up between 20 and 30 per cent
- We continue to benefit from a one to two per cent uplift in supermarket sales where there is an Argos Digital store
- We expect to deliver our £160 million EBITDA synergy target six months early and we are accelerating our plans to open 250 Argos Digital stores in Sainsbury's supermarkets
- Digital sales continue to grow with 53 per cent of sales now made online. Mobile participation also grew 60 per cent this year
- Argos is the UK's number one retailer for toys and second in the market for homeware and electrical products
- Argos *Fast Track* delivery and collection is a key point of difference and we are able to leverage our unique Hub and Spoke model to deliver customer orders quickly and conveniently
- We expect to transform 60 Argos high street stores in 2017/18 to the new digital format so that over one third of the Argos store estate will be digital in a year's time

3. Diversify and grow Sainsbury's Bank

- Sainsbury's Bank (including Argos Financial Services) delivered £62 million profit. This was down nearly five per cent due to the impact of reduced interchange fees and investment required to enter the mortgage market
- We launched a new mortgage offer in April 2017 and have successfully transferred all our savings customers and ATM estate on to the Bank's new banking platforms
- Sainsbury's Bank has 1.8 million active customers, up nearly four per cent. Additionally, Argos Financial Services has 1.8 million customers
- Our ATM estate grew by five per cent to 1,728 and ATM transactions grew by almost one per cent year-on-year to nearly 240 million. This represents a significant UK market share with £1 of every £11 dispensed from a LINK ATM transaction coming from Sainsbury's Bank
- Credit cards performed strongly with 70 per cent growth year-on-year of new card accounts. Personal loans grew ten per cent
- The integration of Argos Financial Services presents operational synergies and growth opportunities. We will move credit cards and other financial services products on to a shared platform during Summer 2018
- We are confident in the growth strategy for Sainsbury's Bank and are well set to deliver strong profit growth

4. Continue cost savings and maintain balance sheet strength

- We continue to find ways to simplify our business and reduce costs. We have achieved £130 million of cost savings this year, £355 million in the last two years and are on track to deliver our three-year target of £500 million cost savings by 2017/18
- We are committed to a further £500 million of cost savings over the next three years, starting in 2018/19
- Core retail capital expenditure, including Argos, was £547 million (2015/16: £542 million), a significant reduction from the average of £931 million per year in the previous five years
- We have a strong balance sheet. Net debt reduced by £349 million to £1,477 million (2015/16: £1,826 million)
- The Group has financing facilities of £3.9 billion, of which only £2.7 billion was drawn at year end

Our values

Our values make us different; they strengthen our relationships with customers, suppliers and colleagues and make strong commercial sense:

- *Living healthier lives:* We reformulated our products to reduce salt, sugar, fat and saturated fats, including reduction of sugar across our own-brand cereal range by an average of 13 per cent, exceeding the government's 2017 targets of a five per cent reduction
- *Sourcing with integrity:* We were named the World's Best Sustainable Seafood Supermarket by the Marine Stewardship Council (MSC)
- *Respect for our environment:* We use 11.6 per cent less electricity than we did in 2005 despite growing our store space by 54.2 per cent
- *Making a positive difference in the community:* We supported over 3,400 charity partnerships, including Comic Relief, The Royal British Legion and Oxfam
- *Great place to work:* Colleagues across the Group will share a bonus of £78 million this year

Notes

1. Defined in Alternative Performance Measures on page 48

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

3. The number of convenience stores stated includes our partnership with Euro Garages' petrol stations

4. Kantar Worldpanel 2016

5. For the second half of the financial year

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.

Sainsbury's will report its 2017/18 First Quarter Trading Statement at 07:00 (BST) on 4 July 2017.

A results presentation for analysts and investors will be held at 09:30 on 3 May 2017

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 435 188. A transcript of the presentation and an archive recording of this event will be available later in the day at www.j-sainsbury.co.uk.

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Market context

Customer shopping habits and the UK retail landscape continue to change rapidly. Our strategy reflects this and our business is well set to continue adapting to changing customer needs.

The market

The UK economy has been stronger than anticipated since the European Union Referendum in June 2016. Conditions have remained supportive for UK consumers, with wage growth remaining higher than inflation. Consistent with recent years, the main beneficiaries of these conditions have been higher ticket discretionary categories such as eating out, car sales and holidays. However, the picture is changing now, as the impact of the devaluation of sterling and a higher oil price filter through to food, general merchandise, clothing and fuel prices and the gap between inflation and wage growth narrows.

After more than two years of deflation, food and fuel prices started to rise towards the end of our financial year, driven by the devaluation of sterling and commodity price increases. While this has benefited food retail market growth, general merchandise and clothing sales growth have been impacted by reduced consumer confidence and a marked slowdown in real pay growth. Economic commentators are divided on the implications for the UK economy, but there are fears that this slowdown in real income might drive a reduction in GDP growth, an increase in unemployment and a reduction in the rate of unsecured credit growth.

Shopping habits

Shopping habits continue to evolve rapidly, with consumers expecting far greater choice and flexibility in how, when and where they can shop for food, general merchandise and clothing.

The UK grocery market remains very competitive. Convenience stores and online retail continue to show strong growth, as consumers shop more frequently across different channels and store formats. Discount food retailers continue to open significant numbers of new stores and gain market share, but at lower rates than in recent years. In line with our expectations, these trends place pressure on volumes through the supermarket format. However, we continue to expect supermarkets to remain the key channel for groceries.

Within general merchandise and clothing, traditional store formats, particularly on the high street, continue to see footfall and sales declines as online participation grows. The combination of a strong online proposition and a wide variety of delivery and collection options is popular with consumers, with Click & Collect accounting for a significant and growing proportion of UK online general merchandise and clothing sales.

Future retail trends

Consumers will increasingly expect a seamless, flexible retail offer across all products and channels to fulfil their orders rapidly, in a location and at a time that is most convenient to them.

STRATEGIC REPORT

The strategy we set out in November 2014 is designed to address the changing nature of retail and the way people shop. It is based on five pillars: knowing our customers better than anyone else; great products and services at fair prices; being there for our customers whenever and wherever; colleagues making the difference and our values making us different. To deliver this strategy we have prioritised four key areas of our business where we can differentiate ourselves, grow and create value:

Further enhance our differentiated food proposition

Food will always be at the heart of our business. We have a strong and differentiated food proposition that offers customers market-leading quality, choice and value. We have now completed our 3,000 Sainsbury's own-brand product quality investment programme and will continue to make quality improvements where they matter most to our customers. Over the course of the next year, we will review 125 food ranges, touching around 60 per cent of our Food sales. Customers continue to rank us ahead of our supermarket peers for food quality.[1]

Great quality at fair prices

Our Food business is resilient. While grocery retailing remains competitive, investment in the quality and price of our core *by Sainsbury's* range delivered volume growth of nearly two per cent. Our strategic focus is on growing categories where we can increase market share such as *Deliciously FreeFrom*, our new *On the Go* range and prepared vegetables. In September, we launched our *On the Go* range of breakfast, lunch and snacking lines. It is a market worth around £16 billion and we invested £8 million in our range, introducing new sandwich and bread options, salads and sushi. We also increased the number of breakfast and snacking options on offer, as well as improving existing lines. Snacking, in particular, has performed well.

The successful launch of our *Deliciously FreeFrom* range reflected the increasing importance of allergen-free food to our customers. Around 25 per cent of the UK population includes free from products in their weekly shop.[2] We have doubled the new range, incorporating fresh, frozen, chilled and ambient lines, offering customers more variety, improved products and market-leading allergen information on the packaging. We also became the only supermarket to offer gluten-free bread freshly baked in our store bakeries. The range has proved very popular and we sell nearly 12,000 loaves a week.

Our innovative prepared vegetable range has been a great success with customers who are increasingly looking for filling, healthy alternatives to carbohydrates or want to introduce more vegetables in to their diet. We responded to last year's demand for courgetti (courgette spaghetti) and boodles (butternut squash noodles) by introducing eight more prepared vegetable lines this year, including first-to-market vegetable lasagne sheets and butternut squash waffles. These innovative new lines have helped drive double-digit year-on-year growth for the prepared vegetables category.

We continue to develop our overall food offer to ensure customers can buy great quality food at Sainsbury's for different shopping missions. Our trial of in-store sushi concessions are all performing well and offer customers something new to try when they visit our stores.

As a major retailer in a highly competitive industry, our values make us different and make strong commercial sense. Our values help us strengthen relationships with all our stakeholders, build trust, reduce operating costs, mitigate risks and attract and retain talent in a crowded marketplace. Our values also enable us to play a leading role in tackling some of the challenges facing our customers every day such as household food waste.

To help our customers *live healthier lives* we have reduced the sugar in our cereal range by an average of 13 per cent, exceeding the Government's 2017 targets of a five per cent reduction. We also removed more than three tonnes of salt from our canned corned beef products without impacting taste or flavour.

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[1] HPI Brand & Communications Tracker
[2] Kantar Worldpanel 2016

All our products are *sourced with integrity* and this year we were proud to be named the World's Best Sustainable Seafood Supermarket by the Marine Stewardship Council. We sold over £490 million of RSPCA-assured products this year and worked with our Dairy Development Group to reduce the need for certain classes of antibiotics, leading to a voluntary withdrawal.

Demonstrating our *respect for our environment,* we now use nearly 12 per cent less electricity than we did in 2005, despite growing store space by over 54 per cent. Also since 2005, we have reduced packaging across Sainsbury's branded ranges by almost 33 per cent and we continue to work towards our target of a 50 per cent reduction by 2020. This year marked a significant milestone on food waste, as we moved to transparent reporting - one of only two major retailers to do so and we have set a clear benchmark against which we can measure progress. We completed a trial of *Waste less, Save more,* our five-year initiative to help our customers tackle household food waste, in Swadlincote, Derbyshire, with 20 intervention trials. These trials ranged from apps to weigh and report on food waste to pioneering school programmes to engage young people on the issue.

In addition to providing excellent customer service, our colleagues are committed to *making a positive difference to our community.* In 2016/17, we generated over £53 million for charities through the efforts of our colleagues and customers. This includes nearly £12 million raised through our support of Comic Relief's Red Nose Day.

We aim to be a company where people love to work and our colleagues are integral to the success of our business. We offer a competitive rewards package, including paid breaks, colleague discount and pension. This year, colleagues across the Group will share a bonus of £78 million.

Serving customers whenever and wherever they want

A key part of our strategy is to be available to our customers whenever and wherever they want to shop with us. As at the end of this financial year we have 605 supermarkets and 806 convenience stores[3]. Supermarket sales declined nearly two per cent and sales at our convenience stores grew by over six per cent.

Supermarkets continue to be the main grocery shopping channel, responsible for over half of the grocery spend in the UK and we expect this to remain the case. We are adapting our space and layouts to reflect customer requirements for convenience, flexibility, speed and choice. Supermarket shoppers can take advantage of extensive food ranges, grocery Click & Collect services and in-store cafes and restaurants.

Our Convenience business grew by over six per cent and we opened 41 new shops, including trials of seven franchises in Euro Garages' petrol station forecourts.

Sales in our Groceries Online channel grew by over eight per cent and orders increased by nearly 12 per cent during the year. We deliver around 276,000 orders per week. We expect that demand for our online grocery service in London will double over the next eight years and, to help meet that growing demand, we opened our first purpose-built online fulfilment centre in Bromley-by-Bow, East London. With its cutting-edge technology, it has the capacity to fulfil 25,000 customer orders each week. We now have 151 Groceries Online Click & Collect sites and a growing number of our customers place their order online and collect their shopping at their local supermarket. To add to customer choice, we offer same day delivery from 29 stores across the UK and are trialling one-hour delivery to over 40,000 London postcodes through our Chop Chop bicycle delivery service. We introduced our Groceries Online app in 2016 to give customers more ways to shop with us. Penetration is steadily increasing, with over ten per cent of orders received through the app, demonstrating the rapidly changing nature of customer shopping behaviours.

Leading customer service

Our colleagues continue to deliver market-leading customer service and we won 17 weekly Grocer 33 Awards this year[4]. In addition, for the past four years we have won the Grocer Gold Awards for Service and Availability and we continue to exceed our Mystery Shopper internal targets.

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[3] The number of convenience stores stated includes our partnership with Euro Garages
[4] Grocer 33 for 52 weeks to 11 March

Grow General Merchandise & Clothing and deliver synergies

General Merchandise

Sainsbury's General Merchandise sales grew by over two per cent. We increased our market share by both volume and value, driven by seasonal events such as Christmas and Halloween and by offering design-led, ethically-sourced homeware products that are accessible to everyone. The ranges are updated every eight to ten weeks, at prices that are significantly better value than high street stores and homeware specialists. On-trend, in-house designed ranges such as Harvest, Shore and Blue Daisy, displayed in an attractive department store-style setting, have proved to be very popular with our customers.

Clothing

Shopping for clothing in supermarkets has become firmly established and our strategy of offering customers high street style at supermarket prices has helped to increase our sales by over four per cent in the year and to outperform a challenging market. Eight million customers buy our *Tu* clothing. Our market share by volume increased by 20 basis points and we are the sixth largest clothing retailer by volume in the UK[5], with a strong position in the womenswear and childrenswear markets and opportunities for future growth in menswear.

We launched our *Tu Premium* womenswear collection in September, offering our customers quality, styling and fabrics that rival high street fashion brands, at significantly lower prices. The range has been well received by our customers with standout performers such as our women's leather biker jacket at £95 and a silk blouse at £30.

Acquisition of Home Retail Group plc

Our acquisition of Home Retail Group plc in September 2016 created a £6 billion General Merchandise & Clothing business. This made us one of the UK's largest Food, General Merchandise, Clothing and Financial Services retailers, with over 90,000 products across 2,200 stores. The deal was financially compelling and makes clear strategic sense.

Argos is the UK's number one retailer for toys and a market leader in homeware and electrical products. With around one billion hits a year, Argos is the third most visited retail website in the UK and over half of all Argos's sales originate online. The first UK retailer to achieve £1 billion annual sales online, Argos was also the first to achieve £1 billion sales through mobile devices. The unique Hub and Spoke supply chain network offers customers a wide choice of quick, efficient delivery options – Fast Tracked to their home the same day, or for collection at Argos and participating Sainsbury's stores.

Argos is performing well both commercially and operationally, with strong results during the Black Friday and Christmas periods. With over 10 million webpage visits on the day, 65 per cent of Black Friday sales were initiated online. Nearly 100,000 *Fast Track* deliveries were made over that weekend alone. There were over 120 million visits to the Argos website in the run up to Christmas, an increase of over nine per cent.

There are now 59 Argos Digital stores in our supermarkets and they are performing well. Sales at stores that have been open for over a year are delivering like-for-like sales growth of between 20 to 30 per cent. There is also a clear sales uplift of between one to two per cent in Sainsbury's stores where there is an Argos Digital store.

Customer satisfaction scores at our Argos stores are at their highest levels ever and digital remains a key differentiator. In 2017/18 we plan to transform 60 existing Argos high street stores to a new digital format, meaning that over a third of the Argos store estate will be digital in a year's time.

We also have 207 digital collection points where customers can collect their *Tu* clothing, eBay and DPD orders conveniently. Over 700,000 parcels have been collected to date. Argos orders can be collected at 90 of these collection points.

We now have seven Mini Habitat stores in Sainsbury's supermarkets to support Habitat's multi-channel business strategy.

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[5] Kantar Worldpanel 2016

Synergies
The opportunity to deliver £160 million of EBITDA synergies over three years was a key factor in our decision to acquire Home Retail Group plc. The synergies identified at the time of the deal included the integration of central and store support functions across the two businesses, as well as cost savings from opening Argos Digital stores in Sainsbury's supermarkets. This year we have achieved £7 million of synergies.

The integration of Argos and Sainsbury's is happening at pace. Our retail expertise and experience of delivering change programmes in our stores has enabled us to accelerate the roll-out of 250 Argos Digital stores in Sainsbury's supermarkets. We now expect this roll-out, together with our £160 million synergy target, to be achieved by March 2019, six months ahead of schedule.

Diversify and grow Sainsbury's Bank

Sainsbury's Bank is a growing and profitable part of our business and a key strategic asset. Our vision is to be the destination bank for Sainsbury's customers, listening to what they want and designing products, offers and services that meet their needs. We recently launched an innovative mortgage product, which introduced a money off reward on shopping, and is a strong channel to grow our assets and customer base in both mortgages and savings.

Offering our customers complementary financial services products encourages loyalty across all our businesses - when customers take out a Bank product we see that they go on to spend more with us. Since taking full ownership of Sainsbury's Bank, we have embarked on a programme to transition our banking services on to our own infrastructure. We successfully migrated savings customers and ATMs to our new banking platforms during the year. We continue to make good progress and will introduce our new loans platform by the end of 2017/18.

Sainsbury's Bank, including Argos Financial Services, achieved £62 million underlying profit. Sainsbury's Bank profits declined nearly five per cent due to the impact of reduced interchange fees and investment required to enter the mortgage market.

Sainsbury's Bank has 1.8 million active customers, up nearly four per cent. Additionally, Argos Financial Services has 1.8 million customers. We take our responsibilities as a lender of consumer credit seriously and saw strong growth in personal lending, with ten per cent year-on-year growth in the number of advances to new personal loan customers.

We offered Sainsbury's customers a strong range of credit cards throughout the year with the incentive of additional Nectar points. This resulted in 70 per cent growth year-on-year in new card accounts and a six per cent year-on-year increase in our credit cards being used in Sainsbury's stores. We are regularly featured as "best buy" credit card throughout the year.

In line with our strong lending performance, savings accounts grew by almost 60 per cent year-on-year with a strong performance across fixed term, easy access and ISA products. Our growth in customer lending and continued investment in the transition programme saw our Tier 1 capital ratio decrease to 13.3 per cent which remains comfortably above regulatory requirements. Capital and liquidity plans are robust and support future growth in secured and unsecured lending.

In the last quarter, we launched new home and car insurance products. Our new products provide quotes from a bespoke panel of specially selected insurers, giving a greater number of Sainsbury's customers more competitive pricing. In addition, we are rewarding Nectar card customers with a guaranteed discount on their insurance premium.

We saw strong growth in *Travel Money* with transactions up 25 per cent year-on-year, despite market volatility and the impact of the vote to leave the European Union. We opened a further 26 *Travel Money* bureaux across the UK, taking our estate to 232 bureaux. We have also successfully launched our new pre-paid *Travel Money* card which offers contactless functionality and no ATM fees.

Our free-to-use ATM estate grew by five per cent to 1,728 in the year and ATM transactions grew by almost one per cent year-on-year to nearly 240 million. This represents a significant UK market share with £1 for every £11 dispensed from a LINK ATM transaction coming from Sainsbury's Bank.

In September 2016, the Bank played a key role in the acquisition of Home Retail Group plc, successfully obtaining full UK Regulatory permissions and expanding the Bank's savings portfolio which provided around £500 million of funding for the transaction. The integration of Sainsbury's Bank with Argos Financial Services will be phased, initially integrating certain reporting and governance capabilities. The planned nature, depth and pace of integration is expected to evolve within the Bank's strategy during the 2017/18 financial year.

The acquisition of Argos Financial Services presents significant operational synergies. Argos Financial Services manages an existing store card estate which we will leverage by moving our credit cards onto the same platform. This will take place during the summer of 2018.

Sainsbury's Bank is committed to delivering customer service that is convenient, reliable and helpful. Our website receives over 1.9 million visits every month, up 50 per cent year-on-year. We continue to report industry-low levels of customer complaints, consistently recording fewer than 1.3 complaints per 1,000 customer accounts over the last two years. We have won industry awards for customer service and the quality of our products including Best Balance Transfer Credit Card (The Personal Finance Awards), Best Online Personal Loan Provider (Your Money) and Trusted Personal Loan and Pet Insurance provider (Moneywise Customer Services).

We continue to invest in Sainsbury's Bank and will inject further capital for lending growth, increased regulatory requirements and to complete the Bank's ongoing transformation.

<u>Continue cost savings and maintain balance sheet strength</u>

In line with other UK retailers, we anticipate that cost pressures will continue over the next few years – the price of raw materials and energy is increasing, along with wages and business rates. Across our business we are focused on finding ways to mitigate the impact of rising costs so that we can continue to deliver for customers, colleagues and shareholders.

We continue to find ways to simplify our business and reduce costs. We have achieved £130 million of cost savings this year, £355 million in the last two years and by the end of 2017/18 we will have delivered our target of £500 million of cost savings over three years across our business. We are committed to a further £500 million cost savings over the next three years, starting in 2018/19.

Our focus on efficiency and cost reduction will allow us to continue to invest in the value of our proposition and the development of our colleagues as well as provide our shareholders with a return on the investment they have made in Sainsbury's.

Sainsbury's food and grocery operations

Over the last three years we have made significant progress in developing our food and grocery proposition. We have simplified our prices and replaced multi-buys with lower regular prices, helping customers avoid waste at home and enabling us to forecast demand more accurately. We have invested in the quality of over 3,000 Sainsbury's branded products and shortened the time it takes to get innovative new food ranges on to our shelves. We source directly from farmers and growers and use cutting-edge technology to forecast demand to give our food extra shelf life. We have also invested in our ranging strategy and tools to bring greater incremental choice and quality into each of our stores, while reducing duplication and products previously on multi-buys or high-low promotion. Changes we have made to our in-store operating model have helped to reduce costs throughout our store estate.

As retailers we must continually respond to the changes in the way people shop and continue to identify how we can meet our customers' needs while also achieving our cost savings target. We have identified a number of areas where we believe we can deliver significant savings at pace. These include:

- Improving product availability throughout the supply chain
- Making our checkouts more efficient, easier and faster to use
- Using improved technology to eliminate unnecessary complexity in some aspects of the in-store experience, making it faster and more efficient for both customers and colleagues
- Simplifying our offer so that we can deliver the food and groceries our customers want, whenever and wherever they want them

These are all areas we can address with agile solutions that we can test and deliver at pace, using technology whenever possible. In whatever we do, our colleagues and customers will remain firmly at the forefront of our thinking.

Balance sheet strength

Our balance sheet remains strong with a significant reduction in net debt and high levels of liquidity. Net debt at £1,477 million has reduced by £349 million in the year. The reduction is as a result of continued strong cash generation from our retail operations, the financing of the acquisition of Home Retail Group plc and further working capital improvements, offset by exceptional pension payments, capital expenditure and dividends. Group core retail capital expenditure of £547 million was in line with last year (2015/16: £542 million), even with the addition of Argos core retail capital expenditure of £38 million. However, in line with our strategy, this is significantly lower than the average capital expenditure in the previous five years of £931 million.

The Group has financing facilities of £3.9 billion, of which only £2.7 billion was drawn at the year end. These are from diverse funding sources in order to minimise refinancing risk and to maintain appropriate contingent liquidity. We have also concluded the Sainsbury's pension scheme triennial valuation and recovery payments will increase by £6 million to £84 million per year. As part of the acquisition of Home Retail Group plc, we will also be paying recovery payments of £40 million per year to the Home Retail Group plc defined benefit pension scheme until October 2021.

The Board has recommended a final dividend of 6.6 pence per share (2015/16: 8.1 pence), making a full year dividend of 10.2 pence per share (2015/16: 12.1 pence), covered two times by underlying earnings, in line with Sainsbury's policy to pay an affordable dividend. Over the last five years, Sainsbury's has paid a total dividend of 69.5 pence per share, returning over £1.4 billion of cash to shareholders.

Financial Review
2016/17 has been a pivotal year in Sainsbury's history, with the acquisition of Home Retail Group plc ('HRG') on 2 September 2016. From an underlying trading perspective this has had a significant impact on the financial results, with £3,175 million (including VAT) of Argos (including Argos Financial Services) sales and £77 million of underlying profit before tax consolidated into the Group income statement for the 27 weeks Sainsbury's owned the business.

Sainsbury's Group sales (including VAT) were up 12.7 per cent to £29,112 million and improved 0.4 per cent when excluding the impact of the HRG acquisition. On a 52-week rolling basis Sainsbury's market share (as measured by Kantar for the 52 weeks to 26 February 2017) declined 23 basis points, due to continued price investment and the continuing pace of new store expansion from the discounters. Discounters' combined market share increased by 99 basis points, with the 'big four' declining on average by 35 basis points. However, there was like-for-like transaction growth across all channels – supermarkets, convenience and groceries online.

Sainsbury's continues to operate in a competitive and uncertain trading environment, impacting margins. In 2016/17, retail underlying operating profit decreased by 1.4 per cent to £626 million (2015/16: £635 million) reflecting lower like-for-like sales, investment in the customer offer and cost inflation. This was partly offset by cost savings of £130 million and a contribution from Argos of £77 million. Retail underlying operating margin declined 32 basis points to 2.42 per cent. Underlying profit before tax ('UPBT') declined by 1.0 per cent to £581 million (2015/16: £587 million), and profit before tax of £503 million (2015/16: £548 million) was down 8.2 per cent as a result of a £78 million charge recognised outside of underlying results.

Sainsbury's Bank continues to perform in line with expectations. We have now migrated all of our savings customers and ATMs onto the new, more flexible banking platform. This has given us the opportunity to launch into the mortgage market in April 2017. Argos Financial Services ('AFS') transferred to the Bank in September, with its net £615 million customer loan book. This has enabled the Group to refinance the intercompany funding for AFS through increased customer deposits and wholesale funding - a significantly cheaper way to fund the Group than external debt. As a result, the Group repaid the draw-down on the Revolving Credit Facility used for the cash consideration of the HRG acquisition.

The HRG acquisition completed on 2 September 2016. The economics of the deal were uniquely well set for Sainsbury's, both in terms of the £160 million of EBITDA synergies we are now confident of achieving six months earlier than expected in 2018/19 and our ability to finance the deal through our refinancing of the AFS loan book. Final consideration was just under £1.1 billion – paid for in cash and shares. The fair value of net assets acquired was just over £1.0 billion, resulting in goodwill of £58 million. The fair value of net assets acquired included a net £615 million customer loan book and £322 million of net cash (after the capital return to HRG shareholders).

The balance sheet remains strong with a significant reduction in net debt. Net debt at £1,477 million (£1,971 million treating the perpetual securities as debt) has reduced £349 million since the 2015/16 year-end, mainly as a result of continued strong cash generation from our retail operations, the financing of the acquisition of HRG and further working capital improvements, offset by exceptional pension payments, capital expenditure and dividends paid. The Group has facilities of £3.9 billion with only £2.7 billion drawn at the end of the year. Like many other companies, we have seen a significant fall in discount rates since the year-end. This has increased the Sainsbury's pension scheme IAS 19 accounting deficit (net of deferred tax) to £679 million (2015/16: £389 million deficit), and the acquired HRG pension scheme deficit (net of deferred tax) is £171 million as at 11 March 2017.

Underlying basic earnings per share decreased 9.9 per cent to 21.8 pence (2015/16: 24.2 pence), reflecting the fall in underlying profits and the effect of additional shares issued during the year as a result of the HRG acquisition. Basic earnings per share decreased 26.8 per cent to 17.5 pence (2015/16: 23.9 pence), lower than the underlying earnings per share due to the £78 million charge recognised outside of underlying results and a change in tax rate due to the comparatively smaller benefit of a one per cent revaluation of non-underlying deferred tax balances (2015/16: two per cent).

The Board has recommended a final dividend of 6.6 pence (2015/16: 8.1 pence), making a full-year dividend of 10.2 pence per share (2015/16: 12.1 pence per share).

Summary income statement[1]	52 weeks to 11 March 2017 £m	52 weeks to 12 March 2016 £m	Change %
Group sales (including VAT)	**29,112**	25,829	12.7
Retail sales (including VAT)	**28,705**	25,502	12.6
Group sales (excluding VAT)	**26,224**	23,506	11.6
Retail sales (excluding VAT)	**25,824**	23,168	11.5
Underlying operating profit			
Retail	**626**	635	(1.4)
Financial services	**62**	65	(4.6)
Total underlying operating profit	**688**	700	(1.7)
Underlying net finance costs[2]	**(119)**	(121)	1.7
Underlying share of post-tax profit from JVs[3]	**12**	8	50.0
Underlying profit before tax	**581**	587	(1.0)
Items excluded from underlying results	**(78)**	(39)	100.0
Profit before tax	**503**	548	(8.2)
Income tax expense	**(126)**	(77)	(63.6)
Profit for the financial period	**377**	471	(20.0)
Underlying basic earnings per share	**21.8p**	24.2p	(9.9)
Basic earnings per share	**17.5p**	23.9p	(26.8)
Dividend per share	**10.2p**	12.1p	(15.7)

1 Group sales include Argos (including financial services) sales of £3,175 million including VAT and £2,661 million excluding VAT, and an underlying profit contribution of £77 million.
2 Net finance costs including perpetual securities coupons before non-underlying finance movements.
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.

Group sales

Group sales (including VAT) increased by 12.7 per cent. Retail sales (including VAT, excluding fuel) increased by 14.1 per cent, driven by a 14.5 per cent contribution from Argos, a 0.2 per cent contribution from new Sainsbury's space (excluding extensions and replacements and net of Pharmacy), and a Sainsbury's like-for-like ('LFL') sales decline of 0.6 per cent.

Group sales growth contribution (including VAT)	52 weeks to 11 March 2017 %	52 weeks to 12 March 2016 %
Sainsbury's like-for-like sales	**(0.6)**	(0.9)
Sainsbury's net new space (excluding extensions and replacements)	**0.8**	1.3
Pharmacy	**(0.6)**	-
Contribution from Argos	**14.5**	-
Retail (including VAT, excluding fuel)	**14.1**	0.4
Fuel impact	**(1.5)**	(1.6)
Retail sales (including VAT, including fuel)	**12.6**	(1.2)
Bank impact	**0.1**	0.1
Group sales (including VAT)	**12.7**	(1.1)

Sainsbury's LFL sales, excluding fuel, declined by 1.0 per cent in the first half, and by 0.1 per cent in the second half, driven by continued food price deflation which slowed in the second half.

On a 52-week rolling basis Sainsbury's market share (as measured by Kantar) declined 23 basis points, due to continued price investment and the continuing pace of new store expansion from the discounters. Discounters' combined market share increased by 99 basis points, with the 'big four' declining on average by 35 basis points. However, there was like-for-like transaction number growth across all channels – supermarkets, convenience and groceries online.

Fuel sales grew 4.2 per cent, however as Argos sales contribution of 14.5 per cent is now included within sales growth (excluding fuel), this rate of growth was, in effect, dilutive to sales growth (including fuel).

Our multi-channel strategy enables customers to shop whenever, wherever and however they want. The convenience business grew sales by over six per cent. Groceries online grew by eight per cent year-on-year, with order growth of nearly 12 per cent being partially offset by a reduction in basket size due to deflation and a lower number of items per basket. Sainsbury's clothing and general merchandise offer continued to grow sales ahead of the market, supported by continued range development and the roll-out of new space.

Argos sales have contributed 14.5 per cent growth since acquisition and Argos like-for-like sales were up 4.1 per cent in the second half.

Contribution from Sainsbury's net new space (excluding extensions, replacements and the disposal of the Pharmacy business which completed on 31 August 2016) expected to be around 0.6 per cent for the full year with a first half contribution of 0.6 per cent and a second half contribution of 0.6 per cent.

After the impact of the disposal of the Pharmacy business, net new space contribution is expected to reduce to 0.1 per cent for the full year with a negative contribution of 0.3 per cent in the first half and a positive contribution of 0.6 per cent in the second half.

Space

The contribution from Sainsbury's net new space (excluding extensions, replacements and the disposal of the Pharmacy business) was 0.8 per cent in 2016/17 (2015/16: 1.3 per cent). The impact of the disposal of the Pharmacy business reduces this to 0.2 per cent in 2016/17.

In 2016/17, Sainsbury's opened six new supermarkets, (2015/16: six new supermarkets) and closed two supermarkets. Convenience continues to grow, with 41 new stores opened in 2016/17 (2015/16: 69 stores). Eight convenience stores were closed in the year.

Net of replacements, closures and disposals, closing Sainsbury's space of 23,397,000 sq ft was 0.8 per cent higher than last year (12 March 2016: 23,202,000 sq ft).

In 2017/18, Sainsbury's expects to open three new supermarkets and around 25 new convenience stores.

Sainsbury's store numbers and retailing space

52 weeks to 11 March 2017	**Supermarkets**		**Convenience**		**Total**	
	Number	Area 000 sq ft	Number	Area 000 sq ft	**Number**	**Area 000 sq ft**
At 12 March 2016	601	21,402	773	1,800	**1,374**	**23,202**
New stores	6	163	41	98	**47**	**261**
Disposals/closures	(2)	(56)	(8)	(14)	**(10)**	**(70)**
Extensions/refurbishments/downsizes	-	3	-	1	**-**	**4**
At 11 March 2017	**605**	**21,512**	**806**	**1,885**	**1,411**	**23,397**

In addition, as at 11 March 2017, Argos had 858 stores (including Habitat).

Argos and Habitat Store numbers

	Argos stores[1]	Argos in Sainsbury's	Argos in Homebase	Habitat	Other[2]	**Total**
At 24 September 2016	725	15	95	4	4	**843**
New stores	2	24	-	4	37	**67**
Disposals	(12)	-	(38)	-	(2)	**(52)**
At 11 March 2017	**715**	**39**	**57**	**8**	**39**	**858**

1 Includes two stores located at Netto sites that were previously disclosed as Argos in Sainsbury's.
2 Includes pop-up stores, convenience stores and collection points.

In 2017/18, Sainsbury's expects to open around 135 Argos digital stores in supermarkets, resulting in around 175 Argos digital stores in supermarkets by the end of the year. In addition, we expect to open a further ten Habitat stores within supermarkets in 2017/18.

In the first half of 2017/18, Sainsbury's expects to close 39 Argos stores within Homebase, with 18 to remain open longer.

Retail underlying operating profit

Retail underlying operating profit decreased by 1.4 per cent to £626 million (2015/16: £635 million), reflecting lower LFL sales, investment in the customer offer and cost inflation. This was partly offset by cost savings of £130 million and a contribution from Argos of £77 million. Underlying operating profit includes £7 million of EBITDA synergies (Argos: £5 million; Sainsbury's; £2 million).

Retail underlying operating margin declined by 32 basis points year-on-year to 2.42 per cent (2015/16: 2.74 per cent), equivalent to a 31 basis points decline at constant fuel prices. Retail underlying EBITDAR margin decreased by 18 basis points to 7.40 per cent, or a 15 basis points decline at constant fuel prices.

Retail underlying operating profit

	52 weeks to 11 March 2017	52 weeks to 12 March 2016	Change	Change at constant fuel prices
Retail underlying operating profit (£m)[1]	**626**	635	(1.4)%	
Retail underlying operating margin (%)[2]	**2.42**	2.74	(32)bps	(31)bps
Retail underlying EBITDAR (£m)[3]	**1,912**	1,755	8.9%	
Retail underlying EBITDAR margin (%)[4]	**7.40**	7.58	(18)bps	(15)bps

1 Retail underlying earnings before interest, tax, 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 2017/18, Sainsbury's expects cost inflation in the two to three per cent range. We expect efficiency savings of around £145 million in 2017/18. We remain on track to deliver the strategic target of £500 million of savings over three years by the end of 2017/18 and are developing plans to deliver a further three year £500 million cost saving target from 2018/19 onwards as we simplify the business.

We expect the first half 2017/18 Group underlying profit to be lower than the second half 2017/18 as a result of: the consolidation of first half Argos operating loss; and the annualisation of 2016/17 price investment and the second half 2016/17 step-up in cost inflation due to the effect of the four per cent wage increase for store colleagues effective from 28 August 2016.

We expect depreciation and amortisation of around £700 million, an increase of around £70 million as a result of the consolidation of a full-year of Argos.

Argos acquisition impact on retail underlying profit
On 2 September 2016, Sainsbury's completed the acquisition of HRG. Argos contributed £3,110 million of sales (including VAT) and £77 million of underlying profit before tax to retail performance since the point of acquisition (which includes £5 million of EBITDA synergies).

Previously HRG analysed their business as Argos, Homebase, financial services, central activities and interest income. Homebase has now been sold. The financial services element of HRG is now included within the Group's financial services segment, and guidance on the effect of this is now included within the Sainsbury's Bank guidance. The remaining Argos and central activities segments of HRG will be combined into the Group's Retailing segment.

The consolidation of Argos has added an underlying profit contribution of £72 million in 2016/17 before synergies and Homebase transaction, separation and restructuring impact. The pre-acquisition loss of £27 million is not consolidated. Indicatively, a full-year profit contribution from Argos would have been £45 million.

Sainsbury's announced as part of the transaction to acquire HRG, that the Group expected to achieve £160 million of EBITDA synergies by the end of the first half of 2019/20. Due to the acceleration of some of the activity, we now expect to deliver these in 2018/19. The synergies are derived from three areas:

Synergies from Argos stores in Sainsbury's - £75 million. We will relocate some existing Argos stores into nearby Sainsbury's supermarkets, as well as opening Argos stores in supermarkets where there is no Argos presence nearby. This also gives cross-selling opportunities within Sainsbury's stores to the current food offer and a wider range of general merchandise products in Argos to Sainsbury's customers. At the same time we will benefit from lower operating costs, particularly rent and rates.

Cost synergies from central and support - £70 million. We will remove duplication and overlap from both central and support functions at Sainsbury's and HRG. We will be able to realise product purchasing benefits from best practice and the combined Group's scale.

Other revenue synergies - £15 million. We will sell Sainsbury's clothing, homewares, seasonal and leisure ranges through the existing Argos network.

In order to achieve these synergies, £130 million of exceptional integration cost and £140 million of exceptional integration capital expenditure will be required. Exceptional costs will include the relocation of property, dilapidations, lease break costs and redundancy costs. Exceptional capital expenditure is required to reformat supermarket space and for fitting out the new Argos stores. The updated expected phasing of the synergies, exceptional costs and exceptional capital expenditure is shown below:

£m	**2016/17**	**2017/18e**	**2018/19e**	**Total**
Synergies (incremental year-on-year)	7	58	95	**160**
Exceptional costs	(27)	(60)	(43)	**(130)**
Exceptional capex	(18)	(90)	(32)	**(140)**

In 2017/18, we expect incremental EBITDA synergies of £58 million, resulting in total EBITDA synergies of £65 million since acquisition. EBITDA synergies of £160 million will be realised in 2018/19 (six months early). Argos integration costs are expected to be around £60 million, integration capital expenditure is expected to be around £90 million.

Homebase separation
HRG announced on 18 January 2016 that the sale of Homebase would give rise to £75 million of additional exceptional costs in relation to transaction, separation and restructuring. Up to the date of the acquisition, HRG had incurred £30 million of these costs and incurred a further £4 million in the period to 11 March 2017. It is currently anticipated that the total exceptional costs will now only be £60 million, a reduction of £15 million from the original estimate, with £15 million of the cost to be incurred in 2017/18.

Financial services

Financial Services results[1]

	12 months to 28 February 2017	12 months to 29 February 2016	Change %
Revenue (£m)[2]	**407**	327	24.5
Interest payable (£m)	**(60)**	(53)	(13.2)
Total income (£m)[3]	**347**	274	26.6
Underlying operating profit (£m)	**62**	65	(4.6)
Cost/Income ratio (%)[4]	**72**	71	(100)bps
Active customers – Bank (m)	**1.77**	1.71	3.5
Active customers - AFS (m)	**1.84**	n/a	n/a
Net interest margin (%)[5]	**4.4**	4.1	30bps
Bad debt as a percentage of lending (%)[6]	**0.8**	0.4	(40)bps
Tier 1 capital ratio (%)[7]	**13.3**	15.8	(250)bps
Loan balances (£m)[8]	**4,713**	3,389	39

1 Including AFS except where stated.
2 Revenue growth excluding AFS was 5.8 per cent.
3 Total income excluding AFS was £286 million, an increase of 4.4 per cent.
4 Excluding AFS.
5 Net interest receivable divided by average interest-bearing assets. Excluding AFS, 2016/17 was 3.9 per cent, a decrease of 20 basis points year-on-year.
6 Bad debt expense divided by gross lending. Excluding AFS, 2016/17 was 0.6 per cent, an increase of 20 basis points year-on-year.
7 Tier 1 capital divided by risk-weighted assets.
8 Loan balances excluding AFS was £4,003 million, an increase of 18 per cent year-on-year.

Financial services total income increased to £347 million following the consolidation of AFS on 2 September 2016.

Financial services delivered an underlying operating profit of £62 million, a 4.6 per cent decrease year-on-year. This decrease was mainly a result of the investment required to enter the mortgage market and the impact of reduced interchange fees.

Sainsbury's Bank cost/income ratio has increased by 100 basis points as a result of the strategic costs incurred on products and infrastructure which are expected to drive improved performance in future years.

Sainsbury's Bank active customers increased 3.5 per cent year-on-year to 1.77 million (2015/16: 1.71 million). The acquisition of AFS added a further 1.84 million customers in 2016/17.

Net interest margin increased by 30 basis points year-on-year to 4.4 per cent (2015/16: 4.1 per cent) driven by the acquisition of AFS that operates a higher risk and return operating model (excluding AFS, net interest margin was 3.9 per cent, a 20 basis point decrease year-on-year). Bad debt levels as a percentage of lending increased to 0.8 per cent (2015/16: 0.4 per cent), also as a result of the AFS operating model. The Tier 1 capital ratio decreased by 250 basis points year-on-year to 13.3 per cent (2015/16: 15.8 per cent), the primary drivers were increases to intangible assets and growth in customer lending. This growth in lending has led to an increase in the savings balance of 28 per cent to £4,105 million (2015/16: £3,209 million). Loan balances including AFS increased by 39 per cent to £4,713 million, due to an increase in Sainsbury's Bank loan and credit card balances (13.4 per cent and 32.7 per cent respectively), as well as the addition of AFS store card balances of £710 million.

We have made good progress with our Bank transition programme. We have now delivered our flexible core platform, a new website, a new contact centre and migration of our savings customers took place successfully in September 2016, along with the migration of all our ATM's. We launched our new insurance offer in early 2017 and our new mortgage offer in April 2017, and our loans platform build is complete and now in test – we expect it to be operational by the end of 2017/18. Following the acquisition of HRG, we will now take the opportunity to create a common cards operating platform which we expect to launch by summer 2018. Spend to date totals £352 million, and we expect to spend a further £125 million to complete the transition – but with a significantly increased scope including the integration of AFS, insurance and mortgages. As a result of the growth opportunities Sainsbury's Bank now offers, we are well set to deliver strong profit growth.

At the end of the first half, AFS was transferred to Sainsbury's Bank and refinanced with the following key steps:

- £100 million capital injection from J Sainsbury plc to Sainsbury's Bank
- New customer deposits and a wholesale loan were raised by Sainsbury's Bank
- Sainsbury's Bank lent AFS circa £600 million by way of an intercompany loan
- AFS repaid its current circa £600 million intercompany loan with HRG subsidiaries which have previously funded the business
- HRG subsidiaries paid a dividend to J Sainsbury plc of circa £600 million
- The £448 million draw down on the Revolving Credit Facility used as consideration for the HRG acquisition was repaid in full

AFS holds a loan book with gross receivables of £699 million, offset by a provision of £63 million resulting in a 9.1 per cent provision as a percentage of receivables.

In 2017/18, underlying operating profit growth is expected to be ten per cent.

Capital injections into the Bank are expected to be £160 million to £190 million in 2017/18. This is to cover card and loan platforms, regulatory capital and growth in loans, cards and mortgages.

Sainsbury's Bank transition cost is expected to be around £55 million (2016/17: £60 million) and transition capital costs are expected to be around £30 million (2016/17: £16 million).

Underlying net finance costs

Underlying net finance costs decreased by £2 million year-on-year to £119 million (2015/16: £121 million), due to lower interest costs as a result of lower net debt, offset by the full-year effect of the perpetual securities coupons.

Underlying net finance costs	**52 weeks to 11 March 2017 £m**	52 weeks to 12 March 2016 £m
Underlying finance income	**18**	19
Interest costs	**(121)**	(132)
Perpetual securities coupons	**(23)**	(15)
Capitalised interest	**7**	7
Underlying finance costs	**(137)**	(140)
Underlying net finance costs	**(119)**	(121)

Sainsbury's expects net finance costs in 2017/18 to be similar year-on-year.

Items excluded from underlying results

In order to provide shareholders with additional insight into the underlying performance of the business, items recognised in reported profit or loss before tax which, by virtue of their size and or nature, do not reflect the Group's underlying performance are excluded from the Group's underlying results and shown as items excluded from underlying results.

Items excluded from underlying results	**52 weeks to 11 March 2017 £m**	52 weeks to 12 March 2016 £m
Property related		
Profit on disposal of properties	**98**	101
Investment property fair value movements	**(25)**	(18)
Net impairment and onerous contract charge	**(37)**	(1)
Argos		
Transaction costs relating to the acquisition of Home Retail Group	**(22)**	(12)
Argos integration costs	**(27)**	-
Homebase separation	**(4)**	-
Sainsbury's Bank transition	**(60)**	(59)
Focus		
Business rationalisation	**72**	(3)
IT write-offs	**(57)**	-
Restructuring costs	**(33)**	(15)
Other		
Perpetual securities coupons	**23**	15
Non-underlying finance movements	**10**	(22)
Acquisition adjustments	**8**	3
IAS 19 pension financing charge and scheme expenses	**(24)**	(28)
Items excluded from underlying results	**(78)**	(39)

- Profit on disposal of properties includes the profit on the completion of the Nine Elms store which is a mixed use development opened in August 2016. Investment property fair value movements reflect the difference between the current and previous market values. The net impairment and onerous contract charge relates to lease exit and break costs and movements in the market value of land.
- The Group incurred £22 million of costs relating to the one-off legal and advisory fees in relation to the acquisition of HRG. Argos integration costs for the year of £27 million were part of the previously announced £130 million required over the three years in order to achieve the synergies of £160 million. The Homebase separation and restructuring costs for the year of £4 million were part of the previously announced £75 million upon the sale of Homebase.
- Sainsbury's Bank transition costs of £60 million (2015/16: £59 million) relate to the costs incurred in transitioning to a new, more flexible banking platform.
- Business rationalisation includes £98 million profit on disposal of the Pharmacy business, offset by £26 million costs incurred closing non key businesses to enable the Group to focus on its core strategy. This included the closure of Netto, Sainsbury's Entertainment and Phoneshops. £57 million was incurred on cessation of non core IT projects.
- Internal restructuring costs of £33 million relate to changes to our store colleague structures and working practices.
- The coupons on the perpetual securities are added back as accounting standards determine that for statutory reporting purposes they are treated as dividends. The increase year-on-year reflects a full-year charge compared to a part-year charge in the previous year. Non-underlying finance movements mainly relate to a gain recognised in fixed power purchase agreements due to an increase in the forecast forward energy prices. Acquisition adjustments of £8 million (2015/16: £3 million) reflect the unwind of fair value adjustments arising from the Sainsbury's Bank and Home Retail Group acquisitions. Pension financing charge was £16 million (2015/16: £22 million) and defined benefit scheme expenses were £8 million (2015/16: £6 million).

Taxation

The income tax charge was £126 million (2015/16: £77 million), with an underlying tax rate of 23.2 per cent (2015/16: 20.8 per cent) and an effective tax rate of 25.0 per cent (2015/16: 14.1 per cent). The underlying rate was higher than last year, mainly driven by the comparatively smaller benefit of a one per cent revaluation of underlying deferred tax balances in 2016/17 (2015/16: two per cent). The effective tax rate was higher than last year due to the comparatively smaller benefit of a one per cent revaluation of non-underlying deferred tax balances (2015/16: two per cent), and was also increased by non-tax deductible exceptional costs and the tax impact of transactions in 2016/17, including the recognition of a deferred tax liability on the Nine Elms replacement store.

Underlying tax rate 52 weeks to 11 March 2017	**Profit £m**	**Tax £m**	**Rate %**
Underlying profit before tax, and tax thereon	581	(135)	23.2
Adjustments (and tax thereon) for:			
Items excluded from underlying results and revaluation of deferred tax balances	(78)	9	
Profit before tax, and tax thereon	**503**	**(126)**	**25.0**

In 2017/18, Sainsbury's expects the full year underlying tax rate to be between 23 and 24 per cent.

Earnings per share

Underlying basic earnings per share decreased by 9.9 per cent to 21.8 pence (2015/16: 24.2 pence) reflecting the fall in underlying profits and the effect of additional shares issued during the year, as a result of the HRG acquisition and a higher year-on-year effective tax rate.

The weighted average number of shares in issue was 2,049.0 million (2015/16: 1,920.8 million), an increase of 128.2 million shares or 6.7 per cent primarily driven by the additional shares issued on acquisition of HRG. In total, 261.1 million shares were issued as part of the HRG acquisition. These shares increased the full year weighted average number of shares by 130.3 million. In 2017/18, the full effect of the shares issued on the weighted average number of shares will be 261.1 million.

Basic earnings per share was 17.5 pence (2015/16: 23.9 pence). The basic earnings per share was lower than the underlying basic earnings per share due to the items excluded from underlying results.

Underlying earnings per share 52 weeks to 11 March 2017	**2017 pence per share**	2016 pence per share
Basic earnings per share attributable to ordinary shareholders	**17.5**	23.9
Adjustments (net of tax) for:		
Items excluded from underlying results and revaluation of deferred tax balances	**4.3**	0.3
Underlying basic earnings per share attributable to ordinary shareholders	**21.8**	24.2

Dividends
The Board has recommended a final dividend of 6.6 pence per share (2015/16: 8.1 pence). This will be paid on 7 July 2017 to shareholders on the Register of Members at the close of business on 12 May 2017, subject to approval by shareholders at the AGM. In line with the Group's policy to keep the dividend covered two times by underlying earnings, this will result in a decrease to the full-year dividend of 15.7 per cent to 10.2 pence per share (2015/16: 12.1 pence).

The proposed dividend will be, subject to approval, recommended by the Board on 2 May 2017 and, as such, has not been included as a liability as at 11 March 2017**.**

Sainsbury's plans to maintain a full-year dividend covered two times by our full-year underlying earnings.

Acquisition of Home Retail Group plc
On 2 September 2016, Sainsbury's completed the acquisition of HRG for a total consideration of £1,093 million, primarily through a cash and shares offer, comprising 55 pence per share (£447 million) and 0.321 shares in J Sainsbury plc for each share held of HRG (261 million new shares at a share price of £2.461).

The fair value of assets acquired at that date was £1,035 million. This included net £615 million customer loan book, £322 million of cash (after the capital return to HRG shareholders of £226 million, mainly in relation to the sale of Homebase by HRG) and £98 million of other net assets. The fair value of assets acquired was less than the fair value of the consideration by £58 million, which has been treated as goodwill. Putting aside the cash acquired and the customer loan book (which can be converted to cash), Sainsbury's effectively purchased the business for £156 million (£1,093 million consideration, less £615 million customer loan book and £322 million of net cash).

Financing
The Group's key financing objectives are to diversify funding sources, to minimise refinancing risk and maintain appropriate contingent liquidity. As at 11 March 2017, Sainsbury's has drawn debt facilities of £2,700 million (including the perpetual securities) and undrawn committed credit facilities of £1,150 million. The Group also holds £85 million of uncommitted facilities which were undrawn as at 11 March 2017.

The principal element of Sainsbury's core funding comprises two long-term loans of £670 million due 2018 and £743 million due 2031 both secured on two ring-fenced portfolios of the Group's property assets. The Group has other secured facilities, namely a £200 million 'Green' loan due 2019 and a five year £450 million Convertible Bond was entered into in November 2014. Further the Group has borrowed £138 million via six hire purchase facilities in respect of in-store moveable assets and finance leases. The Group maintains a syndicated committed revolving credit facility of £1,150 million. The facility is split into two tranches, a £500 million Facility (A) maturing in May 2019 and a £650 million Facility (B) maturing in May 2020. As at 11 March 2017, £nil had been drawn from Facility (A) (March 2015/16: £nil) and £nil from Facility (B) (March 2015/16: £nil).

Net debt and retail cash flows

Group net debt includes the capital injections in to Sainsbury's Bank, but excludes Sainsbury's Bank's own net debt balances. Sainsbury's Bank balances are excluded because they are required for business as usual activities. As at 11 March 2017, net debt was £1,477 million (12 March 2016: £1,826 million), a decrease of £349 million since the 2015/16 year-end. If the perpetual securities were treated as debt, net debt would increase from £1,477 million to £1,971 million (12 March 2016: £2,320 million).

Summary cash flow statement[1]	**Retail 52 weeks to 11 March 2017 £m**	Retail 52 weeks to 12 March 2016 £m
Retail operating cash flow before changes in working capital[2]	**1,172**	1,202
Decrease in working capital	**68**	23
Cash generated from retail operations[3]	**1,240**	1,225
Pension contribution	**(112)**	(76)
Net interest paid[4]	**(108)**	(102)
Corporation tax paid	**(87)**	(124)
Net cash generated from retail operating activities[5]	**933**	923
Cash capital expenditure before strategic capital expenditure[6]	**(588)**	(627)
Retail free cash flow	**345**	296
Dividends paid on Ordinary Shares	**(230)**	(234)
Exceptional pension contributions	**(199)**	(125)
Property related including strategic capital expenditure[4]	**28**	155
Proceeds from sale of Pharmacy	**-**	125
Bank capital injections	**(130)**	(137)
HRG acquisition and AFS loan book refinancing[4]	**457**	-
Proceeds from issue of perpetual securities & convertible bonds	**-**	494
Repayment of borrowings including finance leases[4]	**(211)**	(363)
Other[4]	**(10)**	(31)
Net increase in cash and cash equivalents	**50**	180
Decrease in debt	**211**	363
Acquisition movements	**39**	-
Fair value and other non-cash movements	**49**	(26)
Movement in net debt	**349**	517
Opening net debt	**(1,826)**	(2,343)
Closing net debt	**(1,477)**	(1,826)
Closing net debt (including hybrid securities as debt)	**(1,971)**	(2,230)

1 See note 4 for a reconciliation between the Retail and Group cash flows.
2 Excludes working capital, pension contributions and exceptional pension contributions.
3 Excludes pension contributions and exceptional pension contributions.
4 Refer to the Alternative Performance Measures for definition.
5 Excludes exceptional pension contributions.
6 Excludes purchase of Chiswick freehold and Argos integration capital expenditure.

Operating cash flow before changes in working capital declined in the year to £1,172 million due to the fall in Group operating profit. However, due to continued focus on working capital and a reduction in capital expenditure, free cash flow increased in the year to £345 million (2016/17: £296 million).

Cash generated by operations were used to fund dividends and exceptional pension contributions. Dividends of £230 million were paid in year, which are covered 1.5 times by free cash flow. Exceptional pension contributions of £199 million were made in the year which included the £125 million announced in August 2016, to the Sainsbury's defined benefit pension scheme, and £74 million to the HRG defined benefit pension scheme which included £24 million in relation to the sale of Homebase and £50 million which was agreed as part of the acquisition of HRG.

Property related items generated £28 million in the year which is net of £92 million spent on the acquisition of the Chiswick freehold and Argos integration capital expenditure. In the prior year £155 million was generated from property related items and £125 million was received in advance of completion of the sale of Pharmacy which completed in the current year.

The HRG acquisition and AFS loan book reduced net debt by £457 million.

- Cash paid on acquisition of HRG (including £3 million on share issuance) totalled £450 million.
- HRG held £548 million in cash at the point of acquisition of which £226 million was immediately paid as a capital return to the HRG shareholders.
- Following the acquisition the Group was reorganised with the AFS business being transferred to the Financial Services division. This refinancing of the Argos Financial Services loan book generated £585 million.

Sainsbury's expects 2017/18 year-end net debt to remain around £1.5 billion. We expect net debt to reduce over the medium term.

Group capital expenditure

Group capital expenditure was £703 million; made up of £639 million net retail capital expenditure and £64 million Financial Services capital expenditure.

Core retail expenditure of £547 million was up 0.9 per cent (2015/16: £542 million), driven by the addition of Argos core retail capital expenditure of £38 million.

Net retail capital expenditure was £639 million (2015/16: £543 million), which includes the purchase of a freehold at Chiswick, where there may be future potential for a mixed use development, and £18 million Argos integration capital expenditure.

Group capital expenditure

	52 weeks to 11 March 2017 £m	52 weeks to 12 March 2016 £m[1]
Sainsbury's new store development	**120**	222
Sainsbury's extensions and refurbishments	**133**	168
Sainsbury's other – including supply chain and digital & technology	**256**	152
Sainsbury's core retail capital expenditure	**509**	542
Argos core retail capital expenditure	**38**	**-**
Total core retail capital expenditure	**547**	542
Acquisition of freehold and trading properties[2]	**74**	-
Debtor/creditor movements	**-**	1
Argos integration capital expenditure	**18**	-
Net retail capital expenditure	**639**	543
Financial Services capital expenditure	**64**	29
Group net capital expenditure	**703**	572
Capex/sales ratio[3]	**1.9%**	2.1%

1 Comparative figures within core retail capital expenditure have been restated to reflect reclassification of certain types of capital expenditure.
2 2015/16 balance includes income from Harvest, our JV with Land Securities, relating to the repayment of a loan.
3 Core retail capital expenditure divided by retail sales (including fuel, including VAT).

In 2017/18, Sainsbury's expects core retail capital expenditure including business as usual Argos capital expenditure (excluding Sainsbury's Bank and Argos integration capital expenditure) to be around £600 million. Core retail capital expenditure is expected to be around £600 million per annum over the medium term.

Argos integration capital expenditure expected to be around £90 million.

Return on capital employed ('ROCE')
The ROCE on the 14 point average basis over the 52 weeks to 11 March 2017 was 8.8 per cent (2015/16: 8.8 per cent), a year-on-year decrease of four basis points. Excluding the retirement benefit obligation (net of deferred tax) from capital employed, ROCE over the 52 weeks to 11 March 2017 was 8.0 per cent (2015/16: 8.3 per cent), 29 basis points lower than for the 52 weeks to 12 March 2016. ROCE decline was mainly due to the fall in underlying operating profit and the additional capital employed following the HRG acquisition.

Return on capital employed (14 point average)[1]	**52 weeks to 11 March 2017**	52 weeks to 12 March 2016
Total underlying operating profit (£m)	**688**	700
Underlying share of post-tax profit from JVs (£m)	**12**	8
Underlying profit before interest and tax (£m)	**700**	708
Average capital employed (£m)	**7,964**	8,021
Return on capital employed (%)	**8.8**	8.8
Return on capital employed (exc. pension fund deficit) (%)	**8.0**	8.3
52 week ROCE movement	**(4)bps**	
52 week ROCE movement (exc. pension fund deficit)	**(29)bps**	

1 The 14 point period average includes the opening capital employed as at 12 March 2016 and the closing capital employed for each of the 13 individual four week periods to 11 March 2017.

Financial ratios

Key financial ratios (with perpetual securities accounted for as equity)	**As at 11 March 2017**	As at 12 March 2016
Adjusted net debt to EBITDAR[1]	**3.7 times**	4.0 times
Interest cover[2]	**7.3 times**	6.7 times
Fixed charge cover[3]	**2.7 times**	2.8 times
Gearing[4]	**21.5%**	28.7%
Gearing (excluding pension deficit)[5]	**19.1%**	27.0%

Key financial ratios (with perpetual securities treated as debt)[6]		
Adjusted net debt to EBITDAR	**4.0 times**	4.3 times
Interest cover	**5.9 times**	5.9 times
Fixed charge cover	**2.6 times**	2.7 times
Gearing	**30.9%**	39.5%
Gearing (excluding pension deficit)	**27.3%**	37.1%

1 Net debt of £1,477 million plus capitalised lease obligations of £5,938 million, divided by Group underlying EBITDAR of £2,000 million, calculated for a 52 week period to 11 March 2017.
2 Underlying profit before interest and tax divided by underlying net finance costs.
3 Group underlying EBITDAR divided by net rent and underlying net finance costs.
4 Net debt divided by net assets.
5 Net debt divided by net assets, excluding pension deficit.
6 Treating the perpetual securities, net of transaction fees, as debt increases net debt to £1,971 million, and reduces net assets to £6,426 million.

Property value

As at 11 March 2017, Sainsbury's estimated market value of properties, including our 50 per cent share of properties held within property JVs, was £10.3 billion (12 March 2016: £10.6 billion). The £0.3 billion decrease was mainly due to a reduction in market rental values and a small yield movement.

Defined benefit pensions

At 11 March 2017, the net defined benefit obligation for the Group was £974 million (including HRG and the unfunded obligation). The increase in the deficit from the prior year-end is primarily driven by the consolidation of the HRG scheme, as well as a significant actuarial loss due to a fall in the discount rate from 3.65 per cent to 2.70 per cent.

Following agreement of the valuation of both schemes the Group is committed to make annual contributions of £124 million to the scheme (Sainsbury's scheme: £84 million; HRG scheme: £40 million). The next triennial valuations are for the March 2018 year ends for both schemes.

Retirement benefit obligations	**HRG As at 11 March 2017 £m**	**Sainsbury's As at 11 March 2017 £m**	**Group As at 11 March 2017 £m**	Group As at 12 March 2016 £m
Present value of funded obligations	**(1,413)**	**(9,441)**	**(10,854)**	(7,625)
Fair value of plan assets	**1,212**	**8,708**	**9,920**	7,235
Pension deficit	**(201)**	**(733)**	**(934)**	(390)
Present value of unfunded obligations	**(17)**	**(23)**	**(40)**	(18)
Retirement benefit obligations	**(218)**	**(756)**	**(974)**	(408)
Deferred income tax asset	**47**	**77**	**124**	19
Net retirement benefit obligations	**(171)**	**(679)**	**(850)**	(389)

Consolidated income statement
for the 52 weeks to 11 March 2017

	Note	2017 £m	2016 £m
Revenue	4	**26,224**	23,506
Cost of sales		**(24,590)**	(22,050)
Gross profit		**1,634**	1,456
Administrative expenses		**(1,207)**	(850)
Other income		**215**	101
Operating profit		**642**	707
Finance income	5	**34**	19
Finance costs	5	**(136)**	(167)
Share of post-tax loss from joint ventures and associates		**(37)**	(11)
Profit before tax		**503**	548
Analysed as:			
Underlying profit before tax	3	**581**	587
Non-underlying items	3	**(78)**	(39)
		503	548
Income tax expense	6	**(126)**	(77)
Profit for the financial year		**377**	471

Earnings per share	7	**pence**	pence
Basic		**17.5**	23.9
Diluted		**16.5**	22.5
Underlying basic		**21.8**	24.2
Underlying diluted		**20.4**	22.8

Dividends per share	8	**pence**	pence
Interim		**3.6**	4.0
Proposed final (not recognised as a liability at balance sheet date)		**6.6**	8.1

Consolidated statement of comprehensive income

for the 52 weeks to 11 March 2017

	2017 **£m**	2016 £m
Profit for the financial year	**377**	471
Items that will not be reclassified subsequently to the income statement		
Remeasurement on defined benefit pension schemes	**(407)**	121
Current tax relating to items not reclassified	**41**	-
Deferred tax relating to items not reclassified	**28**	(36)
	(338)	85
Items that may be reclassified subsquently to the income statement		
Currency translation differences	**5**	2
Available-for-sale financial assets fair value movements		
Attributable to Group	**10**	(1)
Items reclassifed from available-for-sale assets reserve	**(1)**	-
Cash flow hedges effective portion of fair value movements		
Attributable to Group	**115**	4
Attributable to joint ventures and associates	**-**	1
Items reclassified from cash flow hedge reserve	**(87)**	7
Current tax on items that may be reclassified	**(1)**	-
Deferred tax relating to items that may be reclassified	**5**	3
	46	16
Total other comprehensive (expense)/income for the year (net of tax)	**(292)**	101
Total comprehensive income for the year	**85**	572

Consolidated balance sheet
At 11 March 2017 and 12 March 2016

	Note	**2017 £m**	2016 £m
Non-current assets			
Property, plant and equipment		**10,006**	9,764
Intangible assets		**742**	329
Investments in joint ventures and associates		**237**	327
Available-for-sale financial assets		**435**	340
Other receivables		**69**	103
Amounts due from Financial Services customers		**1,916**	1,649
Derivative financial instruments		**10**	17
		13,415	12,529
Current assets			
Inventories		**1,775**	968
Trade and other receivables		**574**	508
Amounts due from Financial Services customers		**2,686**	1,695
Available-for-sale financial assets		**100**	48
Derivative financial instruments		**94**	51
Cash and cash equivalents	9	**1,083**	1,143
		6,312	4,413
Assets held for sale		**10**	31
		6,322	4,444
Total assets		**19,737**	16,973
Current liabilities			
Trade and other payables		**(3,741)**	(3,077)
Amounts due to Financial Services customers and other deposits		**(4,284)**	(3,173)
Borrowings		**(172)**	(223)
Derivative financial instruments		**(22)**	(43)
Taxes payable		**(219)**	(158)
Provisions		**(135)**	(46)
		(8,573)	(6,720)
Liabilities held for sale		**-**	(4)
		(8,573)	(6,724)
Net current liabilities		**(2,251)**	(2,280)
Non-current liabilities			
Other payables		**(304)**	(269)
Amounts due to Financial Services customers and other deposits		**(637)**	(582)
Borrowings		**(2,039)**	(2,190)
Derivative financial instruments		**(38)**	(69)
Deferred income tax liability		**(172)**	(237)
Provisions		**(128)**	(129)
Retirement benefit obligations	11	**(974)**	(408)
		(4,292)	(3,884)
Net assets		**6,872**	6,365
Equity			
Called up share capital		**625**	550
Share premium account		**1,120**	1,114
Capital redemption reserve		**680**	680
Merger reserve		**568**	-
Other reserves		**193**	155
Retained earnings		**3,190**	3,370
Total equity before perpetual securities		**6,376**	5,869
Perpetual capital securities		**248**	248
Perpetual convertible bonds		**248**	248
Total equity		**6,872**	6,365

Consolidated cash flow statement
for the 52 weeks to 11 March 2017

	Note	2017 £m	2016 £m
Cash flows from operating activities			
Cash generated from operations		**1,323**	624
Interest paid		**(95)**	(108)
Corporation tax paid		**(75)**	(124)
Net cash generated from operating activities		**1,153**	392
Cash flows from investing activities			
Purchase of property, plant and equipment		**(634)**	(646)
Purchase of intangible assets		**(110)**	(34)
Proceeds from disposal of property, plant and equipment		**55**	109
Receipt of advance disposal proceeds		**-**	125
Acquisition of subsidiaries, net of cash acquired		**101**	-
Capital return to Home Retail Group plc shareholders		**(226)**	-
Share issuance costs on acquisition of Home Retail Group plc		**(3)**	-
Investment in joint ventures		**(16)**	(18)
Disposal of subsidiaries		**-**	(1)
Interest received		**18**	19
Dividends and distributions received		**65**	46
Net cash used in investing activities		**(750)**	(400)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**6**	8
Drawdowns of short-term borrowings		**448**	-
Repayment of short-term borrowings		**(492)**	(95)
Repayment of long-term borrowings		**(130)**	(238)
Proceeds from the issue of perpetual capital securities		**-**	247
Proceeds from the issue of perpetual convertible bonds		**-**	247
Purchase of own shares		**-**	(20)
Repayment of capital element of obligations under finance lease payments		**(37)**	(30)
Interest elements of obligations under finance lease payments		**(8)**	(9)
Dividends paid on ordinary shares	8	**(230)**	(234)
Dividends paid on perpetual securities		**(23)**	(4)
Net cash used in financing activities		**(466)**	(128)
Net decrease in cash and cash equivalents		**(63)**	(136)
Opening cash and cash equivalents		**1,140**	1,276
Closing cash and cash equivalents	9	**1,077**	1,140

Consolidated statement of changes in equity

for the 52 weeks to 11 March 2017

	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Merger reserve £m	Retained earnings £m	Total equity before perpetual securities £m	Perpetual capital securities £m	Perpetual convertible bonds £m	Total equity £m
At 13 March 2016	**550**	**1,114**	**835**	**-**	**3,370**	**5,869**	**248**	**248**	**6,365**
Profit for the year	**-**	**-**	**-**	**-**	**359**	**359**	**12**	**6**	**377**
Other comprehensive income/(expense)	**-**	**-**	**46**	**-**	**(338)**	**(292)**	**-**	**-**	**(292)**
Total comprehensive income for the year ended 11 March 2017	**-**	**-**	**46**	**-**	**21**	**67**	**12**	**6**	**85**
Transactions with owners:									
Dividends	**-**	**-**	**-**	**-**	**(232)**	**(232)**	-	-	**(232)**
Acquisition of subsidiaries	**75**	**-**	**-**	**568**	**(3)**	**640**	**-**	**-**	**640**
Adjustment to consideration in respect of share options	**-**	**-**	**-**	**-**	**3**	**3**	**-**	**-**	**3**
Distribution to Holders of Perpetual Securities (net of tax)	**-**	**-**	**-**	**-**	**-**	**-**	**(12)**	**(6)**	**(18)**
Amortisation of convertible bond equity component	**-**	**-**	**(8)**	**-**	**8**	**-**	**-**	**-**	**-**
Share-based payment (net of tax)	**-**	**-**	**-**	**-**	**32**	**32**	**-**	**-**	**32**
Purchase of own shares	**-**	**-**	**-**	**-**	**(9)**	**(9)**	**-**	**-**	**(9)**
Allotted in respect of share option schemes	**-**	**6**	**-**	**-**	**-**	**6**	**-**	**-**	**6**
At 11 March 2017	**625**	**1,120**	**873**	**568**	**3,190**	**6,376**	**248**	**248**	**6,872**
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	-	-	16	-	85	101	-	-	101
Total comprehensive income for the year ended 12 March 2016	-	-	16	-	537	553	13	6	572
Transactions with owners:									
Dividends	-	-	-	-	(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

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 11 March 2017 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 2017 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 2017.

The financial year represents the 52 weeks to 11 March 2017 (prior financial year 52 weeks to 12 March 2016). The consolidated financial statements for the 52 weeks to 11 March 2017 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 13 March 2016 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.

- Annual Improvements to IFRSs 2012–2014 Cycle
- Amendments to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' which clarifies acceptable methods of depreciation and amortisation
- Amendments to IFRS 11, 'Joint arrangements' on the accounting for acquisitions of interests in joint operations
- Amendments to IAS 16 and IAS 41: Bearer Plants
- Amendments to IAS 1, 'Presentation of financial statements' which clarifies existing IAS 1 requirements
- Amendments to IAS 27, 'Consolidated and separate financial statements' which allow an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries
- Amendments to IFRS 10, 'Consolidated financial statements', IFRS 12, 'Disclosure of interests in other entities' and IAS 28, 'Investments in associates and joint ventures' on applying the consolidation exception

3 Non-GAAP performance measures

In order to provide shareholders with additional insight in to the underlying performance of the business, items recognised in reported profit or loss before tax which, by virtue of their size and or nature, do not reflect the Group's underlying performance are excluded from the Group's underlying results.

These adjusted items are as follows:

	2017 £m	2016 £m
Underlying profit before tax	**581**	587
Property related		
Profit on disposal of properties	**98**	101
Investment property fair value movements	**(25)**	(18)
Net impairment and onerous contract charge	**(37)**	(1)
Argos		
Transaction costs relating to the acquisition of Home Retail Group	**(22)**	(12)
Argos integration costs	**(27)**	-
Homebase separation	**(4)**	-
Sainsbury's Bank transition	**(60)**	(59)
Focus		
Business rationalisation	**72**	(3)
IT write-offs	**(57)**	-
Restructuring costs	**(33)**	(15)
Other		
Perpetual securities coupons	**23**	15
Non-underlying finance movements	**10**	(22)
Acquisition adjustments	**8**	3
Defined benefit scheme financing charge and scheme expenses	**(24)**	(28)
Total adjustments	**(78)**	(39)
Profit before tax	**503**	548

Property related

- Profit on disposal of properties for the financial year comprised £101 million for the Group (2016: £100 milion) and £(3) million for the property joint ventures (2016: £1 million), included within other income.
- Net impairment and onerous contract charge comprises £(19) million within property, plant and equipment and onerous lease provisions of £(18) million.

Argos

- Argos integration costs for the year of £(27) million were part of the previously announced £(130) million required over the three years in order to achieve the synergies of £160 million.
- The Homebase separation and restructuring costs for the year of £(4) million were part of the previously announced £(75) million upon the sale of Homebase.

3 Non-GAAP performance measures (continued)

Sainsbury’s Bank transition

- Sainsbury's Bank transition costs of £(60) million (2016: £(59) million) were part of the previously announced costs incurred in transitioning to a new, more flexible banking platform as part of the previously announced New Bank Programme.

Focus

- Business rationalisation includes £98 million profit on disposal of the Pharmacy business (included within other income), offset by £(26) million of costs incurred closing non-core businesses to enable the Group to focus on its strategy. This included the closure of Netto, Sainsbury’s Entertainment and Phoneshops.
- The Group incurred £(57)million in relation to the cessation of non-core IT projects. This includes £(36) million in property, plant and equipment, £(19) million in intangibles and £(2) million other directly attributable costs.

Restructuring costs

- Internal restructuring costs of £(33) million relate to changes in store colleague structures and working practices.

Other

- 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.
- Non-underlying finance movements for the financial year comprised £12 million for the Group (2016: £(20) million) and £(2) million for the joint ventures (2016: £(2) million).
- Acquisition adjustments of £8 million (2016: £3 million) reflect the unwind of fair value adjustments arising from the Sainsbury’s Bank and Home Retail Group acquisitions.
- Comprises pension financing charge of £(16) million (2016: £(22) million) and defined benefit scheme expenses of £(8) million (2016: £(6) million).

Cash flow statement

The table below shows the impact of non-underlying items on the Group cash flow statement:

	2017 £m	2016 £m
Cash flows from operating activities		
Defined benefit pension financing charge and scheme expenses	**(8)**	(6)
Sainsbury’s Bank transition	**(47)**	(53)
Business rationalisation	**(5)**	-
Argos integration costs	**(12)**	-
Homebase separation	**(2)**	-
Restructuring costs	**(19)**	(19)
Transaction costs relating to acquisition of Home Retail Group	**(22)**	(12)
Cash used in operating activities	**(115)**	(90)
Cash flows from investing activities		
Profit on disposal of properties	**55**	109
Business rationalisation (sale of Pharmacy business)	**(4)**	125
Cash generated from investing activities	**51**	234
Net cash flows	**(64)**	144

4 Segment reporting

Background

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

- Retail - Food;
- Retail – General Merchandise & Clothing;
- Financial Services (Sainsbury's Bank plc and Argos Financial Services entities);
- Property Investments (The British Land Company PLC joint venture and Land Securities Group PLC joint venture).

Management has considered the economic characteristics, similarity of products, production processes, customers, sales methods and regulatory environment of its two Retail segments. In doing so it has been concluded that they be aggregated into one "Retail" segment in the financial statements. This aggregated information provides users the financial information needed to evaluate the business and the environment in which it operates.

The Operating Board assesses the performance of all segments on the basis of underlying profit before tax. All material operations and assets are in the UK. The year ended 11 March 2017 includes 27 weeks of Home Retail Group results.

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.

4 Segment reporting (continued)

a. Income statement and balance sheet

52 weeks to 11 March 2017	Retail £m	Financial Services £m	Property investments £m	Group £m
Segment revenue				
Retail sales to external customers	**25,824**	**-**	**-**	**25,824**
Financial Services to external customers	**-**	**407**	**-**	**407**
Underlying revenue	**25,824**	**407**	**-**	**26,231**
Acquisition adjustment fair value unwind[1]	**-**	**(7)**	**-**	**(7)**
Revenue	**25,824**	**400**	**-**	**26,224**
Underlying operating profit	**626**	**62**	**-**	**688**
Underlying finance income	**18**	**-**	**-**	**18**
Underlying finance costs[2]	**(137)**	**-**	**-**	**(137)**
Underlying share of post-tax loss from joint ventures	**-**	**-**	**12**	**12**
Underlying profit before tax	**507**	**62**	**12**	**581**
Non-underlying expense				**(78)**
Profit before tax				**503**
Income tax expense				**(126)**
Profit for the financial period				**377**
Assets	**13,650**	**5,850**	**-**	**19,500**
Investment in Joint Ventures	**4**	**-**	**233**	**237**
Segment assets	**13,654**	**5,850**	**233**	**19,737**
Segment liabilities	**(7,762)**	**(5,103)**	**-**	**(12,865)**
Other segment items				
Capital expenditure[3]	**741**	**58**	**-**	**799**
Depreciation expense[4]	**593**	**7**	**-**	**600**
Amortisation expense[5]	**18**	**10**	**-**	**28**
Net impairment and onerous contract charge	**37**	**-**	**-**	**37**
Share based payments	**30**	**2**	**-**	**32**

1 Represents fair value unwind on loans and advances to customers resulting from the Sainsbury's Bank and Home Retail Group Financial Services acquisitions.

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 £683 million and intangible asset additions of £58 million. Financial services capital expenditure consists of property, plant and equipment additions of £12 million and intangible asset additions of £46 million.

4 Depreciation within the Retail segment includes a £6 million charge in relation to the unwind of fair value adjustments recognised on acquisition of HRG.

5 Amortisation expense within the retail segment includes £32 million income in relation to the unwind of fair value adjustments recognised on acquisition of HRG. Amortisation expense within the Financial Services segment includes £6 million charge in relation to the unwind of fair value adjustments recognised on acquisition of Sainsbury's Bank.

4 Segment reporting (continued)

52 weeks to 12 March 2016	Retail £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	(7)	-	15	8
Underlying profit before tax	507	65	15	587
Non-underlying expense				(39)
Profit before tax				548
Income tax expense				(77)
Profit for the financial period				471
Assets	12,115	4,531	-	16,646
Investment in Joint Ventures	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)

b. Segmented cash flow statement

	APM reference	Retail 2017 £m	Financial Services 2017 £m	Group 2017 £m	Retail 2016 £m	Financial Services 2016 £m	Group 2016 £m
Cash flows from operating activities							
Cash generated from/(used in) operations		**929**	**394**	**1,323**	1,024	(400)	624
Interest paid	A	**(95)**	**-**	**(95)**	(108)	-	(108)
Corporation tax (paid)/received		**(87)**	**12**	**(75)**	(124)	-	(124)
Net cash generated from/(used in) operating activities		**747**	**406**	**1,153**	792	(400)	392
Cash flows from investing activities							
Purchase of property, plant and equipment excluding strategic capital expenditure		**(530)**	**(12)**	**(542)**	(593)	(53)	(646)
Strategic capital expenditure	B	**(92)**		**(92)**	-	-	-
Purchase of property, plant and equipment		**(622)**	**(12)**	**(634)**	(593)	(53)	(646)
Purchase of intangible assets		**(58)**	**(52)**	**(110)**	(34)	-	(34)
Proceeds from disposal of property, plant and equipment	B	**55**	**-**	**55**	109	-	109
Receipt of advance disposal proceeds		**-**	**-**	**-**	125	-	125
Acquisition of subsidiaries	C	**(447)**	**-**	**(447)**	-	-	-
Cash acquired upon acquisition of subsidiaries	C	**548**	**-**	**548**	-	-	-
Capital return to Home Retail Group plc shareholders	C	**(226)**	**-**	**(226)**	-	-	-
Share issuance costs on acquisition of Home Retail Group plc	C	**(3)**	**-**	**(3)**	-	-	-
Investment in joint ventures	E	**(16)**	**-**	**(16)**	(18)	-	(18)
Disposal of subsidiaries	E	**-**	**-**	**-**	(1)	-	(1)
Interest received	A	**18**	**-**	**18**	19	-	19
Dividends and distributions received[1]	B	**65**	**-**	**65**	46	-	46
Net cash used in investing activities		**(686)**	**(64)**	**(750)**	(347)	(53)	(400)
Cash flows from financing activities							
Proceeds from issuance of ordinary shares	E	**6**	**-**	**6**	8	-	8
Drawdown of short-term borrowings	D	**448**	**-**	**448**	-	-	-
Repayment of short-term borrowings	D	**(492)**	**-**	**(492)**	(95)	-	(95)
Repayment of long-term borrowings	D	**(130)**	**-**	**(130)**	(238)	-	(238)
Proceeds from the issue of perpetual capital securities and bonds		**-**	**-**	**-**	494	-	494
Purchase of own shares	E	**-**	**-**	**-**	(20)	-	(20)
Repayment of capital element of obligations under finance lease payments	D	**(37)**	**-**	**(37)**	(30)	-	(30)
Interest elements of obligations under finance lease payments	A	**(8)**	**-**	**(8)**	(9)	-	(9)
Dividends paid on ordinary shares		**(230)**	**-**	**(230)**	(234)	-	(234)
Dividends paid on perpetual securities	A	**(23)**	**-**	**(23)**	(4)	-	(4)
Net cash used in financing activities		**(466)**	**-**	**(466)**	(128)	-	(128)
Intra group funding							
Bank capital injections		**(130)**	**130**	**-**	(137)	137	-
HRG acquisition and AFS loan book refinancing	C	**585**	**(585)**	**-**	-	-	-
Net cash generated from/(used in) intra group funding		**455**	**(455)**	**-**	(137)	137	-
Net increase/(decrease) in cash and cash equivalents		**50**	**(113)**	**(63)**	180	(316)	(136)
Elimination of net decrease in Financial Services cash and cash equivalents				**113**			316
Decrease in debt				**211**			363
Fair value and other non-cash movements				**88**			(26)
Movement in net debt				**349**			517
Opening net debt				**(1,826)**			(2,343)
Closing net debt				**(1,477)**			(1,826)

1 Included within dividends and distributions received of £65 million is £55 million of dividends received from property investment Joint Ventures.

4 Segment reporting (continued)

c. Operating cash flows

Cash flows from operating activities are reconciled as follows:

	2017 Retail £m	2017 Financial Services £m	2017 Group £m	2016 Retail £m	2016 Financial Services £m	2016 Group £m
Profit/(loss) before tax[1]	**516**	**(13)**	**503**	539	9	548
Net finance costs	**102**	**-**	**102**	148	-	148
Share of post-tax loss from joint ventures[1]	**37**	**-**	**37**	11	-	11
Operating profit/(loss)	**655**	**(13)**	**642**	698	9	707
Adjusted for:						
Depreciation/amortisation expense	**611**	**17**	**628**	566	18	584
Non-cash adjustments arising from acquisitions (note 3)	**5**	**7**	**12**	-	(13)	(13)
Financial Services impairment losses on loans and advances	**-**	**33**	**33**	-	15	15
Profit on disposal of properties	**(101)**	**-**	**(101)**	(100)	-	(100)
Loss on disposal of intangibles	**22**	**14**	**36**	-	-	-
Profit on disposal of Pharmacy business	**(98)**	**-**	**(98)**	-	-	-
Impairment charge/(reversal) of property, plant & equipment	**55**	**-**	**55**	(9)	-	(9)
Foreign exchange differences	**(7)**	**-**	**(7)**	24	-	24
Share-based payments expense	**30**	**2**	**32**	23	-	23
Retirement benefit obligations	**(112)**	**-**	**(112)**	(76)	-	(76)
Exceptional pension contributions	**(199)**	**-**	**(199)**	(125)		(125)
Operating cash flows before changes in working capital	**861**	**60**	**921**	1,001	29	1,030
Decrease/(increase) in working capital	**68**	**334**	**402**	23	(429)	(406)
Cash generated from/(used in) operations	**929**	**394**	**1,323**	1,024	(400)	624

1 Includes £(18) million relating to the Property Investments segment.

5 Finance income and finance costs

	2017 £m	2016 £m
Interest on bank deposits and other financial assets	**18**	19
Finance fair value movements[1]	**16**	-
Finance income	**34**	19
Borrowing costs:		
Secured borrowings	**(81)**	(88)
Unsecured borrowings	**(30)**	(30)
Obligations under finance leases	**(8)**	(9)
Provisions - amortisation of discount	**(6)**	(5)
	(125)	(132)
Other finance costs:		
Interest capitalised - qualifying assets	**7**	7
Finance fair value movements[1]	**-**	(20)
IAS 19 pension financing charge	**(16)**	(22)
Interest expense on Pharmacy sale advance proceeds	**(2)**	-
	(11)	(35)
Finance costs	**(136)**	(167)

1 Finance fair value movements relate to net fair value movements on derivative financial instruments not designated in a hedging relationship.

6 Income tax expense

	2017	2016
	£m	£m
Current tax expense	113	88
Deferred tax charge/(credit)	13	(11)
Total income tax expense in income statement	**126**	**77**
Analysed as:		
Underlying tax	**135**	122
Non-underlying tax	**(9)**	(45)
Total income tax expense in income statement	**126**	77

Underlying tax rate	**23.2%**	20.8%
Effective tax rate	**25.0%**	14.1%

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 non-underlying items as defined in 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)

	2017 million	2016 million
Weighted average number of shares in issue	**2,049.0**	1,920.8
Weighted average number of dilutive share options	**18.2**	14.6
Weighted average number of dilutive senior convertible bonds	**137.7**	131.4
Weighted average number of dilutive subordinated perpetual convertible bonds	**75.1**	41.4
Total number of shares for calculating diluted earnings per share	**2,280.0**	2,108.2

	£m	£m
Profit for the financial period (net of tax)	**377**	471
Less profit attributable to:		
Holders of perpetual capital securities	**(12)**	(8)
Holders of perpetual convertible bonds	**(6)**	(4)
Profit for the financial year attributable to ordinary shareholders	**359**	459

	£m	£m
Profit for the financial period attributable to ordinary shareholders	**359**	459
Add interest on senior convertible bonds (net of tax)	**12**	11
Add coupon on subordinated perpetual convertible bonds (net of tax)	**6**	4
Diluted earnings for calculating diluted earnings per share	**377**	474

	£m	£m
Profit for the financial year attributable to ordinary shareholders of the parent	**359**	459
Adjusted for non-underlying items (note 3)	**78**	39
Tax on non-underlying items	**(9)**	(45)
Add back coupons on perpetual securities (net of tax)[1]	**18**	12
Underlying profit after tax attributable to ordinary shareholders of the parent	**446**	465
Add interest on convertible bonds (net of tax)	**12**	11
Add coupon on subordinated perpetual convertible bonds (net of tax)	**6**	4
Diluted underlying profit after tax attributable to ordinary shareholders of the parent	**464**	480

	Pence per share	Pence per share
Basic earnings	**17.5**	23.9
Diluted earnings	**16.5**	22.5
Underlying basic earnings	**21.8**	24.2
Underlying diluted earnings	**20.4**	22.8

1 Underlying earnings per share calculation is based on underlying profit after tax attributable to ordinary shareholders. Therefore the coupons on the perpetual securities are added back.

8 Dividend

	2017 Pence per share	2016 Pence per share	2017 £m	2016 £m
Amounts recognised as distributions to ordinary shareholders in the year:				
Final dividend of prior financial year	**8.1**	8.2	**155**	157
Interim dividend of current financial year	**3.6**	4.0	**77**	77
	11.7	12.2	**232**	234

After the balance sheet date, on 2 May 2017, a final dividend of 6.6 pence per share (2016: 8.1 pence per share) was proposed by the Directors in respect of the 52 weeks to 11 March 2017. This results in a total final proposed dividend of £144 million (2016: £155 million), a decrease of 7.1 per cent on the previous year. Subject to shareholders' approval at the Annual General Meeting, the dividend will be paid on 7 July 2017 to the shareholders on the register at 12 May 2017. The proposed final dividend has not been included as a liability at 11 March 2017.

Of the above dividend of £232 million, £2 million remained unpaid at the year-end.

9 Cash and cash equivalents

Cash and cash equivalents comprise the following:

	2017 £m	2016 £m
Cash in hand and bank balances	**439**	374
Money market funds and deposits	**403**	480
Treasury bills	**-**	20
Deposits at central banks	**241**	269
Cash and bank balances	**1,083**	1,143
Bank overdrafts	**(6)**	(3)
Net cash and cash equivalents	**1,077**	1,140

10 Analysis of net debt

	Retail 2017 £m	Financial Services 2017 £m	Group[1] 2017 £m	Retail 2016 £m	Financial Services 2016 £m	Group[1] 2016 £m
Non-current assets						
Interest bearing available-for-sale financial assets	**39**	**-**	**39**	35	-	35
Available-for-sale investment securities	**-**	**233**	**233**	-	156	156
Derivative financial instruments	**9**	**1**	**10**	13	4	17
	48	**234**	**282**	48	160	208
Current assets						
Cash and cash equivalents	**630**	**453**	**1,083**	577	566	1,143
Available-for-sale investment securities	**-**	**100**	**100**	-	48	48
Derivative financial instruments	**94**	**-**	**94**	51	-	51
	724	**553**	**1,277**	628	614	1,242
Current liabilities						
Bank overdrafts	**(6)**	**-**	**(6)**	(3)	-	(3)
Borrowings	**(143)**	**-**	**(143)**	(182)	-	(182)
Finance leases	**(23)**	**-**	**(23)**	(38)	-	(38)
Derivative financial instruments	**(19)**	**(3)**	**(22)**	(41)	(2)	(43)
	(191)	**(3)**	**(194)**	(264)	(2)	(266)
Non-current liabilities						
Borrowings	**(1,924)**	**-**	**(1,924)**	(2,053)	-	(2,053)
Finance leases	**(115)**	**-**	**(115)**	(137)	-	(137)
Derivative financial instruments	**(19)**	**(19)**	**(38)**	(48)	(21)	(69)
	(2,058)	**(19)**	**(2,077)**	(2,238)	(21)	(2,259)
Total net debt	**(1,477)**	**765**	**(712)**	(1,826)	751	(1,075)

1 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.

11 Retirement benefit obligations

Background

At 11 March 2017, retirement benefit obligations relate to two defined benefit schemes, the Sainsbury's Pension Scheme and from 2 September 2016, the Home Retail Group Pension Scheme (the 'Schemes') as well as two unfunded pension liabilities relating to senior former employees of Sainsbury's and Home Retail Group. The Schemes are both closed to new entrants and future accruals.

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 the date of the previous triennial valuations for known events and changes in market conditions as allowed under IAS 19, 'Employee benefits'.

Sainsbury's Pension Scheme

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. On the basis of the assumptions agreed, the actuarial deficit at 14 March 2015 was £740 million, an increase of £148 million from the March 2012 deficit of £592 million.

11 Retirement benefit obligations (continued)

A Recovery Plan was agreed in September 2016 which included:

- Two special contributions of £125 million paid in August 2015 and August 2016
- Deficit contributions increasing to £65 million a year until March 2021
- The interest in the property partnership to continue, of up to £600 million payable in 2030 if there is a deficit at that time.

The Scheme continues to receive annual coupons from the property partnership which are based on the average weighted discount rate used in the triennial valuation and so are effectively reset every three years. These coupons will reduce from 2017/18 to £19 million a year.

Home Retail Group Pension Scheme

The Home Retail Group defined benefit pension scheme was subject to a Trustees' triennial valuation as at 31 March 2015. This was carried out by Willis Towers Watson for the Trustee. On the basis of the assumptions agreed, the actuarial deficit as at 31 March 2015 was £315 million, an increase of £157 million from the March 2012 deficit of £158 million.

A Recovery Plan was agreed and implemented on acquisition which included:

- An immediate payment on acquisition by Sainsbury's of £50 million
- Deficit contributions of £40 million a year, £10m payable each quarter, until October 2021
- Security over £80 million of freehold property (to be completed in the year ending 10 March 2018)
- A parent guarantee of £470 million which reduces over time in line with deficit contributions paid and will be reset at following triennial valuations

As part of the sale of Homebase by Home Retail Group, it was agreed with the Trustee that a cash contribution of £50 million would be made to the Scheme. Of this total, £26 million was paid during Home Retail Group's year ending 28 February 2016. Following the capital return to shareholders associated with the Homebase sale, the final cash contribution of £24 million was made to the Scheme in September following the acquisition of Home Retail Group by Sainsbury's.

Unfunded pension liabilities

The unfunded pension liabilities are 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.

	Sainsbury's 2017 £m	**Home Retail Group 2017 £m**	**Group 2017 £m**	Group 2016 £m
Present value of funded obligations	**(9,441)**	**(1,413)**	**(10,854)**	(7,625)
Fair value of plan assets	**8,708**	**1,212**	**9,920**	7,235
	(733)	**(201)**	**(934)**	(390)
Present value of unfunded obligations	**(23)**	**(17)**	**(40)**	(18)
Retirement benefit obligations	**(756)**	**(218)**	**(974)**	(408)
Deferred income tax asset	**77**	**47**	**124**	19
Net retirement benefit obligations	**(679)**	**(171)**	**(850)**	(389)

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

11 Retirement benefit obligations (continued)

The movements in the net defined benefit obligation are as follows:

	2017 £m	2016 £m
As at the beginning of the year	**(408)**	(708)
Acquisition of Home Retail Group plc	**(454)**	-
Interest cost	**(16)**	(22)
Remeasurement (losses)/gains	**(407)**	121
Pension scheme expenses	**(8)**	(6)
Contributions by employer	**319**	207
As at the end of the year	**(974)**	(408)

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

	2017 %	2016 %
Discount rate	**2.70**	3.65
Inflation rate - RPI	**3.30**	3.15
Inflation rate - CPI	**2.30**	2.15
Future pension increases	**2.00 - 3.15**	1.90 - 3.00

12 Acquisition of Home Retail Group plc

On 2 September 2016, the Group acquired 100 per cent of the issued share capital of Home Retail Group plc ("HRG"), a listed company based in the United Kingdom, by means of a Scheme of Arrangement under Part 26 of the Act for a consideration of £1,093 million. The full analysis of the consideration is shown below:

Form of consideration	**Consideration fair value at acquisition date £m**
Cash of £447 million (being 55p per existing share); fair value is based on Home Retail Group plc's share capital of 813,445,001 shares in existence as at the acquisition date.	**447**
£3 million in relation to the contractual requirement to settle certain existing HRG share scheme awards and options.	**3**
261 million new J Sainsbury plc shares of $28\frac{4}{7}$p nominal value each were issued (being 0.321 new J Sainsbury plc shares per existing Home Retail Group plc share); fair value of the consideration is based on a J Sainsbury plc share price of £2.4610 as of 2 September 2016.	**643**
Total	**1,093**

Home Retail Group's activities mainly comprise general merchandise related retail. The acquisition is expected to accelerate Sainsbury's growth strategy in General Merchandise & Clothing retail as well as its online presence. The combination brings together two of the UK's leading retail businesses with complementary product offers through an integrated, multi-channel proposition.

None of the goodwill recognised of £58 million is expected to be deductible for income tax purposes. This was calculated as the difference between the fair value of consideration paid and the fair value of net assets acquired as set out in the following table.

12 Acquisition of Home Retail Group plc (continued)

The provisional assets and liabilities recognised as a result of the acquisition are as follows:

Fair value of net assets acquired (provisional)	£m
Fixed assets	**262**
Intangible assets	**322**
Inventories	**810**
Trade and other receivables	**146**
Deferred tax assets	**45**
Amounts due from Financial Services customers (the "loan book")	**615**
Other financial assets[1]	**59**
Cash and cash equivalents[2]	**548**
Total assets acquired	**2,807**
Provisions	**(104)**
Trade and other payables[2]	**(1,214)**
Defined benefit obligation	**(454)**
Total liabilities acquired	**(1,772)**
Net identifiable assets acquired at fair value	**1,035**
Goodwill arising on acquisition	**58**
Purchase consideration transferred	**1,093**

1 Other financial assets includes £9 million of J Sainsbury plc shares (converted from Home Retail Group plc own shares at the point of acquisition). On consolidation these become J Sainsbury plc own shares in the consolidated statement of changes in equity.
2 Cash and cash equivalents and trade and other payables acquired are both presented gross of the capital return of £226 million.

In accordance with IFRS 3 'Business Combinations', the acquisition accounting will be finalised within 12 months of the acquisition date of 2 September 2016.

(a) Intangible assets

Intangible assets include a brand of £179 million relating to the Argos brand name. This reflects its fair value at the acquisition date and is estimated to have a useful economic life of ten years.

(b) Trade and other receivables

Trade and other receivables include £40 million of trade receivables, against which a bad debt provision of £(1) million is held. Also included are prepayments and accrued income of £29 million, and other debtors of £78 million.

(c) Amounts due from Financial Services customers (the "loan book")

The loan book fair value of £615 million includes a fair value increase of £20 million and a provision for impairment of £(66) million.

(d) Revenue and profit contribution

From the date of acquisition, Home Retail Group has contributed £2,661 million of revenue excluding VAT, £77 million of underlying profit before tax and a statutory profit before tax of £54 million to the Group. If the acquisition date had been on the first day of the financial year, Group revenues for the period would have been £28,013 million, Group underlying profit before tax would have been £563 million and Group profit before tax would have been £361 million. These amounts have been calculated using the Group's accounting policies. The information is provided for illustrative purposes only and is not indicative of the results of the combined Group that would have occurred had the purchase actually been made at the beginning of the year, or indicative of the future results of the combined Group.

12 Acquisition of Home Retail Group plc (continued)

(e) Acquisition-related costs

Acquisition-related costs (included in administrative expenses and recognised outside of underlying profit) amount to £22 million in the current year (12 March 2016: £12 million) (see note 3). In addition £3 million of costs relating to the issuance of J Sainsbury plc shares have been recognised directly within equity.

(f) Capital return

Prior to the acquisition of Home Retail Group plc, it was announced that Home Retail Group plc shareholders would be entitled to a £226 million capital return comprising the following:

- 25.0 pence per share, reflecting the £200 million return to shareholders in respect of the sale of Homebase by Home Retail Group plc on 29 February 2016; and
- 2.8 pence per share (totalling £26 million) in lieu of a final dividend in respect of Home Retail Group plc's financial year ended 27 February 2016.

This was recorded as a liability in the net assets acquired above within trade and other payables. The full amount was paid on 12 September 2016.

(g) Cash impact of acquisition

	£m
Cash consideration	(447)
Cash acquired	548
Acquisition of subsidiaries, net of cash acquired (per consolidated cash flow statement)	**101**

(h) Hindsight adjustments

The provisional fair values acquired are different from those reported at the half-year due to hindsight adjustments as permitted under IFRS 3 "Business Combinations". The goodwill arising as a result of the acquisition has therefore increased from £18 million, as reported at the half-year, to £58 million.

13 Supplier arrangements

Supplier incentives, rebates and discounts, collectively known as 'supplier arrangements', represent a material deduction to cost of sales and administrative expenses and directly affect the Group's reported margin. The arrangements can be complex, with amounts spanning multiple products over different time periods, and there can be multiple triggers and discounts. The accrued value at the reporting date is included in trade receivables or trade payables, depending on the right of offset. The four key types are as follows:

- Discounts and supplier incentives - these represent the majority of all supplier arrangements and are linked to individual unit sales. The incentive is typically based on an agreed sum per item sold on promotion for a period and therefore is considered part of the purchase price for that product.
- Fixed amounts – these are agreed with suppliers primarily to support in-store activity including promotions, such as utilising specific space. These involve a degree of judgement and estimation in ensuring the appropriate cut-off of arrangements for fixed amounts which span period-end. These require judgement to determine when the terms of the arrangement are satisfied and that amounts are recognised in the correct period.

13 Supplier arrangements (continued)

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

- Marketing and advertising income – income which is directly linked to the cost of producing the Argos catalogue is recognised once agreed with the supplier and when the catalogue is made available to the Group which is the point at which the catalogue costs are recognised.

Of the above categories, fixed amounts, supplier rebates and marketing and advertising income involve a level of judgement and estimation. The amounts recognised in the income statement for these three categories in the financial year are as follows:

	2017	2016
	£m	£m
Fixed amounts (within cost of sales)	**204**	302
Supplier rebates (within cost of sales)	**87**	69
Marketing and advertising income (included within adminstrative expenses)	**52**	-
Total supplier arrangements	**343**	371

Of the above amounts, the following was outstanding and held on the balance sheet at year-end:

	2017	2016
	£m	£m
Within current trade receivables:		
Supplier arrangements due	**29**	6
Within current trade payables:		
Supplier arrangements due	**25**	39
Accrued supplier arrangements	**13**	25

Alternative performance measures

In response to the Guidelines on Alternative Performance Measures ("APMs") issued by the European Securities and Markets Authority ("ESMA"), we have provided additional information on the APMs used by the Group. The Directors use the below APMs as they are critical to understanding the financial performance and financial health of the Group. As they are not defined by International Financial Reporting Standards, they may not be directly comparable with other companies who use similar measures. All APMs relate to the current period's results and comparative periods where provided.

APM	Definition	Reconciliation
Cash flows and net debt		
Cash flow items in Financial Review	To help the reader understand cash flows of the business a summarised cash flow statement is included within the financial review. As part of this a number of line items have been combined. The cash flow in note 4 of the accounts includes a reference to show what has been combined in these line items.	See table below
Free cash flow	Net cash generated from retail operations, adjusted for exceptional pension contributions, after cash capital expenditure but before strategic capital expenditure.	See reconciliation of free cash flow below
Operating cash flow	Cash generated from operations after changes in working capital.	A reconciliation is provided in note 4.
Retail operating cash flow	Retail cash generated from operations after changes in working capital.	A reconciliation of retail operating cash flow is provided in note 4.
Core retail capital expenditure	Capital expenditure excludes Sainsbury's Bank, Argos exceptional capital expenditure, proceeds from sale and leasebacks and strategic capital expenditure.	A calculation of this is provided in the financial review on page 23.
Net debt	Net debt excludes the net debt of Financial Services and is calculated as: current available for sale assets + current net derivatives + net cash and cash equivalents + loans + non-current finance lease obligations + non-current net derivatives.	A reconciliation of net debt is provided in note 10.
Gearing	Net debt divided by net assets.	Net assets as per the Group balance sheet.

Cash flow items in Financial Review:

	Ref	**2017 £m**	2016 £m
Net interest	A	**(108)**	(102)
Property related including strategic capital expenditure	B	**28**	155
HRG acquisition and AFS loan book refinancing	C	**457**	-
Repayment of borrowings	D	**(211)**	(363)
Other	E	**(10)**	(31)

Reconciliation of free cash flow	**2017 £m**	2016 £m
Cash generated from retail operations	**929**	1,024
Add back: exceptional pension contribution	**199**	125
Net interest paid	**(108)**	(102)
Corporation tax	**(87)**	(124)
Retail purchase of property, plant and equipment and intangibles	**(622)**	(593)
Retail purchase of intangible assets	**(58)**	(34)
Add back: Strategic capital expenditure	**92**	-
Free cash flow	**345**	296

Alternative performance measures (continued)

APM	Definition	Reconciliation
Income statement		
Like-for-like sales	Year-on-year growth in sales including VAT, excluding fuel, excluding Financial Services, for stores that have been open for more than one year.	A reconciliation of like-for-like sales is provided in the Financial Review on page 13.
Underlying profit before tax	Profit or loss before tax before any items recognised which, by virtue of their size and or nature, do not reflect the Group's underlying performance.	A reconciliation of underlying profit before tax is provided in note 3.
Retail underlying operating profit	Underlying earnings before interest, tax, Financial Services operating profit and Sainsbury's underlying share of post-tax profit from JVs.	A reconciliation of these measures can be found in note 4.
Underlying basic earnings per share	Earnings per share using underlying profit as described above.	A reconciliation of underlying earnings per share is included in note 7.
EBITDAR and underlying EBITDAR	Earnings before interest, tax, depreciation, amortisation and rent. Underlying EBITDAR uses underlying earnings.	A reconciliation is provided in the Financial Review on page 15.
Other		
Lease adjusted net debt / underlying EBITDAR	Net debt plus capitalised lease obligations (5.5% discount rate) divided by Group underlying EBITDAR	A reconciliation of this is provided in the Financial Review on page 24
Return on capital employed	Return on Capital Employed is calculated as Return divided by average Capital Employed. Return is defined as Underlying Profit before interest and tax. Capital Employed is defined as Net Assets excluding Net Debt. The average is calculated on a 14 point basis.	A calculation of this is provided in the Financial Review on page 24.