8 November 2018

J Sainsbury plc

Interim Results for the 28 weeks to 22 September 2018

Operational Highlights

- Underlying profit growth of £51 million driven by Argos synergies, delivered ahead of schedule
- Food and general merchandise sales benefited from the hot summer; grocery sales grew 1.2 per cent and general merchandise sales grew 1.5 per cent, with total food transactions up 0.6 per cent, outperforming the market[1]
- Continued pressure on general merchandise margins
- Clothing sales declined 1 per cent due to changes in promotional phasing
- Groceries Online grew nearly 7 per cent and Convenience grew over 4 per cent
- We have transformed the way we run Sainsbury's stores, fundamentally changing how our 135,000 managers and colleagues work. The new, leaner management structure creates significant savings which we have reinvested into colleague pay. We now have one fair, consistent and more flexible contract for all Sainsbury's store colleagues and pay them a market leading rate of £9.20 per hour
- We are maximising the productivity of our supermarket space. Adding Argos stores in Sainsbury's and repurposing our food space in a number of our stores is driving an increase in trading intensity[2]
- We opened 60 Argos stores in Sainsbury's supermarkets in the half, bringing the total to 251 and they continue to trade well. We also have 233 order collection points in supermarkets and convenience stores
- During the half we delivered Argos EBITDA synergies of £63 million (£58 million EBIT), bringing the cumulative total to £150 million EBITDA
- Since the half year we have realised the £160 million Argos EBITDA synergy target, nine months ahead of the original schedule

Financial Highlights

- Group sales of £16,884 million, up 3.5 per cent
- Retail sales (excluding fuel) up 1.2 per cent
- Like-for-like sales (excluding fuel) up 0.6 per cent
- Underlying profit before tax growth of 20 per cent, from £251million to £302 million
- Profit after tax of £144 million, down 13 per cent from £166 million, reflecting further non-underlying charges relating to restructuring our store management teams, Argos integration, Sainsbury's Bank transition and the proposed combination with Asda
- Bank profits down 53 per cent to £16 million, in line with full year guidance
- Cost savings of £121 million
- Underlying earnings per share up 18 per cent to 10.3 pence
- Retail free cash flow of £619 million, up £183 million year-on-year due to strong cash generation and timing of bank capital injections
- Net debt was down £530 million to £834 million, in part reflecting phasing benefits which will reverse in the second half. We continue to expect year end net debt before fair value movements on derivatives to reduce by around £100 million from the March 2018 position of £1,364 million
- Interim dividend of 3.1 pence per share, in line with our policy of paying 30 per cent of prior full year dividend

	28 weeks to 22 September 2018	28 weeks to 23 September 2017	Variance
Business Performance			
Underlying group sales (inc. VAT)[3]	£16,884m	£16,310m	3.5%
Like-for-like sales (inc. VAT, exc. fuel)			0.6%
Underlying profit before tax[3]	£302m	£251m	20.3%
Underlying basic earnings per share[3]	10.3p	8.7p	18.4%
Net debt	£(834)m	£(1,387)m	£553m
Return on capital employed[3]	8.9%	8.3%	
Interim dividend	3.1p	3.1p	

	28 weeks to 22 September 2018	28 weeks to 23 September 2017
Statutory Reporting		
Group sales (exc. VAT, inc. fuel)	£15,127m	£14,644m
Items excluded from underlying results	£(170)m	£(31)m
Profit before tax	£132m	£220m
Profit for the financial period	£144m	£166m
Basic earnings per share	6.1p	7.1p

Commenting on the Interim Results 2018, Mike Coupe, Sainsbury's Group Chief Executive, said:

"The market remains very competitive and we are transforming our business to meet rapidly changing customer needs. We have fundamentally changed how our 135,000 Sainsbury's store managers and colleagues work and I would like to thank them for their ongoing hard work through this period.

"We have delivered a solid first half performance and profit has increased because we have delivered significant Argos synergies ahead of schedule. Sales of food and general merchandise were boosted by the hot summer, but general merchandise margins remain under pressure.

"Our strategy of offering customers a distinctive range of high quality and great value food has driven like-for-like sales growth at Sainsbury's. Where we have invested to lower prices, volumes and transactions have increased.

"Our proposed combination with Asda will create a dynamic new player in UK retail, with the ability to further lower prices and to reduce the cost of living for millions of UK households. The Competition and Markets Authority is conducting its in-depth Phase Two review into the proposed combination and we continue to engage constructively with the CMA and Panel."

Outlook

The consumer outlook is uncertain as we head into our key trading period. The grocery, general merchandise and clothing markets continue to be highly competitive and very promotional. However, we remain on track to deliver current market consensus for 2018/19 UPBT of £634 million.[4]

Dividend

Interim dividend of 3.1 pence per share, in line with our policy of paying 30 per cent of prior full year dividend. This will be paid on 21 December 2018 to shareholders on the Register of Members at the close of business on 16 November 2018.

Like-for-like sales performance *inc. Argos in Base*	**2017/18**				**2018/19**		
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**H1**
Like-for-like sales (exc. fuel)	2.3%	0.6%	1.1%	0.9%	0.2%	1.0%	0.6%
Like-for-like sales (inc. fuel)	1.6%	0.9%	1.2%	1.8%	2.6%	3.4%	3.0%

Total sales performance *inc. Argos in Base*	**2017/18**				**2018/19**		
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**H1**
Grocery (exc. Pharmacy)	3.0%	1.4%	2.3%	2.1%	0.5%	2.0%	1.2%
General Merchandise	1.0%	(1.6)%	(1.4)%	(1.2)%	1.7%	1.2%	1.5%
Clothing	7.2%	6.3%	1.0%	0.4%	0.8%	(3.4)%	(1.0)%
Group (exc. fuel and exc. impact of sale of Pharmacy business)	2.7%	0.9%	1.2%	1.3%	0.8%	1.7%	1.2%

Total sales performance *exc. Argos in Base*	**2017/18**				**2018/19**		
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**H1**
Group (exc. fuel and exc. impact of sale of Pharmacy business)	24.4%	17.0%	1.2%	1.3%	0.8%	1.7%	1.2%
Group (exc. fuel)	22.9%	16.0%	1.2%	1.3%	0.8%	1.7%	1.2%
Group (inc. fuel and exc. impact of sale of Pharmacy business)	20.1%	14.8%	1.4%	2.3%	3.2%	3.9%	3.5%
Group (inc. fuel)	18.9%	14.0%	1.4%	2.3%	3.2%	3.9%	3.5%

Notes
A. All sales figures contained in this trading statement are stated including VAT and from 2018/19 onwards in accordance with IFRS 15
B. The sale of our Pharmacy business to LloydsPharmacy completed on 31 August 2016. The impact of this disposal is excluded from like-for-like sales for a period of one year from this date

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.

A results presentation for analysts and investors will be held at 09:30 on 8 November 2018.

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.about.sainsburys.co.uk and follow the on-screen instructions. To participate in the live event, please go to the website from 09:00 on the day of the announcement, where there will be further instructions. An archive of the webcast will be available later in the day.

To listen to the results presentation: To listen to the live results presentation by telephone, please dial 0800 783 0906 (or +44 (0)1296 480 100) if you are unable to use the primary number). The pass code for the event is 939 802. A transcript of the presentation and an archive recording of this event will be available later in the day at www.about.sainsburys.co.uk

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Strategic Highlights

To deliver on the strategy we outlined in November 2014, we prioritised four key areas of our business where we can differentiate ourselves, grow and create value. We have made significant progress with each of these in the first half:

Further enhance our distinctive food proposition

Food quality, innovation and value

- Food is the core of our business and we work closely with suppliers to create our distinctive food ranges and offer customers great value
- Our premium *Taste the Difference* food range performed well, with sales growing nearly three per cent and volumes growing nearly four per cent
- We have developed new ranges of plant-based meat alternatives to cater for 'flexitarian' diets. Meat-free products such as 'Shroom Dogs' and BBQ pulled jackfruit have performed particularly well
- We have a dedicated Future Brands team working closely with small suppliers to bring distinctive and innovative products to our customers. For example, this half we introduced a new vegan brand, Naturli, in 400 stores, which is exclusive to Sainsbury's in the UK
- We are investing in our owned brands. Hyde and Wilde, our own craft beer range, has rapidly become our second biggest craft beer brand. We have expanded our *Little Ones* baby range which now accounts for 26 per cent of baby food volume
- We have laid the foundations for a major makeover of our beauty offer by launching a spacious, department store-style beauty section in ten of our supermarkets, enabling our customers to buy market-leading and exclusive brands conveniently under one roof
- We acquired Nectar, the UK's largest loyalty programme with over 19 million collectors, in line with our strategy of knowing our customers better than anyone else. Since the acquisition, we have signed three new partners to the scheme

Grocery channels

- We are maximising the productivity of our supermarket space. Adding Argos stores in Sainsbury's and repurposing our food space in a number of our stores is driving an increase in trading intensity[2]
- Carefully selected concession partners offer customers convenience and choice across a range of products and services. For example, we have 18 branches of Specsavers and we plan to double this number by the end of the financial year. We also have three branches of Clarks footwear
- During the hot weather our convenience stores had their best-ever week for volumes and transactions. Sales in the half were up over four per cent
- We are attracting new customers to Groceries Online and sales grew nearly seven per cent. We have introduced same day grocery delivery into 172 stores, covering nearly 60 per cent of UK postcodes, with more stores to follow. Orders received by midday can be collected at a store from 4pm or be delivered from 6pm
- We have introduced new technology to make shopping quicker and more convenient. SmartShop self-scan shopping is available in 68 supermarkets and we were the first grocery retailer in Europe to enable customers to pay in store using just their smartphone, through SmartShop Mobile Pay
- We opened three convenience stores in the first half

Customer service

- We are transforming the way we run Sainsbury's stores, fundamentally changing how our 135,000 managers and colleagues work. Our new, leaner management structure creates significant savings which we have reinvested into colleague pay. We now have one fair, consistent and more flexible contract for all Sainsbury's store colleagues and pay them a market leading rate of £9.20 per hour
- We won the Grocer Gold Service and Availability Awards for the sixth consecutive year, in recognition of the excellent job our colleagues do for our customers every day

Grow General Merchandise and Clothing and deliver synergies

- General Merchandise sales, including Argos, grew 1.5 per cent and outperformed the market[5] but margins remain under pressure. The hot summer boosted sales, particularly in categories such as garden furniture, outdoor games and barbeques. However, margins were impacted by strong sales of lower margin consumer technology products
- During the half, we delivered Argos EBITDA synergies of £63 million (£58 million EBIT), bringing the cumulative total to £150 million EBITDA
- Since the half year we have realised the £160 million Argos EBITDA synergy target, nine months ahead of the original schedule
- We opened 60 Argos stores in Sainsbury's supermarkets, bringing the total to 251. Sales in stores which have been trading for more than three years are around 45 per cent higher than they were in their first year and sales in those that have been trading for more than two years are around 35 per cent higher. We are on track to achieve our guidance of 280 stores by the end of the financial year
- We have a total of 233 collection points in our stores. Customers can conveniently collect their Argos, *Tu*, eBay and DPD orders from supermarkets and their Argos and *Tu* orders from 108 convenience stores
- Argos is a technology-led retailer and we introduced Voice Shopping to Argos customers through Google Assistant and launched augmented reality technology across TV and toy categories
- Sales through our market-leading *Fast Track* delivery service grew by 18 per cent and sales through *Fast Track* Click & Collect grew by 21 per cent. Argos is the only retailer that can offer same-day delivery across over 90 per cent of UK postcodes and immediate in-store collection
- We launched Pay@Browse in a number of Argos stores, which allows customers to pay for Argos purchases in store without queuing at a checkout
- We have made good progress in aligning general merchandise ranges and commercial teams across Sainsbury's and Argos
- Clothing sales declined one per cent as we changed promotional phasing. Promotions are now more closely aligned with key seasonal events, offering customers great value when they want it most. Online sales grew 52 per cent following the launch of *Tu* at Argos. We also launched *Tu Petite* online and it will be available in stores in the coming months
- We opened a new stand-alone Habitat store in London's Westfield Shopping Centre, bringing the total number of Habitat stores – including stores inside Sainsbury's supermarkets – to 16

Diversify and grow Sainsbury's Bank

- Profits were down 53 per cent to £16 million, in line with full year guidance. This was driven by reduced interest margin, increased impairments resulting from IFRS 9 and Tier 2 interest costs
- Net interest margin reduced 110bps year on year, driven by margin pressure in unsecured lending, mix driven by the launch of mortgages and higher Tier 2 interest payable
- We successfully moved credit card accounts over to our new banking platform, completing the final major phase in our transition to a standalone bank
- Customer numbers grew five per cent at Sainsbury's Bank and eight per cent at Argos Financial Services but total income was broadly flat. Higher interest income from mortgages, credit cards and Argos Financial Services was partially offset by a reduction in interest on personal loans, reflecting a competitive market and our more cautious approach to unsecured lending
- Commission income increased, with good growth from Travel Money partially offset by lower ATM income as ATM transactions continue to decline. We have doubled car and home insurance sales and 90 per cent of customers use a Nectar card. Savings balances are up 12 per cent to £5.6 billion
- Strong growth in mortgages, with lending nearly doubling in the period and now approaching £1 billion
- Good growth in balances of Argos Storecards; 19 per cent of Argos sales are now made on the Argos storecard
- Sainsbury's Bank was named Moneyfacts Best Card Provider (Introductory Rate) and, for the sixth consecutive year, we were awarded Best Online Personal Loan Provider by YourMoney.com

Continue cost savings and maintain balance sheet strength

Cost savings

- We have delivered £121 million of cost savings in the first half of 2018/19 and are on track to realise our targets of £200 million by the end of the financial year and at least £500 million over the next three years
- Our focus on efficiency and cost reductions will allow us to continue to improve our customer offer while delivering returns for shareholders

Balance sheet strength

- We have a disciplined approach to capital expenditure. Retail free cash flow was £619 million, up £183 million year on year due to strong cash generation and the timing of bank capital injections
- We continue to strengthen our balance sheet. Net debt was down £530 million to £834 million, in part reflecting phasing benefits which will reverse in the second half. We continue to expect year end net debt before fair value movements on derivatives to reduce by around £100 million from the March 2018 position of £1,364 million
- Core retail capital expenditure of £216 million (prior year at £239 million)
- The combined Sainsbury's and HRG pension scheme surplus, net of tax, was £168 million, an improvement of £429 million versus a March 2018 deficit of £261 million. This is largely due to an increase in the discount rate (from 2.80 per cent to 3.10 per cent)
- The Board has approved an interim dividend of 3.1 pence per share, in line with our policy of paying 30 per cent of the previous full year dividend

Notes

1. Nielsen Panel, Total FMCG, P7 18/19 rolling 12 weeks – Market Universe: Total Outlets
2. Trading intensity is defined as sales per square foot
3. Defined in Alternative Performance Measures on page 54
4. Analyst consensus is available on our corporate website www.about.sainsburys.co.uk
5. Argos v BRC non-food non-clothing market, 28 weeks to 22 September 2018

Financial Review of the half year results for the 28 weeks to 22 September 2018

Summary income statement	28 weeks to 22 September 2018 £m	28 weeks to 23 September 2017 £m	Change %	52 weeks to 10 March 2018 £m
Underlying Group sales (including VAT)	**16,884**	16,310	3.5	31,735
Underlying Retail sales (including VAT)	**16,612**	16,055	3.5	31,220
Underlying Group sales (excluding VAT)	**15,128**	14,646	3.3	28,453
Underlying Retail sales (excluding VAT)	**14,856**	14,391	3.2	27,938
Underlying operating profit				
Retail	**335**	272	23.2	625
Financial Services	**16**	34	(52.9)	69
Total underlying operating profit	**351**	306	14.7	694
Underlying net finance costs[1]	**(53)**	(62)	14.5	(119)
Underlying share of post-tax profit from JVs[2]	**4**	7	(42.9)	14
Underlying profit before tax	**302**	251	20.3	589
Items excluded from underlying results[3]	**(170)**	(31)	(448.4)	(180)
Profit before tax	**132**	220	(40.0)	409
Income tax credit/(expense)	**12**	(54)	122.2	(100)
Profit for the financial period	**144**	166	(13.3)	309
Underlying basic earnings per share	**10.3p**	8.7p	18.4	20.4p
Basic earnings per share	**6.1p**	7.1p	(14.1)	13.3p
Dividend per share	**3.1p**	3.1p	-	10.2p

1. Net finance costs including perpetual securities coupons before non-underlying finance movements.
2. The underlying share of post-tax profit from joint ventures and associates ('JVs') is stated before investment property fair value movements, non-underlying finance movements and profit on disposal of properties.
3. Refer to note 3 for details.

Group sales

Underlying Group sales (including VAT, including fuel) increased by 3.5 per cent year-on-year. Underlying retail sales (including VAT, including fuel) increased by 3.5 per cent. Retail sales (including VAT, excluding fuel) increased by 1.2 per cent due to both positive like-for-like performance and new space. Fuel sales grew 17.7 per cent, driven by both retail price inflation and volume growth.

Total sales performance by category	28 weeks to 22 September 2018 %
Grocery	1.2
General Merchandise	1.5
Clothing	(1.0)
Retail (exc. fuel)	**1.2**
Fuel sales	17.7
Retail (inc. fuel)	**3.5**

Grocery and General Merchandise sales benefitted from the hot summer, with Grocery sales growing by 1.2 per cent. General Merchandise sales grew by 1.5 per cent and outperformed the market. Clothing sales declined by 1.0 per cent due to changes in promotional phasing.

Convenience sales growth was over four per cent primarily driven by like-for-like growth. Groceries Online sales growth was nearly seven per cent driven by order growth. Supermarket sales declined by 0.5 per cent, driven by the continuing channel shift towards Online and Convenience.

Total sales performance by Channel	**28 weeks to 22 September 2018 %**	**28 weeks to 23 September 2017 %**
Supermarkets	(0.5)	0.7
Convenience	4.3	8.2
Groceries Online	6.9	7.2

Retail like-for-like sales, excluding fuel, increased by 0.6 per cent in the first half (2017/18: 1.6%) mainly as a result of continued retail price inflation and like-for-like transaction growth.

Retail like-for-like sales performance	**28 weeks to 22 September 2018 %**	**28 weeks to 23 September 2017 %**
Like-for-like sales (exc. fuel)	0.6	1.6
Like-for-like sales (inc. fuel)	3.0	1.3

Space

In the first half of 2018/19, Sainsbury's opened no new supermarkets and closed two supermarkets (2017/18: two new supermarkets opened and none closed). Three new Convenience stores were opened in the first half and one was closed (2017/18: 18 stores opened and four stores closed).

The 160,000 sq. ft. reduction in Sainsbury's supermarket space is mainly driven by 127,000 sq. ft. now belonging to Argos stores in Sainsbury's. During the period Argos opened 60 new stores in Sainsbury's and closed 36 stand-alone Argos stores. The number of Argos collection points in Sainsbury's stores increased to 233, with 69 openings partially offset by 28 closures due to their replacement by full Argos stores. As at 22 September 2018, Argos had 867 stores and 233 collection points. Habitat had 16 stores.

Store numbers and retailing space	As at 10 March 2018	New stores	Disposals / closures	Extensions / refurbishments / downsizes	**As at 22 September 2018**
Supermarkets	608	-	(2)	-	**606**
Supermarkets area '000 sq. ft.	21,296	-	(25)	(160)	**21,111**
Convenience	815	3	(1)	-	**817**
Convenience area '000 sq. ft.	1,913	7	(1)	-	**1,919**
Sainsbury's total store numbers	1,423	3	(3)	-	**1,423**
Argos stores	639	1	(36)	-	**604**
Argos stores in Sainsbury's	191	60	-	-	**251**
Argos in Homebase	14	-	(2)	-	**12**
Argos total store numbers	844	61	(38)	-	**867**
Argos collection points	192	69	(28)	-	**233**
Habitat	16	1	(1)	-	**16**

In 2018/19, Sainsbury's expects to open three new supermarkets and up to 15 new convenience stores.

In 2018/19, Sainsbury's expects to open around 90 Argos stores in supermarkets (of which around 50 are relocations) resulting in around 280 Argos stores in supermarkets.

Retail underlying operating profit
Retail underlying operating profit increased by 23.2 per cent to £335 million (2017/18: £272 million), principally driven by delivery of Argos synergies.

Retail underlying operating margin improved by 36 basis points year-on-year to 2.25 per cent (2017/18: 1.89 per cent), equivalent to a 39 basis point increase at constant fuel prices.

Retail underlying operating profit	**28 weeks to 22 September 2018**	28 weeks to 23 September 2017	Change	Change at constant fuel prices
Retail underlying operating profit (£m)[1]	**335**	272	23.2%	
Retail underlying operating margin (%)[2]	**2.25**	1.89	36bps	39bps
Retail underlying EBITDAR (£m)[3]	**1,108**	1,037	6.8%	
Retail underlying EBITDAR margin (%)[4]	**7.46**	7.21	25bps	34bps

1. Retail underlying earnings before interest, tax and Sainsbury's underlying share of post-tax profit from joint ventures.
2. Retail underlying operating profit divided by underlying retail sales excluding VAT.
3. Retail underlying operating profit before rent of £388 million and underlying depreciation and amortisation of £385 million.
4. Retail underlying EBITDAR divided by underlying retail sales excluding VAT.

In 2018/19, Sainsbury's expects cost inflation of around three per cent. We are on track to deliver at least £500 million of cost savings over the next three years with £200 million of these savings to be achieved in 2018/19 as we continue to realise efficiencies and simplify the business.

In 2018/19, Sainsbury's expects a depreciation and amortisation charge of around £700 million.

Our 2018/19 full-year underlying profit expectation for the combined Group remains in line with current market consensus (2018/19 UPBT consensus estimate of £634 million, as published on 14 September 2018 on www.about.sainsburys.co.uk/investors/analyst-consensus).

Synergies arising from the acquisition of Argos
In the first half of 2018/19, Sainsbury's achieved £150 million of cumulative EBITDA synergies (£140 million EBIT), of which £63 million (£58 million EBIT) were incremental to prior years. As part of the transaction to acquire Home Retail Group ('HRG'), Sainsbury's initially announced that the Group expected to achieve a cumulative £160 million of EBITDA synergies (£142 million EBIT) by the end of the first half of 2019/20. Since the half year, we have realised the £160 million Argos EBITDA synergy target, nine months ahead of the original schedule.

Original acquisition guidance was for exceptional integration costs of around £130 million and exceptional integration capital expenditure of around £140 million through to the completion of the integration program. In the first half of 2018/19, £25 million of exceptional integration costs and £31 million of exceptional integration capital expenditure have been incurred. We now expect exceptional integration costs of around £140 million and exceptional integration capital expenditure of around £130 million through to the completion of the integration program. Exceptional costs include the relocation of property, dilapidations, lease break costs, redundancy costs and other costs associated with integrating the two businesses. Exceptional capital expenditure includes the reformatting of supermarket space and the fitting out of the new Argos stores.

Financial Services

Financial Services results
6 months to 31 August

	2018	2017	Change
Underlying revenue (£m)	**272**	255	7%
Interest payable (£m)	**(46)**	(30)	(53)%
Total income (£m)	**226**	225	0%
Underlying operating profit (£m)	**16**	34	(53)%
Cost:income ratio (%)	**71**	69	(200)bps
Active customers (m) - Bank	**1.95**	1.85	5%
Active customers (m) - AFS	**1.94**	1.80	8%
Net interest margin (%)[1]	**4.0**	5.1	(110)bps
Bad debt as a percentage of lending (%)[2]	**1.6**	1.4	(20)bps
Tier 1 capital ratio (%)[3]	**12.7**	13.9	(120)bps
Total capital ratio (%)[4]	**15.7**	13.9	180bps
Customer lending (£m)[5]	**6,234**	5,141	21%

1. Net interest receivable divided by average interest-bearing assets.
2. Bad debt expense divided by average net lending. Excluding the first-time impact of IFRS 9 implementation in the year, bad debt as a percentage of lending was 1.4% for H1 2018/19.
3. Common equity Tier 1 capital divided by risk-weighted assets.
4. Total capital divided by risk-weighted assets.
5. Amounts due from customers at the Balance Sheet date in respect of loans, mortgages, credit cards and store cards net of provisions.

Financial Services total income remained flat year-on-year at £226 million, as higher interest and commission income was offset by increased interest payable. Financial Services underlying operating profit decreased by 53 per cent year-on-year to £16 million, in line with previous guidance, as a result of additional bad debt charges (due to IFRS 9 adoption), a more cautious approach to unsecured lending and higher costs.

Financial Services cost:income ratio has deteriorated by 200 basis points due to an increase in administrative expenses principally driven by higher operating expenses and amortisation relating to the new banking platforms brought into use as the Bank migrates away from Lloyds Banking Group. The number of Bank active customers increased by five per cent year-on-year to 1.95 million (2017/18: 1.85 million).

Net interest margin decreased by 110 basis points year-on-year to 4.0 per cent (2017/18: 5.1 per cent) driven by margin pressure and mix of business largely due to the launch of mortgages and the issuance of Tier 2 loan notes in November 2017. Bad debt levels as a percentage of lending increased to 1.6 per cent (2017/18: 1.4 per cent) primarily driven by the impact of IFRS 9 on the bad debt charge. However underlying arrears remain low relative to competitors and have remained stable year on year.

The CET 1 capital ratio decreased by 120 basis points year-on-year to 12.7 per cent (2017/18: 13.9 per cent), reflecting lending growth partially offset by the effect of additional funds contributed from the Parent in the second half of the prior financial year. Loan balances increased by 21 per cent to £6,234 million, mainly due to growth across credit cards and mortgages.

As previously announced, we have taken a more cautious approach to unsecured lending this year and margins will reduce in a competitive market. Combined with new accounting standards and interest payments on the external capital we raised in November, we expect Financial Services profits to reduce to around £30 million in 2018/19.

Capital injections into the Bank are expected to be £110 million in 2018/19 and are expected to average £100 million per year from 2019/20 onwards. This is to cover card and loan platforms, regulatory capital and growth in loan, card and mortgage balances.

Sainsbury's Bank transition costs are expected to be around £80 million.

Underlying net finance costs
Underlying net finance costs reduced by 14.5 per cent to £53 million (2017/18: £62 million), driven by the £568m repayment of the secured loan in April 2018.

Sainsbury's expects net finance costs of around £100 million in 2018/19.

Items excluded from underlying results
In order to provide shareholders with 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 in the table below.

Items excluded from underlying results	**28 weeks to 22 September 2018 £m**	28 weeks to 23 September 2017 £m
Sainsbury's Bank transition costs	**(40)**	(20)
Argos integration costs	**(25)**	(29)
Property-related	**(14)**	5
Retail restructuring costs	**(69)**	-
Asda transaction costs	**(17)**	-
Other	**(5)**	13
Items excluded from underlying results	**(170)**	(31)

- Sainsbury's Bank transition costs of £40 million (2017/18: £20 million) were part of the previously announced costs incurred in transitioning to a new, more flexible banking platform.
- Argos integration costs for the period of £25 million were part of the previously announced requirement over three years.
- Property-related items for the period comprise losses on disposal of properties and investment property fair value movements.
- Retail restructuring costs in the period of £69 million relate to previously announced material changes to our store colleague structures and working practices.
- £17 million of transaction costs have been incurred in relation to the proposed combination with Asda.

Taxation
The tax credit was £12 million (2017/18: charge of £54 million), with an underlying tax rate of 25.2 per cent (2017/18: 23.9 per cent) and an effective tax rate of (9.1) per cent (2017/18: 24.5 per cent).

The underlying tax rate for the interim period was higher year-on-year, largely as a result of the impact of underlying prior year adjustments being reflected in the 2018/19 underlying tax rate. The effective tax rate in 2018/19 decreased to (9.1) per cent. The tax credit recognised in the first half of 2018/19 is largely driven by a prior year deferred tax credit of £50 million arising on the recognition of a previously unrecognised UK capital loss.

In 2018/19, 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 increased to 10.3 pence (2017/18: 8.7 pence) driven by the increase in underlying earnings year-on-year, partially offset by a higher underlying tax rate as a result of underlying prior year adjustments. Basic earnings per share decreased to 6.1 pence (2017/18: 7.1 pence), mainly as a result of the £170 million charge for items excluded from underlying results (2017/18: £31 million charge), offset by a lower effective tax rate.

Dividends
The Board has recommended an interim dividend of 3.1 pence per share (2017/18: 3.1 pence) reflecting 30 per cent of the 2017/18 full year dividend per share. This will be paid on 21 December 2018 to shareholders on the Register of Members at the close of business on 16 November 2018.

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

Net debt and retail cash flows

Group net debt includes the impact of capital injections into Sainsbury's Bank, but excludes Financial Services' own net debt balances. Financial Services balances are excluded because they are required for business as usual activities. As at 22 September 2018, net debt was £834 million (23 September 2017: £1,387 million), a decrease of £553 million.

Summary cash flow statement[1]	**Retail 28 weeks to 22 September 2018 £m**	Retail 28 weeks to 23 September 2017[2] £m	Retail 52 weeks to 10 March 2018 £m
Adjusted retail operating cash flow before changes in working capital[3]	**623**	629	1,214
Decrease in working capital	**291**	269	196
Cash generated from retail operations[4]	**914**	898	1,410
Retirement benefit obligations	**(25)**	(26)	(151)
Net interest paid[5]	**(55)**	(61)	(105)
Corporation tax paid	**(15)**	(40)	(72)
Net cash generated from retail operating activities	**819**	771	1,082
Cash capital expenditure before strategic capital expenditure[6]	**(245)**	(277)	(542)
Proceeds from disposal of property, plant and equipment	**34**	44	54
Bank capital injections	**-**	(110)	(190)
Dividends and distributions received from JVs net of capital injections	**11**	8	28
Retail free cash flow	**619**	436	432
Dividends paid on ordinary shares	**(156)**	(144)	(212)
Strategic capital expenditure[5]	**(31)**	(35)	(80)
Acquisition of subsidiaries[5]	**-**	-	135
Repayment of borrowings including finance leases[5]	**(567)**	(81)	(174)
Other[5]	**(1)**	(9)	(2)
Net increase in cash and cash equivalents	**(136)**	167	99
Decrease in debt	**567**	81	174
Acquisition movements	**-**	-	(15)
Other non-cash and net interest movements[7]	**(8)**	(14)	(22)
Movement in net debt before fair value movements on derivatives	**423**	234	236
Fair value movements on derivatives	**107**	(144)	(123)
Movement in net debt	**530**	90	113
Opening net debt	**(1,364)**	(1,477)	(1,477)
Closing net debt	**(834)**	(1,387)	(1,364)
Closing net debt (inc. perpetual securities as debt)	**(1,328)**	(1,881)	(1,858)

1. See note 4 for a reconciliation between the Retail and Group cash flows.
2. HY 2017/18 retail free cash flow was restated to reflect capital injections made to Sainsbury's Bank and dividends and distributions received from JVs, net of capital injections.
3. Excludes working capital and pension contributions.
4. Excludes pension contributions.
5. Refer to the Alternative Performance Measures on page 54 for reconciliation.
6. Excludes Argos integration capital expenditure.
7. Net interest excluding dividends paid on perpetual securities.

Adjusted retail operating cash flow before changes in working capital decreased by £6 million year-on-year to £623 million (2017/18: £629 million) and working capital decreased by £291 million since the year end. Capital expenditure before strategic capital expenditure was £245 million (2017/18: £277 million) driven by a reduction in Sainsbury's core retail capital expenditure.

Retail free cash flow increased by £183 million year-on-year to £619 million (2017/18: £436 million). Free cash flow was used to fund dividends and repay debt. There were no Bank capital injections made in the first half (2017/18: £110 million). Dividends of £156 million were paid in the first half, which are covered 4.0 times by free cash flow (2017/18: 3.0 times). Strategic capital expenditure, relating to Argos integration capital expenditure of £31 million, was £4 million lower year-on-year (2017/18: £35 million).

Net debt before fair value movements on derivatives reduced by £423 million in the first half (2017/18: £234 million reduction). Fair value movements on derivatives of £107 million were primarily driven by an increase in the value of US Dollar foreign exchange derivatives held to mitigate the Group's exposure to fluctuations in US Dollar denominated purchases. The weighted average hedge rate ('WAHR') at 22 September 2018 was above the spot rate, generating an unrealised fair value gain (2017/18: unrealised loss as the WAHR at 23 September 2017 below the spot rate).

As at 22 September 2018, Sainsbury's had drawn debt facilities of £1.96 billion including the perpetual securities (2017/18: £2.63 billion) and undrawn committed credit facilities of £1.45 billion. The Group also held £85 million of uncommitted facilities, which were undrawn as at 22 September 2018. In April 2018, Sainsbury's re-paid debt of £568 million in relation to Commercial Mortgage Backed Securities.

Sainsbury's continues to expect 2018/19 year-end net debt before fair value movements on derivatives to reduce by around £100 million from the 2017/18 year end position of £1,364 million. The increase from the half year net debt position of £834 million is principally driven by the difference in phasing of payables at half year and year end, and the timing of capital injections to the Bank.

Sainsbury's is targeting adjusted net debt to EBITDAR (treating the perpetual securities as debt) to reduce to below three times in the medium term. We expect net debt to continue to reduce over the medium term.

Sainsbury's is targeting fixed charge cover of over three times in the medium term.

Capital expenditure

Core retail capital expenditure was £216 million (2017/18: £239 million). Retail capital expenditure (including Argos integration capital expenditure) was £247 million (2017/18: £274 million).

In 2018/19, Sainsbury's expects core retail capital expenditure including business as usual Argos capital expenditure (excluding Financial Services and Argos integration capital expenditure) to be around £550 million. Core retail capital expenditure is expected to be around £550 million per annum over the medium term.

Argos integration capital expenditure was substantially complete in the first half.

Financial ratios

Key financial ratios	**As at 22 September 2018**	As at 23 September 2017
Return on capital employed (%)[1]	**8.9**	8.3
Return on capital employed (exc. pension surplus/deficit) (%)[1]	**8.5**	7.5
Adjusted net debt to EBITDAR[2]	**3.0 times**	3.4 times
Interest cover[3]	**6.7 times**	5.0 times
Fixed charge cover[4]	**2.6 times**	2.4 times
Gearing[5]	**10.6%**	20.0%
Gearing (exc. pension surplus/deficit) [6]	**10.9%**	18.1%

Key financial ratios (with perpetual securities treated as debt)[7]		
Adjusted net debt to EBITDAR	**3.2 times**	3.6 times
Gearing	**18.1%**	29.2%
Gearing (exc. pension surplus/deficit)	**18.5%**	26.2%

Key financial ratios (with perpetual securities coupons excluded from net underlying finance costs)		
Interest cover[8]	**8.9 times**	6.4 times
Fixed charge cover[9]	**2.7 times**	2.5 times

1. The 14 point period includes the opening capital employed as at 24 September 2017 and the closing capital employed for each of the 13 individual four-week periods to 22 September 2018.
2. Net debt of £834 million plus capitalised lease obligations of £5,916 million, divided by Group underlying EBITDAR of £2,233 million, calculated for a 52-week period to 22 September 2018. Perpetual securities treated as equity.
3. Underlying profit before interest and tax divided by underlying net finance costs, where interest on perpetual securities is included in underlying finance costs.
4. Group underlying EBITDAR divided by net rent and underlying net finance costs, where interest on perpetual securities is included in underlying finance costs.
5. Net debt divided by net assets. Perpetual securities treated as equity.
6. Net debt divided by net assets, excluding pension surplus/deficit. Perpetual securities treated as equity.
7. On a statutory basis, the perpetual securities are accounted for as equity on the Balance Sheet. Treating the perpetual securities, net of transaction fees, as debt increases net debt to £1,328 million, and reduces net assets to £7,342 million.
8. Underlying profit before interest and tax divided by underlying net finance costs, where interest on perpetual securities is excluded from underlying finance costs.
9. Group underlying EBITDAR divided by net rent and underlying net finance costs, where interest on perpetual securities is excluded from underlying finance costs.

Property value

As at 22 September 2018, Sainsbury's estimated market value of properties, including our 50 per cent share of properties held within property joint ventures, was £10.5 billion (10 March 2018: £10.5 billion).

Defined benefit pensions
At 22 September 2018, the net defined benefit surplus for the Group was £168 million (including Argos, the unfunded obligation and adjusting for associated deferred tax). The £429 million movement from deficit to surplus from 10 March 2018 was primarily driven by a rise in the discount rate from 2.80 per cent to 3.10 per cent. The discount rate is calculated on a consistent basis with 2017/18 year-end, and has increased in the half due to movements in corporate bond yields.

The Group is currently committed to make annual contributions of £124 million to the Sainsbury's Pension Scheme. A triennial valuation for the Scheme as at 10 March 2018 is currently in progress. A further valuation will be completed as at 30 September 2018 which will cover the merged Sainsbury's and Argos Scheme.

Retirement benefit obligations	**Sainsbury's as at 22 September 2018 £m**	**Argos as at 22 September 2018 £m**	**Group as at 22 September 2018 £m**	Group as at 23 September 2017 £m	Group as at 10 March 2018 £m
Present value of funded obligations	**(8,166)**	**(1,194)**	**(9,360)**	(10,626)	(10,028)
Fair value of plan assets	**8,595**	**1,201**	**9,796**	9,852	9,884
Additional liability due to minimum funding requirements (IFRIC 14)	**-**	**(136)**	**(136)**	(4)	(78)
Retirement benefit surplus/(deficit)	**429**	**(129)**	**300**	(778)	(222)
Present value of unfunded obligations	**(20)**	**(14)**	**(34)**	(37)	(35)
Retirement benefit surplus/(obligations)	**409**	**(143)**	**266**	(815)	(257)
Deferred income tax (liability)/asset	**(126)**	**28**	**(98)**	92	(4)
Net retirement benefit surplus/(obligations)	**283**	**(115)**	**168**	(723)	(261)

Group income statement (unaudited)
for the 28 weeks to 22 September 2018

	Note	**28 weeks to 22 September 2018 £m**	28 weeks to 23 September 2017 £m	52 weeks to 10 March 2018 £m
Revenue	4a	**15,127**	14,644	28,456
Cost of sales		**(14,100)**	(13,658)	(26,574)
Gross profit		**1,027**	986	1,882
Administrative expenses		**(891)**	(731)	(1,415)
Other income		**16**	28	51
Operating profit		**152**	283	518
Finance income	7	**28**	11	19
Finance costs	7	**(49)**	(75)	(140)
Share of post-tax profit from joint ventures and associates		**1**	1	12
Profit before taxation		**132**	220	409
Analysed as:				
Underlying profit before tax		**302**	251	589
Non-underlying items	3	**(170)**	(31)	(180)
		132	220	409
Income tax credit/(expense)	8	**12**	(54)	(100)
Profit for the financial period		**144**	166	309

Earnings per share	9	**pence**	pence	pence
Basic earnings		**6.1**	7.1	13.3
Diluted earnings		**5.8**	6.8	12.7
Underlying basic earnings		**10.3**	8.7	20.4
Underlying diluted earnings		**9.5**	8.3	19.1

The notes on pages 23 to 50 form an integral part of these Condensed Consolidated Interim Financial Statements.

Group statement of comprehensive income (unaudited)
for the 28 weeks to 22 September 2018

	Note	**28 weeks to 22 September 2018 £m**	28 weeks to 23 September 2017 £m	52 weeks to 10 March 2018 £m
Profit for the financial period		**144**	166	309
Items that will not be reclassified subsequently to the income statement:				
Remeasurement gains on defined benefit pension schemes	13	**501**	147	592
Current tax relating to items not reclassified		**-**	-	19
Deferred tax relating to items not reclassified		**(85)**	(25)	(118)
		416	122	493
Items that may be reclassified subsequently to the income statement:				
Currency translation differences		**3**	(3)	(4)
Financial assets fair value movements		**7**	6	14
Items reclassified from financial asset reserve[1]		**(10)**	-	2
Cash flow hedges effective portion of fair value movements		**74**	(121)	(139)
Items reclassified from cash flow hedge reserve		**(7)**	13	50
Deferred tax relating to items that may be reclassified		**(12)**	19	13
		55	(86)	(64)
Total other comprehensive income for the period (net of tax)		**471**	36	429
Total comprehensive income for the period		**615**	202	738

1. Under IFRS 9, "available-for-sale" assets are now presented as "financial assets", being fair valued through other comprehensive income. Full disclosures of reclassifications on adoption of IFRS 9 are shown in note 15.

The notes on pages 23 to 50 form an integral part of these Condensed Consolidated Interim Financial Statements.

Group balance sheet (unaudited)
at 22 September 2018

	Note	**28 weeks to 22 September 2018 £m**	28 weeks to 23 September 2017 £m	52 weeks to 10 March 2018 £m
Non-current assets				
Property, plant and equipment		**9,782**	9,949	9,898
Intangible assets		**1,052**	833	1,072
Investments in joint ventures and associates		**209**	233	232
Financial assets	12b	**541**	465	540
Other receivables		**30**	39	44
Amounts due from Financial Services customers	12a	**2,752**	2,121	2,332
Derivative financial instruments	12b	**18**	1	17
Net retirement benefit surplus	13	**266**	-	-
		14,650	13,641	14,135
Current assets				
Inventories		**1,879**	1,928	1,810
Trade and other receivables		**659**	595	744
Amounts due from Financial Services customers	12a	**3,482**	3,020	3,360
Financial assets	12b	**353**	134	203
Derivative financial instruments	12b	**47**	18	10
Cash and cash equivalents	11	**1,463**	1,335	1,730
		7,883	7,030	7,857
Assets held-for-sale		**8**	8	9
		7,891	7,038	7,866
Total assets		**22,541**	20,679	22,001
Current liabilities				
Trade and other payables		**(4,824)**	(4,184)	(4,322)
Amounts due to Financial Services customers and other deposits	12a	**(5,336)**	(4,803)	(4,841)
Borrowings		**(255)**	(696)	(638)
Derivative financial instruments	12b	**(6)**	(78)	(53)
Taxes payable		**(123)**	(141)	(247)
Provisions		**(133)**	(119)	(201)
		(10,677)	(10,021)	(10,302)
Net current liabilities		**(2,786)**	(2,983)	(2,436)
Non-current liabilities				
Other payables		**(333)**	(309)	(313)
Amounts due to Financial Services customers and other deposits	12a	**(1,850)**	(762)	(1,683)
Borrowings		**(1,388)**	(1,443)	(1,602)
Derivative financial instruments	12b	**(9)**	(39)	(26)
Deferred income tax liability		**(287)**	(171)	(241)
Provisions		**(161)**	(182)	(166)
Net retirement benefit obligations	13	**-**	(815)	(257)
		(4,028)	(3,721)	(4,288)
Net assets		**7,836**	6,937	7,411
Equity				
Called up share capital		**629**	626	627
Share premium account		**1,140**	1,123	1,130
Capital redemption reserve		**680**	680	680
Merger reserve		**568**	568	568
Other reserves		**170**	102	121
Retained earnings		**4,153**	3,342	3,789
Total equity before perpetual securities		**7,340**	6,441	6,915
Perpetual capital securities		**248**	248	248
Perpetual convertible bonds		**248**	248	248
Total equity		**7,836**	6,937	7,411

The notes on pages 23 to 50 form an integral part of these Condensed Consolidated Interim Financial Statements.

Group cash flow statement (unaudited)
for the 28 weeks to 22 September 2018

	Note	**28 weeks to 22 September 2018 £m**	28 weeks to 23 September 2017 £m	52 weeks to 10 March 2018 £m
Cash flows from operating activities				
Profit before tax		**132**	220	409
Net finance costs		**21**	64	121
Share of post-tax-profit from joint ventures and associates		**(1)**	(1)	(12)
Operating profit		**152**	283	518
Adjustments for:				
Depreciation expense		**354**	343	659
Amortisation expense		**75**	19	72
Non-cash adjustments arising from acquisitions		**-**	1	1
Financial Services impairment losses on loans and advances		**49**	35	68
Loss/(profit) on sale of properties	3	**12**	(10)	(11)
Loss on disposal of intangibles		**1**	2	2
Profit on disposal of joint ventures		**-**	-	(4)
Share-based payments expense		**19**	19	33
Retirement benefit obligations	13	**(25)**	(26)	(151)
Operating cash flows before changes in working capital		**637**	666	1,187
Changes in working capital				
Increase in inventories		**(69)**	(153)	(36)
Increase in current financial assets	5	**(180)**	(58)	(192)
Decrease/(increase) in trade and other receivables		**67**	(19)	(44)
Increase in amounts due from Financial Services customers and other deposits		**(672)**	(571)	(1,161)
Increase in trade and other payables		**415**	403	142
Increase in amounts due to Financial Services customers and other deposits		**662**	644	1,602
(Decrease)/increase in provisions and other liabilities		**(75)**	(36)	28
Cash generated from operations		**785**	876	1,526
Interest paid	5	**(33)**	(45)	(89)
Corporation tax paid		**(22)**	(40)	(72)
Net cash generated from operating activities		**730**	791	1,365
Cash flows from investing activities				
Purchase of property, plant and equipment		**(237)**	(282)	(561)
Purchase of intangible assets		**(58)**	(56)	(140)
Proceeds from disposal of property, plant and equipment		**34**	44	54
Acquisition of subsidiaries, net of cash acquired		**-**	-	135
Investment in joint ventures		**(5)**	(8)	(9)
Interest received	5	**2**	8	14
Dividends and distributions received		**16**	16	37
Net cash used in investing activities		**(248)**	(278)	(470)
Cash flows from financing activities				
Proceeds from issuance of ordinary shares		**11**	3	12
Proceeds from borrowings		**-**	-	174
Proceeds from financial assets	5	**39**	-	-
Repayment of borrowings	5	**(581)**	(67)	(148)
Purchase of own shares		**(12)**	(12)	(14)
Repayment of capital element of obligations under finance lease borrowings	5	**(25)**	(14)	(26)
Interest elements of obligations under finance lease payments	5	**(4)**	(4)	(7)
Dividends paid on ordinary shares	10	**(156)**	(144)	(212)
Dividends paid on perpetual securities		**(20)**	(20)	(23)
Net cash used in financing activities		**(748)**	(258)	(244)
Net (decrease)/increase in cash and cash equivalents		**(266)**	255	651
Opening cash and cash equivalents		**1,728**	1,077	1,077
Closing cash and cash equivalents	11	**1,462**	1,332	1,728

The notes on pages 23 to 50 form an integral part of these Condensed Consolidated Interim Financial Statements.

Group statement of changes in equity (unaudited)
for the 28 weeks to 22 September 2018

	Called up share capital	Share premium account	Capital redemption and other reserves	Merger reserve	Retained earnings	Total equity before perpetual securities	Perpetual capital securities	Perpetual convertible bonds	Total equity
	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 11 March 2018	**627**	**1,130**	**801**	**568**	**3,789**	**6,915**	**248**	**248**	**7,411**
Day 1 accounting adjustments (net of tax)[1]	-	-	-	-	(56)	(56)	-	-	(56)
Profit for the period	-	-	-	-	142	142	-	2	144
Other comprehensive income	-	-	55	-	416	471	-	-	471
Total comprehensive movement for the period ended 22 September 2018	-	-	55	-	502	557	-	2	559
Transactions with owners:									
Dividends paid	-	-	-	-	(156)	(156)	-	-	(156)
Distribution to holders of perpetual convertible bonds (net of tax)	-	-	-	-	-	-	-	(2)	(2)
Amortisation of convertible bond equity component	-	-	(6)	-	6	-	-	-	-
Share-based payment (net of tax)	-	-	-	-	25	25	-	-	25
Purchase of own shares	-	-	-	-	(12)	(12)	-	-	(12)
Allotted in respect of share option schemes	2	10	-	-	(1)	11	-	-	11
At 22 September 2018	**629**	**1,140**	**850**	**568**	**4,153**	**7,340**	**248**	**248**	**7,836**

	Called up share capital	Share premium account	Capital redemption and other reserves	Merger reserve	Retained earnings	Total equity before perpetual securities	Perpetual capital securities	Perpetual convertible bonds	Total equity
At 12 March 2017	**625**	**1,120**	**873**	**568**	**3,190**	**6,376**	**248**	**248**	**6,872**
Profit for the period	-	-	-	-	164	164	-	2	166
Other comprehensive (expense)/income	-	-	(86)	-	122	36	-	-	36
Total comprehensive (expense)/income for the period ended 23 September 2017	-	-	(86)	-	286	200	-	2	202
Transactions with owners:									
Dividends paid	-	-	-	-	(144)	(144)	-	-	(144)
Distribution to holders of perpetual convertible bonds (net of tax)	-	-	-	-	-	-	-	(2)	(2)
Amortisation of convertible bond equity component	-	-	(5)	-	5	-	-	-	-
Share-based payment (net of tax)	-	-	-	-	17	17	-	-	17
Purchase of own shares	-	-	-	-	(12)	(12)	-	-	(12)
Allotted in respect of share option schemes	1	3	-	-	-	4	-	-	4
At 23 September 2017	626	1,123	782	568	3,342	6,441	248	248	6,937

1. This is comprised of IFRS 9 'Financial Instruments' (note 15) and IFRS 15 'Revenue from Contracts with Customers' (note 16) day 1 adjustments.

The notes on pages 23 to 50 form an integral part of these Condensed Consolidated Interim Financial Statements.

Group statement of changes in equity (continued) (unaudited)

	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 12 March 2017	625	1,120	873	568	3,190	6,376	248	248	6,872
Profit for the period	-	-	-	-	291	291	12	6	309
Other comprehensive (expense)/income	-	-	(64)	-	493	429	-	-	429
Total comprehensive (expense)/income for the period ended 10 March 2018	-	-	(64)	-	784	720	12	6	738
Transactions with owners:									
Dividends paid	-	-	-	-	(212)	(212)	-	-	(212)
Distributions to holders of perpetual convertible bonds (net of tax)	-	-	-	-	-	-	(12)	(6)	(18)
Amortisation of convertible bond equity component	-	-	(8)	-	8	-	-	-	-
Share-based payment (net of tax)	-	-	-	-	33	33	-	-	33
Purchase of own shares	-	-	-	-	(14)	(14)	-	-	(14)
Allotted in respect of share option schemes	2	10	-	-	-	12	-	-	12
At 10 March 2018	627	1,130	801	568	3,789	6,915	248	248	7,411

The notes on pages 23 to 50 form an integral part of these Condensed Consolidated Interim Financial Statements.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

1. General information

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

The Condensed Consolidated Interim Financial Statements are unaudited but have been reviewed by the auditors whose report is set out on page 53. The financial information presented herein does not amount to statutory accounts within the meaning of Section 434 of the Companies Act 2006. The Annual Report and Financial Statements 2018 have been filed with the Registrar of Companies. The Independent Auditors' report on the Annual Report and Financial Statements 2018 was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

The financial period represents the 28 weeks to 22 September 2018 (comparative financial period 28 weeks to 23 September 2017; prior financial year 52 weeks to 10 March 2018). The financial information comprises the results of the Company and its subsidiaries (the 'Group') and the Group's interests in joint ventures and associates.

The Group's principal activities are Food, General Merchandise & Clothing Retailing and Financial Services. Financial Services revenue to external customers is predominantly comprised of effective interest rate ("EIR") income.

2. Basis of preparation

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

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

The financial information contained in the Condensed Consolidated Interim Financial Statements should be read in conjunction with the Annual Report and Financial Statements 2018, which were prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The accounting policies have remained unchanged from those disclosed in the Annual Report for the year ended 10 March 2018 other than the adoption of the accounting standards set out below.

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

In preparing these Condensed Consolidated Interim Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements for the year ended 10 March 2018.

Sainsbury's Bank plc and its subsidiaries have been consolidated for the six months to 31 August 2018 (23 September 2017: six months to 31 August 2017; 10 March 2018: twelve months to 28 February 2018). Adjustments have been made for the effects of significant transactions or events that occurred between this date and the Group's balance sheet date.

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

New standards and interpretations

The Group applies, for the first time, IFRS 9 'Financial instruments' and IFRS 15 'Revenue from contracts with customers'. As required by IAS 34, the nature and effect of the changes are disclosed below.

2. Basis of preparation (continued)

The following standards and revisions will be effective for future periods:

- IFRS 16 'Leases'
- IFRIC 23 'Uncertainty over income tax treatments'

Additional information on these new effective standards was provided in the Group's Annual Report for the year ended 10 March 2018 and extended below:

IFRS 9 'Financial instruments'
IFRS 9 'Financial instruments' was endorsed for adoption by the EU in November 2016 and is effective for the year ending 9 March 2019.

The most significant impact on the Group is in relation to the impairment of financial assets, in particular amounts due from Financial Services customers at Sainsbury's Bank and its subsidiaries. IFRS 9 introduces a three stage expected credit loss ('ECL') model which is forward-looking and which generally will result in earlier recognition of credit losses and therefore higher impairment provisions.

On the initial adoption, an additional provision of £80 million (£66 million net of tax) has been recognised in accordance with new guidance. The balance sheet split on adoption was £47 million current and £33 million non-current. Prospectively, it is expected that the ECL model will lead to greater ongoing in-year provision costs to the profit and loss.

Further disclosures pertaining to IFRS 9 are set out in note 15.

IFRS 15 'Revenue from contracts with customers'
IFRS 15 'Revenue from contracts with customers' is effective for the year ending 9 March 2019.

As reported in the Annual Report for the year ended 10 March 2018, the Group has performed a detailed impact assessment, identifying all sources of revenue and analysed the accounting requirements for each under IFRS 15. The impact of transition is immaterial to the accounts.

Full disclosures pertaining to IFRS 15 are set out in note 16.

IFRS 16 'Leases'
IFRS 16 'Leases' is effective for the year ending 7 March 2020.

IFRS 16 requires that all operating leases will need to be recognised on the balance sheet. Furthermore, rental expense in the income statement will be replaced with depreciation and interest expense. The transition will have a material impact on reported assets, liabilities and the Group income statement, including underlying profit, as well as the classification of lease-related cash flows within the Group cash flow statement.

The Group is in the process of finalising this work and setting out related accounting policies and procedures for leases. Until this work has been carried out, it is not practical to provide a reasonable estimate of the financial effect of IFRS 16.

3. Non-GAAP performance measures

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.

3. Non-GAAP performance measures (continued)

These adjusted items are as follows:

	28 weeks to 22 September 2018		28 weeks to 23 September 2017		52 weeks to 10 March 2018	
	Gross	**Tax**	Gross	Tax	Gross	Tax
	£m	**£m**	£m	£m	£m	£m
Underlying profit	**302**	**(76)**	251	(60)	589	(142)
Property-related						
(Loss)/profit on disposal of properties	**(11)**	**2**	2	1	5	(1)
Investment property fair value movements	**(3)**	**-**	3	-	7	-
Argos						
Argos integration costs	**(25)**	**3**	(27)	5	(75)	7
Homebase separation	**-**	**-**	(2)	-	(10)	1
Sainsbury's Bank transition costs	**(40)**	**8**	(20)	3	(38)	8
Nectar UK						
Transaction costs relating to the acquisition of Nectar UK	**-**	**-**	-	-	(2)	-
Revaluation of previously held equity interest in Insight 2 Communication LLP	**-**	**-**	-	-	4	-
Asda						
Transaction costs relating to the proposed merger with Asda	**(17)**	**-**	-	-	-	-
Retail restructuring costs	**(69)**	**11**	-	-	(85)	19
Other						
Perpetual securities coupons	**13**	**(3)**	13	(3)	23	(5)
Non-underlying finance movements	**22**	**1**	(2)	-	(2)	(1)
Acquisition adjustments	**(33)**	**7**	20	(3)	(2)	-
IAS 19 pension expenses	**(7)**	**2**	(18)	2	(5)	1
Tax adjustments						
Over provision in prior years	**-**	**55**	-	-	-	12
Revaluation of deferred tax balances	**-**	**2**	-	1	-	1
Total adjustments	**(170)**	**88**	(31)	6	(180)	42
Profit	**132**	**12**	220	(54)	409	(100)

Property-related

- Loss on disposal of properties for the period comprised £(12) million for the Group (23 September 2017: £10 million, 10 March 2018: £11 million) included within other income and £1 million for the property joint ventures (23 September 2017: £(8) million, 10 March 2018: £(6) million), included within share of post-tax profit from joint ventures and associates.

Argos

- Argos integration costs for the period of £(25) million were part of the previously announced £(130) million required over the three years. We now expect exceptional integration costs of around £140 million through to the completion of the integration program.
- Homebase separation and restructuring costs in the prior year were part of the revised anticipated total exceptional costs of £(45) million. There were no costs during the current financial year.

Sainsbury's Bank transition

- Sainsbury's Bank transition costs of £(40) million (23 September 2017: £(20) million, 10 March 2018: £(38) million) were incurred in transitioning to a new, more flexible banking platform as part of the previously announced New Bank Programme.

3. Non-GAAP performance measures (continued)

Nectar

- Transaction-related costs (included in administrative expenses and recognised outside underlying profit) amounted to £(2) million in the prior year. In addition, an acquisition fair value gain of £4 million on the previously held equity interest in Insight 2 Communication LLP was recorded in other income. There were no income/costs during the current financial year.

Asda

- Transaction costs for the period of £(17) million were incurred in relation to the proposed merger with Asda.

Retail restructuring costs

- Restructuring costs of £69 million in the period have been recognised following previously announced transformational changes to the Group's Retail operating model, responding to changing customer shopping habits and reducing costs throughout the store estate. These mainly consist of people costs.

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 financing costs are accrued on a straight-line basis and included as an expense within underlying profit before tax, with a offsetting credit recognised in non-underlying items.
- Non-underlying finance movements for the financial year comprised £23 million for the Group (23 September 2017: £(1) million, 10 March 2018: £1 million) and £(1) million for the joint ventures (23 September 2017: £(1) million, 10 March 2018: £(3) million).
- Acquisition adjustments of £(33) million (23 September 2017: £20 million, 10 March 2018: £(2) million) reflect the unwind of fair value adjustments arising from the Sainsbury's Bank, Home Retail Group and Nectar UK acquisitions.

				28 weeks to 22 September 2018				28 weeks to 23 September 2017				52 weeks to 10 March 2018
	Financial Services	**Argos**	**Nectar**	**Total Group**	Financial Services	Argos	Nectar	Total Group	Financial Services	Argos	Nectar	Total Group
	£m	**£m**	**£m**	**£m**	£m	£m	£m	£m	£m	£m	£m	£m
Revenue	**(1)**	**-**	**-**	**(1)**	(2)	-	-	(2)	(3)	-	-	(3)
Cost of sales	**-**	**1**	**-**	**1**	-	1	-	1	-	2	-	2
Depreciation	**-**	**(11)**	**-**	**(11)**	-	(7)	-	(7)	-	(18)	-	(18)
Amortisation	**-**	**(9)**	**(13)**	**(22)**	(2)	30	-	28	(3)	22	(2)	17
	(1)	**(19)**	**(13)**	**(33)**	(4)	24	-	20	(6)	6	(2)	(2)

- IAS 19 pension scheme expenses comprise the pension financing charge of £(3) million (23 September 2017: £(14) million, 10 March 2018: £(26) million) and defined benefit scheme expenses of £(4) million (23 September 2017: £(4) million, 10 March 2018: £(10) million). In the prior year this was offset by a £31 million past service credit in relation to a Pension Increase Exchange (PIE) at retirement option introduced from 1 April 2018, following a deed of amendment signed during the prior financial year.

3. Non-GAAP performance measures (continued)

Cash flow statement

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

	28 weeks to 22 September 2018 £m	28 weeks to 23 September 2017 £m	52 weeks to 10 March 2018 £m
Cash flows from operating activities			
IAS 19 pension expenses	**(4)**	(4)	(10)
Sainsbury's Bank transition	**(40)**	(20)	(38)
Business rationalisation	**-**	-	(1)
Argos integration costs	**(32)**	(10)	(32)
Homebase separation	**-**	(10)	(14)
Restructuring costs	**(123)**	(9)	(28)
Transaction costs relating to the proposed merger with Asda	**(7)**	-	-
Cash used in operating activities	**(206)**	(53)	(123)
Cash flows from investing activities			
Proceeds from property disposals	**34**	44	54
Cash generated from investing activities	**34**	44	54
Net cash flows	**(172)**	(9)	(69)

4. Segment reporting

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 Investment (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 period ended 22 September 2018 includes 28 weeks of Nectar UK results (year ended 10 March 2018: four weeks, 28 weeks ended 23 September 2017: nil weeks).

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 revenue presents a disaggregation of revenue from customers consistent with the Group's primary revenue streams.

4. Segment reporting (continued)

a) Income statement and balance sheet

28 weeks to 22 September 2018	Retail £m	Financial services £m	Property investment £m	Group £m
Segment revenue				
Retail sales to external customers	**14,856**	**-**	**-**	**14,856**
Financial Services to external customers	**-**	**272**	**-**	**272**
Underlying revenue	**14,856**	**272**	**-**	**15,128**
Acquisition adjustment fair value unwind[1]	**-**	**(1)**	**-**	**(1)**
Revenue	**14,856**	**271**	**-**	**15,127**
Underlying operating profit	**335**	**16**	**-**	**351**
Underlying finance income	**3**	**-**	**-**	**3**
Underlying finance costs[2]	**(56)**	**-**	**-**	**(56)**
Underlying share of post-tax profit from joint ventures and associates	**-**	**-**	**4**	**4**
Underlying profit before tax	**282**	**16**	**4**	**302**
Non-underlying expense				**(170)**
Profit before tax				**132**
Income tax credit				**12**
Profit for the financial period				**144**
Assets	**13,913**	**8,419**	**-**	**22,332**
Investment in joint ventures and associates	**-**	**-**	**209**	**209**
Segment assets	**13,913**	**8,419**	**209**	**22,541**
Segment liabilities	**(7,172)**	**(7,533)**	**-**	**(14,705)**

28 weeks to 23 September 2017	Retail £m	Financial services £m	Property investment £m	Group £m
Segment revenue				
Retail sales to external customers	14,391	-	-	14,391
Financial Services to external customers	-	255	-	255
Underlying revenue	14,391	255	-	14,646
Acquisition adjustment fair value unwind[1]	-	(2)	-	(2)
Revenue	14,391	253	-	14,644
Underlying operating profit	272	34	-	306
Underlying finance income	8	-	-	8
Underlying finance costs[2]	(70)	-	-	(70)
Underlying share of post-tax profit from joint ventures and associates	3	-	4	7
Underlying profit before tax	213	34	4	251
Non-underlying expense				(31)
Profit before tax				220
Income tax expense				(54)
Profit for the financial period				166
Assets	13,783	6,663	-	20,446
Investment in joint ventures and associates	5	-	228	233
Segment assets	13,788	6,663	228	20,679
Segment liabilities	(7,963)	(5,779)	-	(13,742)

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.

4. Segment reporting (continued)

a) Income statement and balance sheet (continued)

52 weeks to 10 March 2018	Retail £m	Financial services £m	Property investment £m	Group £m
Segment revenue				
Retail sales to external customers	27,944	-	-	27,944
Financial Services to external customers	-	515	-	515
Underlying revenue	27,944	515	-	28,459
Acquisition adjustment fair value unwind[1]	-	(3)	-	(3)
Revenue	27,944	512	-	28,456
Underlying operating profit	625	69	-	694
Underlying finance income	14	-	-	14
Underlying finance costs[2]	(133)	-	-	(133)
Underlying share of post-tax profit from joint ventures and associates	4	-	10	14
Underlying profit before tax	510	69	10	589
Non-underlying expense				(180)
Profit before tax				409
Income tax expense				(100)
Profit for the financial period				309
Assets	13,897	7,872	-	21,769
Investment in joint ventures and associates	1	-	231	232
Segment assets	13,898	7,872	231	22,001
Segment liabilities	(7,694)	(6,896)	-	(14,590)

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 securities 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.

4. Segment reporting (continued)

b. Segmented cash flow statement

	APM reference	28 weeks to 22 September 2018 Retail £m	Financial Services £m	Group £m	28 weeks to 23 September 2017 Retail £m	Financial Services £m	Group £m
Profit/(loss) before tax		**156**	**(24)**	**132**	208	12	220
Net finance costs		**21**	**-**	**21**	64	-	64
Share of post-tax profit from joint ventures and associates[1]		**(1)**	**-**	**(1)**	(1)	-	(1)
Operating profit		**176**	**(24)**	**152**	271	12	283
Adjustments for:							
Depreciation and amortisation expense		**418**	**11**	**429**	352	10	362
Non-cash adjustments arising from acquisitions		**(1)**	**1**	**-**	(1)	2	1
Financial Services impairment losses on loans and advances		**-**	**49**	**49**	-	35	35
Loss/(profit) on sale of properties		**12**	**-**	**12**	(10)	-	(10)
Loss on disposal of intangibles		**1**	**-**	**1**	-	2	2
Share-based payments expense		**17**	**2**	**19**	17	2	19
Retirement benefit obligations		**(25)**	**-**	**(25)**	(26)	-	(26)
Operating cash flows before changes in working capital		**598**	**39**	**637**	603	63	666
Changes in working capital							
Decrease/(increase) in working capital		**291**	**(143)**	**148**	269	(59)	210
Cash generated from operations		**889**	**(104)**	**785**	872	4	876
Interest paid	a	**(33)**	**-**	**(33)**	(45)	-	(45)
Corporation tax paid		**(15)**	**(7)**	**(22)**	(40)	-	(40)
Net cash generated/(used) from operating activities		**841**	**(111)**	**730**	787	4	791
Cash flows from investing activities							
Purchase of property, plant and equipment excluding strategic capital expenditure		**(203)**	**(3)**	**(206)**	(245)	(2)	(247)
Strategic capital expenditure	b	**(31)**	**-**	**(31)**	(35)	-	(35)
Purchase of property, plant and equipment		**(234)**	**(3)**	**(237)**	(280)	(2)	(282)
Purchase of intangible assets		**(42)**	**(16)**	**(58)**	(32)	(24)	(56)
Proceeds from disposal of property, plant and equipment		**34**	**-**	**34**	44	-	44
Investment in joint ventures	f	**(5)**	**-**	**(5)**	(8)	-	(8)
Interest received	a	**2**	**-**	**2**	8	-	8
Dividends and distributions received[2]	f	**16**	**-**	**16**	16	-	16
Net cash used in investing activities		**(229)**	**(19)**	**(248)**	(252)	(26)	(278)
Cash flows from financing activities							
Proceeds from issuance of ordinary shares	e	**11**	**-**	**11**	3	-	3
Proceeds from financial assets	d	**39**	**-**	**39**	-	-	-
Repayment of borrowings	d	**(581)**	**-**	**(581)**	-	-	-
Proceeds from long-term borrowings	d	**-**	**-**	**-**	(67)	-	(67)
Purchase of own shares	e	**(12)**	**-**	**(12)**	(12)	-	(12)
Repayment of capital element of obligations under finance lease payments	d	**(25)**	**-**	**(25)**	(14)	-	(14)
Interest elements of obligations under finance lease payments	a	**(4)**	**-**	**(4)**	(4)	-	(4)
Dividends paid on ordinary shares		**(156)**	**-**	**(156)**	(144)	-	(144)
Dividends paid on perpetual securities	a	**(20)**	**-**	**(20)**	(20)	-	(20)
Net cash used in financing activities		**(748)**	**-**	**(748)**	(258)	-	(258)
Intra group funding							
Bank capital injections		**-**	**-**	**-**	(110)	110	-
Net cash (used in)/generated from intra group funding		**-**	**-**	**-**	(110)	110	-
Net (decrease)/increase in cash and cash equivalents		**(136)**	**(130)**	**(266)**	167	88	255

1. The £(1) million is wholly derived from the Property Investment Segment (23 September 2017: £(2) million).
2. Dividends and distributions received of £16 million (23 September 2017: £16 million) have been received from the property investment joint ventures.

4. Segment reporting (continued)

b. Segmented cash flow statement (continued)

	APM reference	Retail	Financial Services	Group
		52 weeks to 10 March 2018		
		£m	£m	£m
Profit before tax		382	27	409
Net finance costs		121	-	121
Share of post-tax profit from joint ventures and associates[1]		(12)	-	(12)
Operating profit		491	27	518
Adjustments for:				
Depreciation/amortisation		710	21	731
Non-cash adjustments arising from acquisitions		(2)	3	1
Financial Services impairment losses on loans and advances		-	68	68
Profit on sale of properties		(11)	-	(11)
Loss on disposal of intangibles		-	2	2
Profit on disposal of joint ventures		(4)	-	(4)
Share-based payments expense		30	3	33
Retirement benefit obligations		(151)	-	(151)
Operating cash flows before changes in working capital		1,063	124	1,187
Changes in working capital				
Decrease in working capital		196	143	339
Cash generated from operations		1,259	267	1,526
Interest paid	a	(89)	-	(89)
Corporation tax paid		(72)	-	(72)
Net cash generated from operating activities		1,098	267	1,365
Cash flows from investing activities				
Purchase of property, plant and equipment excluding strategic capital expenditure		(473)	(8)	(481)
Strategic capital expenditure	b	(80)	-	(80)
Purchase of property, plant and equipment		(553)	(8)	(561)
Purchase of intangible assets		(69)	(71)	(140)
Proceeds from disposal of property, plant and equipment		54	-	54
Acquisition of subsidiaries	c	(33)	-	(33)
Cash acquired upon acquisition of subsidiaries	c	168	-	168
Investment in joint ventures	f	(9)	-	(9)
Interest received	a	14	-	14
Dividends and distributions received[2]	f	37	-	37
Net cash used in investing activities		(391)	(79)	(470)
Cash flows from financing activities				
Proceeds from issuance of ordinary shares	e	12	-	12
Repayment of borrowings	d	(148)	-	(148)
Proceeds from long-term borrowings	d	-	174	174
Purchase of own shares	e	(14)	-	(14)
Repayment of capital element of obligations under finance lease payments	d	(26)	-	(26)
Interest elements of obligations under finance lease payments	a	(7)	-	(7)
Dividends paid on ordinary shares		(212)	-	(212)
Dividends paid on perpetual securities	a	(23)	-	(23)
Net cash (used in)/generated from financing activities		(418)	174	(244)
Intra group funding				
Bank capital injections		(190)	190	-
Net cash (used in)/generated from intra group funding		**(190)**	**190**	**-**
Net increase in cash and cash equivalents		99	552	651

1. Includes £8 million (2017: £(18) million) relating to the property investment segment.
2. Included within dividends and distributions received is £30 million (2017: £55 million) of dividends received from property investment joint ventures.

5. Analysis of net debt

The Group's definition of net debt includes the capital injections to Sainsbury's Bank, but excludes the net debt of Sainsbury's Bank and its subsidiaries. Sainsbury's Bank's net debt balances are excluded because they are required for business as usual activities.

A reconciliation of opening to closing net debt is included below. Balances and movements for the total Group and Financial Services are shown in addition to Retail to enable reconciliation between the Group balance sheet and Group cash flow statement.

		Cash movements		Non-cash movements		
	10 March 2018	Cashflows excluding interest	Net interest (received)/ paid	Other non-cash movements	Changes in fair value	22 September 2018
	£m	£m	£m	£m	£m	£m
Retail						
Financial assets[1]	**40**	**(39)**	**-**	**-**	**-**	**1**
Derivative assets	**9**	**-**	**(5)**	**2**	**45**	**51**
Derivative liabilities	**(72)**	**-**	**3**	**(1)**	**62**	**(8)**
Cash and cash equivalents	**725**	**(137)**	**-**	**-**	**-**	**588**
Bank overdrafts	**(2)**	**1**	**-**	**-**	**-**	**(1)**
Borrowings[2]	**(1,937)**	**581**	**33**	**(35)**	**-**	**(1,358)**
Finance leases	**(127)**	**25**	**4**	**(9)**	**-**	**(107)**
Retail net debt	**(1,364)**	**431**	**35**	**(43)**	**107**	**(834)**
Financial Services						
Financial assets[1]	**526**	**180**	**-**	**-**	**3**	**709**
Derivative assets	**18**	**-**	**-**	**-**	**(4)**	**14**
Derivative liabilities	**(7)**	**-**	**-**	**-**	**-**	**(7)**
Cash and cash equivalents	**1,005**	**(130)**	**-**	**-**	**-**	**875**
Borrowings[2]	**(174)**	**-**	**-**	**(2)**	**(1)**	**(177)**
Financial services net debt	**1,368**	**50**	**-**	**(2)**	**(2)**	**1,414**
Group						
Financial assets[1]	**566**	**141**	**-**	**-**	**3**	**710**
Derivative assets	**27**	**-**	**(5)**	**2**	**41**	**65**
Derivative liabilities	**(79)**	**-**	**3**	**(1)**	**62**	**(15)**
Cash and cash equivalents	**1,730**	**(267)**	**-**	**-**	**-**	**1,463**
Bank overdrafts	**(2)**	**1**	**-**	**-**	**-**	**(1)**
Borrowings[2]	**(2,111)**	**581**	**33**	**(37)**	**(1)**	**(1,535)**
Finance leases	**(127)**	**25**	**4**	**(9)**	**-**	**(107)**
Group net debt	**4**	**481**	**35**	**(45)**	**105**	**580**

1. Financial assets exclude other financial assets (see note 12b) which predominantly relate to the Group's beneficial interest in a commercial property investment pool.
2. Borrowings exclude bank overdrafts and finance leases as they are disclosed separately.

5. Analysis of net debt (continued)

	12 March 2017	Cash movements: Cashflows excluding interest	Cash movements: Net interest (received)/ paid	Non-cash movements: Acquisition movements	Non-cash movements: Other non-cash movements	Non-cash movements: Changes in fair value	23 September 2017
	£m	£m	£m	£m	£m	£m	£m
Retail							
Financial assets[1]	39	-	-	-	-	1	40
Derivative assets	103	-	(10)	-	11	(85)	19
Derivative liabilities	(38)	-	9	-	(9)	(63)	(101)
Cash and cash equivalents	630	164	-	-	-	-	794
Bank overdrafts	(6)	3	-	-	-	-	(3)
Borrowings[2]	(2,067)	67	38	-	(47)	3	(2,006)
Finance leases	(138)	14	4	-	(10)	-	(130)
Retail net debt	(1,477)	248	41	-	(55)	(144)	(1,387)
Financial Services							
Financial assets[1]	333	58	-	-	-	-	391
Derivative assets	1	-	-	-	-	(1)	-
Derivative liabilities	(22)	-	-	-	-	6	(16)
Cash and cash equivalents	453	88	-	-	-	-	541
Financial Services net debt	765	146	-	-	-	5	916
Group							
Financial assets[1]	372	58	-	-	-	1	431
Derivative assets	104	-	(10)	-	11	(86)	19
Derivative liabilities	(60)	-	9	-	(9)	(57)	(117)
Cash and cash equivalents	1,083	252	-	-	-	-	1,335
Bank overdrafts	(6)	3	-	-	-	-	(3)
Borrowings[2]	(2,067)	67	38	-	(47)	3	(2,006)
Finance leases	(138)	14	4	-	(10)	-	(130)
Group net debt	(712)	394	41	-	(55)	(139)	(471)

1. Financial assets exclude other financial assets (see note 12b) which predominantly relate to the Group's beneficial interest in a commercial property investment pool.
2. Borrowings exclude bank overdrafts and finance leases as they are disclosed separately.

5. Analysis of net debt (continued)

	12 March 2017	Cash movements: Cashflows excluding interest	Cash movements: Net interest (received)/ paid	Non-cash movements: Acquisition movements	Non-cash movements: Other non-cash movements	Non-cash movements: Changes in fair value	10 March 2018
	£m	£m	£m	£m	£m	£m	£m
Retail							
Financial assets[1]	39	-	(1)	-	1	1	40
Derivative assets	103	-	(20)	-	19	(93)	9
Derivative liabilities	(38)	-	17	-	(15)	(36)	(72)
Cash and cash equivalents	630	95	-	-	-	-	725
Bank overdrafts	(6)	4	-	-	-	-	(2)
Borrowings[2]	(2,067)	148	79	(15)	(87)	5	(1,937)
Finance leases	(138)	26	7	-	(22)	-	(127)
Retail net debt	(1,477)	273	82	(15)	(104)	(123)	(1,364)
Financial Services							
Financial assets[1]	333	192	-	-	-	1	526
Derivative assets	1	-	-	-	-	17	18
Derivative liabilities	(22)	-	-	-	-	15	(7)
Cash and cash equivalents	453	552	-	-	-	-	1,005
Borrowings[2]	-	(174)	-	-	-	-	(174)
Financial services net debt	765	570	-	-	-	33	1,368
Group							
Financial assets[1]	372	192	(1)	-	1	2	566
Derivative assets	104	-	(20)	-	19	(76)	27
Derivative liabilities	(60)	-	17	-	(15)	(21)	(79)
Cash and cash equivalents	1,083	647	-	-	-	-	1,730
Bank overdrafts	(6)	4	-	-	-	-	(2)
Borrowings[2]	(2,067)	(26)	79	(15)	(87)	5	(2,111)
Finance leases	(138)	26	7	-	(22)	-	(127)
Group net debt	(712)	843	82	(15)	(104)	(90)	4

1. Financial assets exclude other financial assets (see note 12b) which predominantly relate to the Group's beneficial interest in a commercial property investment pool.
2. Borrowings exclude bank overdrafts and finance leases as they are disclosed separately.

Borrowings

The Group maintains a contingent committed revolving credit facility of £1,450 million ('RCF'). The £1,450 million facility is split into two tranches: a £300 million Facility (A) maturing in April 2024 and a £1,150 million Facility (B) consisting of three tranches; a £300 million tranche A maturing October 2021, a £400 million tranche B maturing October 2022 and a £450 million tranche C maturing October 2023.

As at 22 September 2018, £nil had been drawn under the RCF (23 September 2017: £nil; 10 March 2018: £nil).

Asda financing

In June 2018, the financing of the consideration for the proposed Asda transaction was arranged. Financing is in the form of Term Loans amounting to £3.5 billion, split over two Facilities. Facility A is for £2.0 billion and has an initial two year term with the Group having the option to extend the term by one year and a further six months. Facility B is for £1.5 billion and has an initial three year term with the Group having the option to extend the term by one year and a further one year. The Terms Loans are only available to the Group once the proposed Asda transaction completes.

In June 2018, an upsize of £550 million to Facility B of the existing Revolving Credit Facility was arranged in order to provide sufficient contingent funding to the Group following the completion of the proposed Asda transaction. The £550 million upsize to the Revolving Credit Facility is only available to the Group once the proposed Asda transaction completes.

5. Analysis of net debt (continued)

Sainsbury's Bank

Sainsbury's Bank has pledged the rights to £1,598 million (23 September 2017: £993 million; 10 March 2018: £1,519 million) of its personal loans book with the Bank of England as collateral for its funding facilities. As at 22 September 2018 £950 million (23 September 2017: £250 million; 10 March 2018: £950 million) of borrowings were drawn under the Term Funding Scheme. There was no funding received under the Funding for Lending Scheme (23 September 2017: £260 million; 10 March 2018: £nil of Treasury Bills received). Funding for Lending Treasury Bills could be converted to cash as a source of future funding to the Bank however none had been converted as at 22 September 2018.

Sainsbury's Bank has assigned the beneficial interest in £379 million (23 September 2017: £378 million; 10 March 2018: £379 million) of its personal loans book to a Special Purpose Entity for use as collateral in securitisation transactions, facilitating £312 million (23 September 2017: £311 million; 10 March 2018: £312 million) of drawings.

6. Supplier arrangements

Supplier incentives, rebates and discounts, collectively known as 'supplier arrangements', represent a material deduction to cost of sales 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 types that involve a level of judgement and estimation are as follows:

- Fixed amounts – these are agreed with suppliers primarily to support in-store activity including promotions, such as utilising specific space.
- Supplier rebates – these are typically agreed on an annual basis, aligned with the Group's financial year. The rebate amount is linked to pre-agreed targets such as sales volumes.
- Marketing and advertising income – income which is directly linked to the cost of producing the Argos catalogue, or through advertising income from suppliers through Insight 2 Communication.

The amounts recognised in the income statement for the above types of supplier arrangements are as follows (excluding non-judgemental discounts and supplier incentives outside the above categories):

	28 weeks to 22 September 2018 £m	28 weeks to 23 September 2017 £m	52 weeks to 10 March 2018 £m
Fixed amounts	**90**	104	261
Supplier rebates	**34**	42	97
Marketing and advertising income	**78**	48	92
Total supplier arrangements	**202**	194	450

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

	28 weeks to 22 September 2018 £m	28 weeks to 23 September 2017 £m	52 weeks to 10 March 2018 £m
Within inventory	**(7)**	(9)	(7)
Within current trade receivables			
Supplier arrangements due	**58**	48	23
Within current trade payables			
Supplier arrangements due	**10**	12	23
Accrued supplier arrangements	**13**	17	14

7. Finance income and finance costs

	28 weeks to 22 September 2018			28 weeks to 23 September 2017			52 weeks to 10 March 2018		
	Underlying £m	**Non-underlying £m**	**Total £m**	Underlying £m	Non-underlying £m	Total £m	Underlying £m	Non-underlying £m	Total £m
Interest on bank deposits and other financial assets	**3**	**-**	**3**	8	-	8	14	-	14
Non-underlying finance movements	**-**	**25**	**25**	-	3	3	-	5	5
Finance income	**3**	**25**	**28**	8	3	11	14	5	19
Borrowing costs:									
Secured borrowings	**(31)**	**-**	**(31)**	(41)	-	(41)	(79)	-	(79)
Unsecured borrowings	**(11)**	**-**	**(11)**	(16)	-	(16)	(30)	-	(30)
Obligations under finance leases	**(3)**	**-**	**(3)**	(4)	-	(4)	(7)	-	(7)
Provisions - amortisation of discount	**(1)**	**(3)**	**(4)**	(1)	(4)	(5)	(1)	(4)	(5)
	(46)	**(3)**	**(49)**	(62)	(4)	(66)	(117)	(4)	(121)
Other finance costs:									
Interest capitalised - qualifying assets	**3**	**-**	**3**	5	-	5	7	-	7
IAS 19 pension financing charge	**-**	**(3)**	**(3)**	-	(14)	(14)	-	(26)	(26)
Perpetual securities coupon	**(13)**	**13**	**-**	(13)	13	-	(23)	23	-
	(10)	**10**	**-**	(8)	(1)	(9)	(16)	(3)	(19)
Finance costs	**(56)**	**7**	**(49)**	(70)	(5)	(75)	(133)	(7)	(140)

Non-underlying finance movements relate to net fair value movements on derivative financial instruments not designated in a hedging relationship

8. Income tax expense

	28 weeks to 22 September 2018 £m	28 weeks to 23 September 2017 £m	52 weeks to 10 March 2018 £m
Current tax expense	**20**	52	107
Deferred tax (credit)/expense	**(32)**	2	(7)
Total income tax (credit)/expense in income statement	**(12)**	54	100
Underlying tax rate	**25.2%**	23.9%	24.1%
Effective tax rate	**(9.1)%**	24.5%	24.4%

The Finance Act 2016 included legislation which reduced the main rate of UK corporation tax from 20 per cent to 19 per cent from 1 April 2017 and to 17 per cent from 1 April 2020. These rate reductions were substantively enacted before this interim period. Therefore, there is no remeasurement of deferred tax balances in this period. Deferred tax on temporary differences and tax losses as at the balance sheet date are calculated at the substantively enacted rates at which the temporary differences and tax losses are expected to reverse.

9. 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.

	28 weeks to 22 September 2018 million	28 weeks to 23 September 2017 million	52 weeks to 10 March 2018 million
Weighted average number of shares in issue	**2,195.9**	2,185.1	2,186.2
Weighted average number of dilutive share options	**40.6**	18.7	21.8
Weighted average number of dilutive senior convertible bonds	**147.6**	142.2	143.5
Weighted average number of dilutive subordinated perpetual convertible bonds	**80.5**	77.6	78.3
Total number of shares for calculating diluted earnings per share	**2,464.6**	2,423.6	2,429.8

	£m	£m	£m
Profit for the financial period, net of tax	**144**	166	309
Less profit attributable to:			
Holders of perpetual capital securities	**(7)**	(7)	(12)
Holders of perpetual convertible bonds	**(3)**	(3)	(6)
Profit for the period attributable to ordinary shareholders, net of tax	**134**	156	291

	£m	£m	£m
Profit for the financial period attributable to ordinary shareholders	**134**	156	291
Add interest on senior convertible bonds, net of tax	**6**	6	12
Add coupon on subordinated perpetual convertible bonds, net of tax	**3**	3	6
Diluted earnings for calculating diluted earnings per share	**143**	165	309

Profit from continuing operations attributable to ordinary shareholders of the parent	**134**	156	291
Adjusted for non-underlying items	**170**	31	180
Tax on non-underlying items	**(88)**	(6)	(42)
Add back coupons on perpetual securities (net of tax)[1]	**10**	10	18
Underlying profit after tax attributable to ordinary shareholders of the parent	**226**	191	447
Add interest on convertible bonds, net of tax	**6**	6	12
Add coupon on subordinated perpetual convertible bonds, net of tax	**3**	3	6
Diluted underlying profit after tax attributable to ordinary shareholders of the parent	**235**	200	465

	Pence per share	Pence per share	Pence per share
Basic earnings	**6.1**	7.1	13.3
Diluted earnings	**5.8**	6.8	12.7
Underlying basic earnings	**10.3**	8.7	20.4
Underlying diluted earnings	**9.5**	8.3	19.1

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.

10. Dividends

	28 weeks to 22 September 2018	28 weeks to 23 September 2017	52 weeks to 10 March 2018
Amounts recognised as distributions to equity holders in the period:			
Dividend per share (pence)	**7.1**	6.6	9.7
Total dividend charge (£m)	**156**	144	212

Post the half-year, an interim dividend of 3.1 pence per share (23 September 2017: 3.1 pence per share) has been approved by the Board of Directors for the financial year ending 9 March 2019, resulting in a total interim dividend of £68 million (23 September 2017: £68 million). The interim dividend was approved by the Board on 7 November 2018 and as such has not been included as a liability at 22 September 2018.

11. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	28 weeks to 22 September 2018 £m	28 weeks to 23 September 2017 £m	52 weeks to 10 March 2018 £m
Cash in hand and bank balances	**357**	515	585
Money market funds and deposits	**541**	575	462
Deposits at central banks	**565**	245	683
Cash and bank balances	**1,463**	1,335	1,730
Bank overdrafts	**(1)**	(3)	(2)
Net cash and cash equivalents	**1,462**	1,332	1,728

12. Financial instruments

a. Carrying amount versus fair value

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

At 22 September 2018	**Carrying amount £m**	**Fair value £m**
Financial assets		
Amounts due from Financial Services customers[1]	**6,234**	**6,286**
Financial liabilities		
Loans due 2031	**(717)**	**(930)**
Bank overdrafts	**(1)**	**(1)**
Bank loans due 2019	**(199)**	**(200)**
Convertible bond due 2019	**(442)**	**(499)**
Tier 2 Capital due 2023	**(177)**	**(180)**
Obligations under finance leases	**(107)**	**(108)**
Amounts due to Financial Services customers and banks	**(7,186)**	**(7,191)**

1. Includes £2,765 million of interest rate swaps in a portfolio fair value hedging relationship.

12. Financial instruments (continued)

a. Carrying amount versus fair value (continued)

At 23 September 2017	Carrying amount £m	Fair value £m
Financial assets		
Amounts due from Financial Services customers[1]	5,141	5,156
Financial liabilities		
Loans due 2018[2]	(629)	(641)
Loans due 2031	(746)	(974)
Bank overdrafts	(3)	(3)
Bank loans due 2019	(199)	(199)
Convertible bond due 2019	(432)	(456)
Obligations under finance leases	(130)	(130)
Amounts due to Financial Services customers and banks	(5,565)	(5,567)

1. Includes £2,437 million accounted for as a fair value hedge.
2. Includes £136 million accounted for in a fair value hedge relationship.

At 10 March 2018	Carrying amount £m	Fair value £m
Financial assets		
Amounts due from Financial Services customers[1]	5,692	5,736
Financial liabilities		
Loans due 2018[2]	(572)	(575)
Loans due 2031	(730)	(980)
Bank overdrafts	(2)	(2)
Bank loans due 2019	(199)	(199)
Convertible bond due 2019	(436)	(452)
Tier 2 Capital due 2023	(174)	(184)
Obligations under finance leases	(127)	(127)
Amounts due to Financial Services customers and banks	(6,524)	(6,514)

1. Includes £3,391 million of interest rate swaps in a portfolio fair value hedging relationship.
2. Includes £110 million accounted for in a fair value hedge relationship.

b. Fair value measurements recognised in the balance sheet

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

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

12. Financial instruments (continued)

b. Fair value measurements recognised in the balance sheet (continued)

At 22 September 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Interest bearing financial assets	**-**	**1**	**-**	**1**
Other financial assets	**14**	**-**	**170**	**184**
Investment securities	**709**	**-**	**-**	**709**
Derivative financial assets	**-**	**56**	**9**	**65**
Derivative financial liabilities	**-**	**(15)**	**-**	**(15)**

At 23 September 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial Assets				
Interest bearing financial assets	-	40	-	40
Other financial assets	13	-	155	168
Investment Securities	391	-	-	391
Derivative financial assets	-	19	-	19
Derivative financial liabilities	-	(105)	(12)	(117)

At 10 March 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Financial assets				
Interest bearing financial assets	-	40	-	40
Other financial assets	-	13	164	177
Investment securities	526	-	-	526
Derivative financial assets	-	27	-	27
Derivative financial liabilities	-	(70)	(9)	(79)

c. Reconciliation of Level 3 fair value measurements of financial assets

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

28 weeks to 22 September 2018	Financial assets £m	Commodity derivatives £m	Total £m
Opening balance	**164**	**(9)**	**155**
Included in finance income in the income statement	**-**	**18**	**18**
Included in other comprehensive income	**6**	**-**	**6**
Total Level 3 financial assets and liabilities	**170**	**9**	**179**

12. Financial instruments (continued)

c. Reconciliation of Level 3 fair value measurements of financial assets (continued)

28 weeks to 23 September 2017	Financial assets £m	Commodity derivatives £m	Total £m
Opening balance	148	(15)	133
Included in finance income in the income statement	-	3	3
Included in other comprehensive income	7	-	7
Total Level 3 financial assets and liabilities	155	(12)	143

52 weeks to 10 March 2018	Financial assets £m	Commodity derivatives £m	Total £m
Opening balance	148	(15)	133
Included in finance income in the income statement	-	6	6
Included in other comprehensive income	16	-	16
Total Level 3 financial assets and liabilities	164	(9)	155

Level 3 financial assets

Other financial assets relate to the Group's beneficial interest in a property investment pool. The net present value of the Group's interest in the various freehold reversions owned by the property investment pool has been derived by assuming a property growth rate of 0.6 per cent per annum (23 September 2017: 0.5 per cent; 10 March 2018: 0.6 per cent) and a discount rate of nine per cent (23 September 2017: nine per cent; 10 March 2018: nine per cent). The sensitivity of this balance to changes of one per cent in the assumed rate of property rental growth and one per cent in the discount rate holding other assumptions constant is shown below:

	22 September 2018		23 September 2017	
	Change in discount rate +/- 1.0%	**Change in growth rate +/- 1.0%**	Change in discount rate +/- 1.0%	Change in growth rate +/- 1.0%
	£m	**£m**	£m	£m
Financial assets	**(7)/8**	**12/(11)**	(8)/9	13/(12)

	10 March 2018	
	Change in discount rate +/- 1.0%	Change in growth rate +/- 1.0%
	£m	£m
Financial assets	(8)/9	12/(12)

Level 3 derivative financial liabilities – power purchase agreement

The Group has entered into several long-term fixed-price power purchase agreements with independent producers. Included within derivative financial instruments is a net asset of £8 million relating to these agreements at 22 September 2018 (within derivative financial liabilities at 23 September 2017: £ (13) million; at 10 March 2018: £(10) million). The Group values its power purchase agreements as the net present value of the estimated future usage at the contracted fixed price less the market implied forward energy price discounted back at the prevailing swap rate. The Group also makes an assumption regarding expected energy output based on the historical performance and the producer's estimate of expected electricity output. The sensitivity of this balance to changes of 20 per cent in the assumed rate of energy output and 20 per cent in the implied forward energy prices holding other assumptions constant is shown below:

12. Financial instruments (continued)

Level 3 derivative financial liabilities – power purchase agreement (continued)

	22 September 2018		23 September 2017	
	Change in volume +/- 20.0%	**Change in electricity forward price +/- 20.0%**	Change in volume +/- 20.0%	Change in electricity forward price +/- 20.0%
	£m	**£m**	£m	£m
Derivative financial instruments	**2/(2)**	**12/(13)**	(3)/3	12/(13)

	10 March 2018	
	Change in volume +/- 20.0%	Change in electricity forward price +/- 20.0%
	£m	£m
Derivative financial instruments	(2)/2	11/(12)

13. Retirement benefit obligations

Retirement benefit obligations relate to one defined benefit scheme, the Sainsbury's Pension Scheme (the 'Scheme') 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.

On 20 March 2018, the Home Retail Group Pension Scheme was merged into the Sainsbury's Pension Scheme. The merger is on a segregated basis with two sections - the Argos section and the Sainsbury's section. This does not result in any change to members' benefits and each section's assets are ring-fenced for the benefit of the members of that section.

A triennial valuation for the Scheme as at 10 March 2018 is currently in progress. A further valuation will be completed as at 30 September 2018 which will cover the merged Scheme. The results are not yet available.

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.

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

13. Retirement benefit obligations (continued)

	22 September 2018			23 September 2017		
	Sainsbury's	**Home Retail Group**	**Group**	Sainsbury's	Home Retail Group	Group
	£m	**£m**	**£m**	£m	£m	£m
Present value of funded obligations	**(8,166)**	**(1,194)**	**(9,360)**	(9,257)	(1,369)	(10,626)
Fair value of plan assets	**8,595**	**1,201**	**9,796**	8,645	1,207	9,852
	429	**7**	**436**	(612)	(162)	(774)
Additional liability due to minimum funding requirements (IFRIC 14)	**-**	**(136)**	**(136)**	-	(4)	(4)
Retirement benefit surplus/(deficit)	**429**	**(129)**	**300**	(612)	(166)	(778)
Present value of unfunded obligations	**(20)**	**(14)**	**(34)**	(22)	(15)	(37)
Retirement benefit surplus/(obligations)	**409**	**(143)**	**266**	(634)	(181)	(815)
Deferred income tax (liability)/asset	**(126)**	**28**	**(98)**	54	38	92
Net retirement benefit surplus/(obligations)	**283**	**(115)**	**168**	(580)	(143)	(723)

	10 March 2018		
	Sainsbury's	Home Retail Group	Group
	£m	£m	£m
Present value of funded obligations	(8,744)	(1,284)	(10,028)
Fair value of plan assets	8,669	1,215	9,884
	(75)	(69)	(144)
Additional liability due to minimum funding requirements (IFRIC 14)	-	(78)	(78)
Retirement benefit deficit	(75)	(147)	(222)
Present value of unfunded obligations	(21)	(14)	(35)
Retirement benefit obligations	(96)	(161)	(257)
Deferred income tax (liability)/asset	(38)	34	(4)
Net retirement benefit obligations	(134)	(127)	(261)

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

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

	28 weeks to 22 September 2018	28 weeks to 23 September 2017	52 weeks to 10 March 2018
	%	%	%
Discount rate	**3.10**	2.75	2.80
Inflation rate - RPI	**3.20**	3.25	3.15
Inflation rate - CPI	**2.20**	2.25	2.15
Future pension increases	**1.95 - 3.05**	1.95 - 3.10	1.90 - 3.00

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

13. Retirement benefit obligations (continued)

	28 weeks to 22 September 2018 £m	28 weeks to 23 September 2017 £m	52 weeks to 10 March 2018 £m
Excluded from underlying profit before tax:			
Interest cost on pension liabilities	**(149)**	(156)	(289)
Interest income on plan assets	**146**	142	263
Total included in finance costs	**(3)**	(14)	(26)
Defined benefit pension scheme expenses	**(4)**	(4)	(10)
Past service credit	**-**	-	31
Total excluded from underlying profit before tax	**(7)**	(18)	(5)
Total income statement expense	**(7)**	(18)	(5)

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

	28 weeks to 22 September 2018 £m	28 weeks to 23 September 2017 £m	52 weeks to 10 March 2018 £m
As at the beginning of the period	**(257)**	(974)	(974)
Interest cost	**(3)**	(14)	(26)
Remeasurement gains	**501**	147	592
Pension scheme expenses	**(4)**	(4)	(10)
Contributions by employer	**29**	30	130
Past service credit	**-**	-	31
As at the end of the period	**266**	(815)	(257)

Cash contributions

Cash contributions for the full-year are expected to be £129 million.

Following agreement of the latest triennial actuarial valuations of both schemes, the Group is committed to make annual contributions of £124 million to the schemes (Sainsbury's scheme: £84 million; Argos scheme: £40 million). The next triennial valuation for the Sainsbury's section of the Scheme is due as at 10 March 2018.

There were no special contributions in the current financial period.

14. Acquisition of Nectar

On 1 February 2018, the Group acquired 100 per cent of the share capital of Nectar Loyalty Holding Limited, a United Kingdom registered private company which owns the Nectar UK loyalty scheme as well as the remaining 50 per cent share of the Group’s joint venture Insight 2 Communication LLP. The acquisition enables the full and independent operation of the Nectar Loyalty Programme in the UK.

Form of consideration	**Consideration fair value at acquisition date £m**
Cash	**33**
Acquisition-date fair value of the previously held equity interest	**6**
Total	**39**

None of the goodwill recognised of £147 million is expected to be deductible for income tax purposes. The goodwill 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.

14. Acquisition of Nectar (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	3
Intangible assets	57
Trade and other receivables	141
Deferred tax assets	19
Cash and cash equivalents	168
Total assets acquired	**388**
Trade and other payables	(228)
Deferred revenue	(268)
Total liabilities acquired	**(496)**
Net identifiable liabilities acquired at fair value	**(108)**
Goodwill arising on acquisition	147
Purchase consideration transferred	**39**

In accordance with IFRS 3 'Business Combinations', the acquisition accounting will be finalised within 12 months of the acquisition date of 1 February 2018. There were no hindsight adjustments as at 22 September 2018.

15. IFRS 9 'Financial Instruments'

IFRS 9 replaces IAS 39 for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The main changes the new standard introduces are:

- new requirements for the classification and measurement of financial assets and financial liabilities;
- a new model for recognising impairments of financial assets; and
- changes to hedge accounting by aligning hedge accounting more closely to an entity's risk management objectives.

The changes have been applied by adjusting the Group Balance Sheet on 11 March 2018, the date of initial application, with no restatement of comparative information. In accordance with IFRS 9 transition guidance, comparative financial information in the primary financial statements remains compliant with the classification and measurement requirements of IAS 39.

a. Classification and measurement

IFRS 9 introduced a principles-based approach to the classification of financial assets. Financial assets are measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortised cost. Classification is determined by the nature of the cash flows of the assets and the business model in which they are held. These categories replace the existing IAS 39 classifications. For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9.

The assessment of the Group's business models was made as at the date of initial application on 11 March 2018 and applied prospectively. The changes in classification resulted in no change in measurement as at 11 March 2018 and are not expected to result in a material impact going forward. A summary of the respective classifications under IAS 39 and IFRS 9 are presented below:

15. IFRS 9 'Financial Instruments' (continued)

Balance sheet line	Periodicity	IAS 39	IFRS 9	11 March 2018 £m
Financial assets				
Financial assets	Non-current	Available-for-sale	Fair value through other comprehensive income (with recycling) [1]	**540**
Financial assets	Current	Available-for-sale	Fair value through other comprehensive income (with recycling) [1]	**203**
Other receivables	Non-current	Loans & receivables	Amortised cost	**44**
Trade and other receivables	Current	Loans & receivables	Amortised cost	**553**
Trade and other receivables	Current	Loans & receivables	Fair value through profit and loss	**191**
Cash and cash equivalents	Current	Loans & receivables	Amortised cost	**1,580**
Cash and cash equivalents	Current	Loans & receivables	Fair value through profit and loss	**150**
Amounts due from Financial Services customers	Non-current	Loans & receivables	Amortised cost[2]	**2,332**
Amounts due from Financial Services customers	Current	Loans & receivables	Amortised cost[2]	**3,360**
Derivative financial instruments	Non-current	Fair value through profit & loss	Fair value through profit & loss	**17**
Derivative financial instruments	Current	Fair value through profit & loss	Fair value through profit & loss	**10**

1. Balances "with recycling" have corresponding amounts within reserves which will be recognised within the income statement upon realisation.
2. The balances presented are consistent with those presented as at 10 March 2018. The day 1 adjustment to amounts due from Financial Services customers, gross of tax, are split £47 million current and £33 million non-current. This represents the only difference between the valuation of assets under IFRS 9 relative to IAS 39.

Balance sheet line	Periodicity	IAS 39	IFRS 9	11 March 2018 £m
Financial Liabilities				
Trade and other payables	Current	Loans & receivables	Amortised cost	**(4,322)**
Other payables	Non-current	Loans & receivables	Amortised cost	**(313)**
Amounts due to Financial Services customers	Non-current	Loans & receivables	Amortised cost	**(1,683)**
Amounts due to Financial Services customers	Current	Loans & receivables	Amortised cost	**(4,841)**
Borrowings	Non-current	Loans & receivables	Amortised cost	**(1,602)**
Borrowings	Current	Loans & receivables	Amortised cost	**(638)**
Derivative financial instruments	Non-current	Fair value through profit & loss	Fair value through profit & loss	**(26)**
Derivative financial instruments	Current	Fair value through profit & loss	Fair value through profit & loss	**(53)**

Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration to liabilities be treated as financial instruments measured at fair value.

b. Impairment

IFRS 9 introduces an expected credit loss impairment model that differs significantly from the incurred loss model under IAS 39 and results in earlier recognition of credit losses. Additional details on the key elements of the new expected credit loss model are described below. The most significant impact is in relation to Sainsbury's Bank's unsecured lending portfolios.

15. IFRS 9 ‘Financial Instruments’ (continued)

Expected credit loss (ECL) impairment model

Under IFRS 9, credit loss allowances are measured on each reporting date according to a three-stage expected credit loss impairment model. As soon as a financial instrument is originated or purchased, 12-month expected credit losses are recognised in profit and loss and an impairment allowance is established (Stage 1). If the credit risk increases significantly (and the resulting credit quality is not considered to be low credit risk) full lifetime expected credit losses are provided for (Stage 2). Under both Stage 1 and Stage 2, interest income is recognised on the gross carrying value of the financial asset. Financial assets move into Stage 3 when they are considered to be credit impaired, i.e. when one or more events has occurred that has a detrimental impact on the estimated future cash flows of the asset. Stage 3 assets continue to recognise lifetime expected impairment losses and interest income is recognised on the net carrying amount (i.e. gross amount less impairment allowance).

The impact of the above is to increase the impairment provisions held within the Financial Services business as at 11 March 2018 by £80 million, with a corresponding reduction to retained earnings of £66 million, net of deferred tax of £14 million. The net impact to retained earnings has been segregated within the Group statement of changes in equity. Prospectively, it is expected that the ECL model will lead to greater ongoing in-year provision costs to the profit and loss.

c. Hedge accounting

When initially applying IFRS 9, the Group has exercised the accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 for its macro hedging relationships (applicable to the Financial Services business) and has adopted IFRS 9 in respect of its micro hedge accounting. Macro hedging concerns using instruments to address an entire balance sheet, whereas micro hedging focuses on a particular asset/liability risk. Although the micro hedge accounting requirements under IFRS 9 are generally less restrictive, this has not resulted in a material impact on the Group.

16. IFRS 15 ‘Revenue from contracts with customers’

IFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and is required for annual periods beginning on or after 1 January 2018. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer, and supersedes all current revenue recognition requirements of IFRS.

As reported in the Annual Report for the year ended 10 March 2018, the Group has performed a detailed impact assessment, identifying all current sources of revenue and analysing the accounting requirements for each under IFRS 15. The Group has adopted IFRS 15 using the full retrospective transition option. Full retrospective adoption of IFRS 15 requires comparatives to be restated in order to present values on a consistent basis. However, having quantified the impact of IFRS 15, management has assessed this impact as immaterial and has chosen not to restate the primary statements. The disclosure below sets out the impact of IFRS 15 on prior periods.

16. IFRS 15 ‘Revenue from contracts with customers’ (continued)

Impact on the comparative statement of financial position on the adoption of IFRS 15:

	Adjustment	28 weeks to 23 September 2017 £m	52 weeks to 10 March 2018 £m
Assets			
Right of return assets	(a)	2	3
Liabilities			
Provisions	(a)	(2)	(3)
Deferred revenue	(b)	-	10
Equity			
Retained Earnings	(b)	-	(10)

Impact on the comparative statement of profit and loss on adoption of IFRS 15:

	Adjustment	28 weeks to 23 September 2017 £m	52 weeks to 10 March 2018 £m
Revenue from contracts with customers	(c)	4	7
Cost of sales	(c)	(4)	(7)

There is no impact on gross margin. IFRS 15 does not impact other comprehensive income, nor is there a material impact on the statement of cash flow. There is a nil impact to both basic and diluted EPS.

(a) Right of return asset & provision

Under IFRS 15, the consideration received from the customer is variable because the contract allows the customer to return the products. The Group uses the expected value method to estimate the goods that will be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The impact upon adoption of IFRS 15 for the 52 weeks to 10 March 2018 is a £3 million increase in both the right to return asset and provision (28 weeks to 23 September 2017: £2 million increase). This is considered to be immaterial to the Group results and has not been restated within the comparatives on the statement of financial position.

(b) Nectar

On 1 February 2018, the Group acquired the shares of Aimia Inc’s UK business, enabling the full and independent operation of the Nectar Loyalty programme in the UK. From the point of acquisition, any points issued and redeemed in Sainsbury’s and Argos were accounted for in line with IFRIC 13 ‘Customer Loyalty Programmes’, meaning a portion of the transaction price was allocated to the loyalty programme using the fair value of points issued. There is an immaterial change to the loyalty programme upon the adoption of IFRS 15.

Under IAS 18, programme support fees (“PSF”) for Nectar were deferred and recognised in line with the issuances and redemption profile. However on application of IFRS 15, revenue needs to be disaggregated against individual performance obligations. These fees are now recognised on a straight line basis over a period equalling the agreement term length. Applying IFRS 15 retrospectively, the brought forward deferred revenue balance includes £10 million of PSF relating to prior periods. This balance has been accumulated over many years, with the year on year impact considered to be immaterial to the Group. This restatement has been represented as a day 1 adjustment within the Statement of Changes in Equity.

16. IFRS 15 'Revenue from contracts with customers' (continued)

(c) Agent vs principal

From time to time the Group enters into contracts with suppliers for which an assessment must be made to determine whether the Group is acting as principal or agent when selling the related goods to customers. In performing its analysis, the Group has identified arrangements where there is a change in the agent/principal classification. The impact to revenue and cost of sales for the 52 weeks to 10 March 2018 is a £7 million reduction (28 weeks to 23 September 2017: £3.5 million reduction). This is immaterial to the Group results and has not been restated within the comparatives on the profit and loss statement.

17. Capital expenditure and commitments

In the financial period, the following additions and disposals were made:

	28 weeks to 22 September 2018 £m	28 weeks to 23 September 2017 £m	52 weeks to 10 March 2018 £m
Additions			
Property, plant and equipment	**253**	293	578
Intangibles	**59**	57	139
Disposals - net book value			
Property, plant and equipment	**(16)**	(11)	(29)
Intangibles	**(2)**	(2)	(2)
Assets held for sale	**(1)**	(2)	(1)

At 22 September 2018, capital commitments contracted, but not provided for by the Group, amounted to £123 million (23 September 2017: £103 million; 10 March 2018: £103 million), and £24 million for the property joint ventures (23 September 2017: £81 million; 10 March 2018: £55 million).

18. Related party transactions

The Group's related parties are its joint ventures as disclosed in its Annual Report and Financial Statements 2018.

Transactions with joint ventures and associates

For the 28 weeks to 22 September 2018, the Group entered into various transactions with joint ventures and associates as set out below:

	28 weeks to 22 September 2018 £m	28 weeks to 23 September 2017 £m	52 weeks to 10 March 2018 £m
Services and loans provided to joint ventures			
Management services provided	**-**	-	1
Revenue received from joint ventures	**-**	14	26
Dividend income received	**16**	16	37
Investment in joint ventures and associates	**(5)**	(8)	(9)
Disposal of joint ventures	**-**	-	2
Rental expenses paid	**(20)**	(25)	(46)

18. Related party transactions (continued)

Balances arising from transactions with joint ventures and associates

	28 weeks to 22 September 2018 £m	28 weeks to 23 September 2017 £m	52 weeks to 10 March 2018 £m
Receivables			
Other receivables	**5**	10	6
Loans due from joint ventures	**-**	3	-
Payables			
Loans due to joint ventures	**(6)**	(5)	(5)

19. Contingent liabilities

The Group has a number of contingent liabilities in respect of historic lease guarantees, particularly in relation to the disposal of assets, which if the current tenant and their ultimate parents become insolvent, may expose the Group to a material liability. This is not expected to materialise.

Along with other retailers, the Group is currently subject to claims brought by approximately 2,000 current and ex-employees in the Employment Tribunal for equal pay under the Equality Act 2010 and/or the Equal Pay Act 1970. Typically, claims of this nature can take many years to be determined. Given that the claims against the Company are still at an early stage and are currently stayed, the outcome of such claims is highly uncertain at this stage and the Group considers the likelihood of a material payout to be remote.

20. Post balance sheet events

On 26 October 2018, the High Court of Justice of England and Wales issued a judgement in a claim between Lloyds Banking Group Pension Trustees Limited (claimant) and Lloyds Bank plc and others (defendants) regarding the rights of female members of certain pension schemes to equality of treatment in relation to pension benefits. The judgement concluded that the claimant is under a duty to amend the schemes in order to equalise benefits for men and women in relation to guaranteed minimum pension benefits.

The judgement also provided comments on the method to be adopted in order to equalise benefits, on the period during which a member can claim in respect of previously underpaid benefits, and on what should be done in relation to benefits that have been transferred into, and out of, the relevant schemes. The issues determined by the judgement arise in relation to many other occupational pension schemes. The extent to which the judgement will increase the liabilities of the Sainsbury’s Pension Scheme and reduce the net accounting surplus of £266 million as at 22 September 2018 is under consideration. Any adjustment necessary is expected to be recognised by the Group in the second half of the period ending 9 March 2019.

Principal risks and uncertainties

Risk is an inherent part of doing business. The J Sainsbury plc Board has overall responsibility for the management of the principal risks and internal control of the Company. The Board has identified the following principal potential risks to the successful operation of the business. These risks, along with the events in the financial markets and their potential impacts on the wider economy, remain those most likely to affect the Group in the second half of the year.

- Brand perception
- Business continuity and major incidents response
- Business strategy and change
- Colleague engagement, retention and capability
- Data security following the decision to leave the EU we have seen increased economic uncertainty, exchange rate volatility
- Environment and sustainability
- Financial and treasury risk
- Health and safety – people and product
- Political and regulatory environment
- Trading environment and competitive landscape

The Board continues to monitor the risks and in particular, the impact of the UK's decision to leave the European Union and the uncertainty around the nature of the departure. As negotiations continue, the Board will monitor outcomes, assess the impact on customers, colleagues and supply chains and implement an appropriate response.

The above Principal Risks remain unchanged from those reported in the Group's Annual Report and Financial Statements 2018. For more information on these risks, detail of these risks, please refer to pages 30 to 34 of the J Sainsbury plc Annual Report and Financial Statements 2018, a copy of which is available on the Group's corporate website www.about.sainsburys.co.uk/about-us.

Statement of Directors' responsibilities

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

The Directors of J Sainsbury plc are listed in the J Sainsbury plc Annual Report and Financial Statements 2018 with the exception of Martin Scicluna who joined the Board on 1 November 2018 as Chairman-Designate and Non-Executive Director. A list of current directors is maintained on the Group's website: www.j-sainsbury.co.uk.

By order of the Board

Mike Coupe
Chief Executive
7 November 2018

Kevin O'Byrne
Chief Financial Officer
7 November 2018

INDEPENDENT REVIEW REPORT TO J SAINSBURY PLC

Introduction

We have been engaged by J Sainsbury plc (the company) to review the condensed consolidated set of financial statements in the interim financial report for the 28 weeks ended 22 September 2018 which comprises the Group income statement, the Group statement of comprehensive income, the Group balance sheet, the Group cash flow statement and the Group statement of changes in equity and the related explanatory notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated set of interim financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The interim financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the company a conclusion on the condensed consolidated set of financial statements in the interim financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the interim financial report for the 28 weeks ended 22 September 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London
7 November 2018

Alternative performance measures (APMs)

In the reporting of financial information, the Directors use various APMs which they believe provide additional useful information for understanding the financial performance and financial health of the Group. These APMs should be considered in addition to, and are not intended to be a substitute for IFRS measurements. As they are not defined by International Financial Reporting Standards, they may not be directly comparable with other companies who use similar measures.

All of the following APMs relate to the current period's results and comparative periods where provided.

APM	Closest equivalent IFRS measure	Definition/Purpose	Reconciliation
Income statement			
Like-for-like sales	No direct equivalent	Year-on-year growth in sales including VAT, excluding fuel, excluding Financial Services, for stores that have been open for more than one year. The relocation of Argos stores into Sainsbury's supermarkets is classifed as new space, while the host supermarket is classified like-for-like. The measure is used widely in the retail industry as an indicator of current trading performance and is useful when comparing growth between retailers that have different profiles of expansion, disposals and closures.	The reported retail like-for-like sales growth of 0.6 per cent is based on a combination of Sainsbury's like-for-like sales and Argos like-for-like sales for the 28 weeks to 22 September 2018. See movements below: (see table below)
Underlying Group sales	Revenue	Total sales less acquisition fair value unwinds on Argos Financial Services. This is the headline measure of revenue for the Group. It shows the annual rate of growth in the Group's sales and is considered a good indicator of how rapidly the Group's core business is growing.	A reconciliation of the measure is provided in note 4 of the financial statements.
Underlying profit before tax	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 of the financial statements.

	28 weeks to 22 September 2018 %	28 weeks to 23 September 2017 %
Underlying retail like-for-like (exc. fuel)	**0.6**	1.6
Underlying net new space impact	**0.6**	0.3
Underlying total retail sales growth (exc. fuel)[1]	**1.2**	1.9
Argos consolidation	**-**	18.0
Underlying total retail sales growth (exc. fuel)	**1.2**	19.9
Fuel Impact	**2.3**	(3.1)
Underlying total retail sales growth (inc. fuel)	**3.5**	16.8
Bank impact	**-**	0.3
Underlying Group sales inc. VAT	**3.5**	17.1

1. Underlying total retail sales growth can be recalculated as 1.1% using the financial information presented in the Condensed Consolidated Interim Financial Statements. When accounting for the unadjusted IFRS 15 impact within the base (note 16) this value is 1.2%.

Alternative performance measures (APMs) (continued)

APM	Closest equivalent IFRS measure	Definition/Purpose	Reconciliation
Retail underlying operating profit	Profit before tax	Underlying earnings before interest, tax, Financial Services operating profit and Sainsbury's underlying share of post-tax profit from joint ventures and associates.	A reconciliation of the measure is provided in note 4 of the financial statements.
Underlying basic earnings per share	Basic earnings per share	Earnings per share using underlying profit as described above. This is a key measure to evaluate the performance of the business and returns generated for investors.	A reconciliation of the measure is provided in note 9 of the financial statements.
Retail underlying EBITDAR	No direct equivalent	Retail underlying operating profit as above, before rent, depreciation and amortisation.	A reconciliation of the measure is provided on page 10 of the Financial Review.
Cash flows and net debt			
Cash flow items in Financial Review	No direct equivalent	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 financial statements includes a reference to show what has been combined in these line items.	See table below
Retail free cash flow[1]	Net cash generated from operating activities	Net cash generated from retail operations, adjusted for exceptional pension contributions, after cash capital expenditure but before strategic capital expenditure and after investments in joint ventures and associates and Sainsbury's Bank capital injections. This measures cash generation, working capital efficiency and capital expenditure of the retail business.	See table below

Cash flow items in Financial Review:

	Ref	**28 weeks to 22 September 2018 £m**	28 weeks to 23 September 2017 £m	52 weeks to 10 March 2018 £m
Net interest paid	a	**(55)**	(61)	(105)
Strategic capital expenditure	b	**(31)**	(35)	(80)
Acquisition of subsidiaries	c	**-**	-	135
Repayment/ proceeds from borrowings	d	**(567)**	(81)	(174)
Other	e	**(1)**	(9)	(2)
Joint ventures	f	**11**	8	28

Reconciliation of retail free cash flow	**28 weeks to 22 September 2018 £m**	28 weeks to 23 September 2017 £m	52 weeks to 10 March 2018 £m
Cash generated from retail operations	**889**	872	1,259
Net interest paid (ref (a) above)	**(55)**	(61)	(105)
Corporation tax	**(15)**	(40)	(72)
Retail purchase of property, plant and equipment	**(234)**	(280)	(553)
Retail purchase of intangible assets	**(42)**	(32)	(69)
Retail proceeds from disposal of property, plant and equipment	**34**	44	54
Add back: Strategic capital expenditure	**31**	35	80
Dividends and distributions received	**16**	16	37
Investment in joint ventures and associates	**(5)**	(8)	(9)
Bank capital injections	**-**	(110)	(190)
Free cash flow	**619**	436	432

1. The definition of retail free cash flow changed at year-end in the prior financial year from 'net cash generated from retail operations, adjusted for exceptional pension contributions, after cash capital expenditure but before strategic capital expenditure' to 'net cash generated from retail operations, adjusted for exceptional pension contributions, after cash capital expenditure but before strategic capital expenditure & after investments in joint ventures & associates and Sainsbury's Bank capital injections'.

Alternative performance measures (APMs) (continued)

<table>
<tr><th>APM</th><th>Closest equivalent IFRS measure</th><th>Definition/Purpose</th><th>Reconciliation</th></tr>
<tr><td>Cash generated from retail operations (per Financial Review)</td><td>Cash generated from operations</td><td>Retail cash generated from operations after changes in working capital but before pension contributions and exceptional pension contributions.

This enables management to assess the cash generated from its core retail operations.</td><td>The reconciliation between retail and Group cash generated from operations is provided in note 4 of the financial statements.</td></tr>
<tr><td>Core retail capital expenditure</td><td>No direct equivalent</td><td>Capital expenditure excludes Sainsbury's Bank, after proceeds on disposals and before strategic capital expenditure.

This allows management to assess core retail capital expenditure in the period in order to review the strategic business performance.

The reconciliation from the cash flow statement is included here.</td><td>
<table>
<tr><th>Reconciliation of retail free cash flow</th><th>28 weeks to 22 September 2018 £m</th><th>28 weeks to 23 September 2017 £m</th></tr>
<tr><td>Purchase of property, plant and equipment</td><td>(203)</td><td>(245)</td></tr>
<tr><td>Purchase of intangibles</td><td>(42)</td><td>(32)</td></tr>
<tr><td>Cash capital expenditure before strategic capital expenditure (note 4b)</td><td>(245)</td><td>(277)</td></tr>
<tr><td>Strategic capital expenditure (ref (b) page 30)</td><td>(31)</td><td>(35)</td></tr>
<tr><td>Proceeds on disposal</td><td>34</td><td>44</td></tr>
<tr><td>Cash capital expenditure including strategic capital expenditure</td><td>(242)</td><td>(268)</td></tr>
<tr><td>Capitalised interest</td><td>(3)</td><td>(4)</td></tr>
<tr><td>Other (including strategic capital expenditure)</td><td>31</td><td>35</td></tr>
<tr><td>Debtor movement</td><td>(2)</td><td>(2)</td></tr>
<tr><td>Total net retail core capital expenditure</td><td>(216)</td><td>(239)</td></tr>
</table>
</td></tr>
<tr><td>Retail Net Debt</td><td>Borrowings, cash, derivatives, financial assets and finance leases</td><td>Net debt includes the capital injections in to Sainsbury's Bank, but excludes the net debt of Sainsbury's Bank and its subsidiaries. Sainsbury's Bank's net debt balances are excluded because they are required for business as usual activities.

It is calculated as: available-for-sale assets (excluding equity investments) + net derivatives + net cash and cash equivalents + loans + finance lease obligations. This shows the overall strength of the balance sheet alongside the liquidity and its indebtedness and whether the Group can cover its debt commitments.</td><td>A reconciliation of the measure is provided in note 5 of the financial statements.</td></tr>
<tr><td>Gearing</td><td>No direct equivalent</td><td>Retail net debt divided by Group net assets.

Gearing measures the Group's proportion of borrowed funds to its equity.</td><td>Retail net debt as per above and net assets as per the Group balance sheet.</td></tr>
<tr><td colspan="4">Other</td></tr>
<tr><td>Lease adjusted net debt/underlying EBITDAR</td><td>No direct equivalent</td><td>Net debt plus capitalised lease obligations divided by Group underlying EBITDAR.

This helps management measure the ratio of the business's debt to operational cash flow.</td><td>A reconciliation of this is provided in the Financial Review on page 15.</td></tr>
<tr><td>Return on capital employed</td><td>No direct equivalent</td><td>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.

This represents the total capital that the Group has utilised in order to generate profits. Management use this to assess the performance of the business.</td><td>An explanation of the calculation is provided in the Financial Review on page 15.</td></tr>
</table>

Alternative performance measures (APMs) (continued)

APM	Closest equivalent IFRS measure	Definition/Purpose	Reconciliation
Interest cover	No direct equivalent	Underlying operating profit, plus underlying share of post-tax profit from joint ventures and associates, divided by underlying net finance costs, where interest on perpetual securities is included in underlying finance costs. This measures the ability of the Group to pay the interest on its outstanding debt. This measurement is used by creditors, lenders and investors to determine the risk of lending funds to the Group.	Underlying operating profit as per note 4 of the financial statements. Underlying share of post-tax profit from joint ventures and associates as per note 4 of the financial statements. Underlying net finance costs as per note 7 of the financial statements.
Fixed charge cover	No direct equivalent	Group underlying EBITDAR divided by net rent and underlying net finance costs, where interest on perpetual securities is included in underlying finance costs. This helps assess the Group's ability to satisfy fixed financing expenses from performance of the business.	EBITDAR is reconciled in the Financial Review on page 15. Underlying net finance costs as per note 7 of the financial statements.