1 May 2019

J Sainsbury plc

Preliminary Results for the 52 weeks to 9 March 2019
Full year profit ahead of consensus; accelerating investment in stores and digital

- Underlying profits up 7.8 per cent; net debt £222 million lower, ahead of target; dividend up 7.8 per cent
- Accelerating investment in store estate and technology while reducing net debt and maintaining our dividend policy
- Investing to improve more than 400 supermarkets this year
- New target to reduce net debt by at least £600 million over the next three years

Strategic highlights

- Customers continue to rate Sainsbury's first for food quality and we outperformed the market in premium categories[1]
- Growth across all Sainsbury's channels. Convenience and Groceries Online sales grew 3.7 per cent and 6.9 per cent respectively, with Convenience outperforming the market[2]. Supermarket sales grew one per cent, benefiting from the addition of Argos stores inside supermarkets
- Completed a major reorganisation of Sainsbury's store operations, introducing a more efficient structure and more flexible colleague contract, with industry-leading pay of £9.20 per hour
- Argos grew sales, outperforming[3] a highly competitive and very promotional market
- Completed the integration of Argos, delivering £160 million in synergies. 281 Argos stores in Sainsbury's supermarkets at the year end and increased the number of Argos collections points in Sainsbury's convenience stores to 207 and total physical Argos points of presence to 1,200
- £4.7 billion of our sales start online and we are accelerating our investment in technology:
  - Rolled out SmartShop self-scan to over 100 supermarkets
  - Pay@Browse available in 162 Argos stores enabling customers to pay without queuing
  - Trialling digital Nectar in Wales ahead of a broader roll-out later in the year
  - Trialling the UK's first checkout-free Grocery store

Financial highlights

- Underlying profit before tax of £635 million, up 7.8 per cent, driven by solid food performance, delivery of £160 million Argos synergies nine months ahead of schedule and reduced interest costs
- Retail underlying operating profit up 10.7 per cent to £692 million
- Sainsbury's Bank underlying profits of £31 million, in line with guidance
- Statutory profit after tax of £219 million, down from £309 million, due to non-underlying charges relating to legislation on Guaranteed Minimum Pensions; retail restructuring; Sainsbury's Bank transition; Asda transaction and Argos integration
- Strong cash generation with retail free cash flow of £461 million, up 6.7 per cent in the year
- Net debt reduced by £222 million to £1,636 million (including perpetual securities). Net debt reduction of £162 million before fair value movements on derivatives, ahead of £100 million guidance
- £220 million cost savings delivered in the year
- Underlying net finance costs reduced by 19.3 per cent to £96 million
- Underlying earnings per share increased 7.8 per cent to 22.0 pence per share
- In line with our policy of paying a dividend that is covered 2.0 times by underlying earnings, we propose to pay a final dividend of 7.9 pence per share, bringing our full year dividend to 11.0 pence per share, an increase of 7.8 per cent

Capital Markets Day

- We are planning a Capital Markets Day on 25th September 2019 to further update on our progress

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[1] Nielsen Panel, Total FMCG, Market Universe, Total Outlets, 52 weeks data to P13 18/19
[2] Nielsen EPOS Convenience Total Business, Quarterly data to Q4 18/19
[3] British Retail Consortium, market data 52 weeks ended 9th March 2019

	2018/19	2017/18	Variance
Business Performance			
Group sales (inc VAT)	£32,412m	£31,735m	2.1%
Group like-for-like sales (inc VAT, ex fuel)			(0.2)%
Underlying profit before tax	£635m	£589m	7.8%
Underlying basic earnings per share	22.0p	20.4p	7.8%
Proposed final dividend	7.9p	7.1p	11.3%
Proposed full year dividend	11.0p	10.2p	7.8%
Net debt (including perpetual securities)	£1,636m	£1,858m	£222m
Return on capital employed	8.5%	8.4%	-

	2018/19	2017/18
Statutory Reporting		
Group revenue (ex VAT, inc fuel)	£29,007m	£28,456m
Items excluded from underlying results	£(396)m	£(180)m
Profit after tax	£219m	£309m
Basic earnings per share	9.1p	13.3p

Mike Coupe, Group Chief Executive of J Sainsbury plc, said: “I am pleased to report that we have increased profits, reduced net debt and increased the dividend. This is testament to the hard work of colleagues across the business and I would like to thank them for their commitment during this year of change.

“We completed the integration of Argos that we set out in 2016, delivering £160 million in synergies ahead of schedule. We completed a major transformation of how we run Sainsbury’s stores and have made significant improvements to store standards in recent months, which remain a focus. Customers continue to rate us top for quality food and we are growing our premium ranges. We are also focused on reducing costs so that we can invest to make commodity products better value for our customers.

“We will increase and accelerate investment in the core business, investing to improve over 400 supermarkets this year. £4.7 billion of our revenue now comes from our online businesses and we are increasing investment in technology to make shopping across Sainsbury’s, Argos and Sainsbury’s Bank as quick and convenient as possible. We will also continue to strengthen our balance sheet and are making a new commitment to reduce net debt by at least £600 million over the next three years.

“I am confident in our strategy and also clear on what we need to do to continue to evolve the business in a highly competitive market where shopping habits continue to change.”

Dividend

In line with our policy of paying a dividend that is covered 2.0 times by underlying earnings, we propose to pay a final dividend of 7.9 pence per share, bringing our full year dividend to 11.0 pence per share, an increase of 7.8 per cent.

Outlook

Retail markets are highly competitive and very promotional and the consumer outlook continues to be uncertain. However, we are well placed to navigate the external environment and remain focused on delivering our strategy.

Fourth Quarter Trading Statement data for the 9 weeks to 9 March 2019

Like-for-like sales growth	2017/18		2018/19						
	Q3	Q4	Q1	Q2	H1	Q3	Q4	H2	FY
Like-for-like sales (excl. fuel)	1.1%	0.9%	0.2%	1.0%	0.6%	(1.1)%	(0.9)%	(1.0)%	(0.2)%
Like-for-like sales (inc. fuel)	1.2%	1.8%	2.6%	3.4%	3.0%	0.3%	(0.5)%	0.0%	1.5%

Total sales growth	2017/18		2018/19						
	Q3	Q4	Q1	Q2	H1	Q3	Q4	H2	FY
Grocery (exc. Pharmacy)	2.3%	2.1%	0.5%	2.0%	1.2%	0.4%	(0.6)%	0.0%	0.6%
General Merchandise	(1.4)%	(1.2)%	1.7%	1.2%	1.5%	(2.3)%	1.5%	(1.3)%	0.0%
Clothing	1.0%	0.4%	0.8%	(3.4)%	(1.0)%	(0.2)%	(1.6)%	(0.6)%	(0.8)%
Total Retail (excl. fuel)	**1.2%**	**1.3%**	**0.8%**	**1.7%**	**1.2%**	**(0.4)%**	**(0.2)%**	**(0.4)%**	**0.4%**
Total Retail (inc. fuel)	1.4%	2.3%	3.2%	3.9%	3.5%	0.8%	0.0%	0.6%	2.1%

Notes

A. All sales figures contained in this trading statement are stated including VAT from 2018/19and in accordance with IFRS 15.

Our strategy

We are delivering the strategy we set out in November 2014. The market is competitive and the way customers shop continues to evolve in the ways we anticipated.

Our strategy is based on five pillars: knowing our customers better than anyone else; great products and services at fair prices; being there for our customers whenever and wherever; colleagues making the difference and our values making us different.

As shopping habits evolve, we continue to update our strategic priorities. This will help to develop and differentiate our customer offer and to grow and create value for our shareholders. Our five updated priorities are:

1. Differentiate food and grocery through quality, value and service
2. Grow General Merchandise and Clothing
3. Offer our customers easy access to financial services
4. Generate efficiencies to invest in our digital future
5. Strengthen the balance sheet

Our values

Our values are integral to how we do business and enable us to drive lasting positive change in communities across the UK and overseas. We have five values:

- Living healthier lives: 78 per cent of our own-brand products are labelled with green and amber traffic lights, just one of the ways we are helping our customers to eat and live well
- Sourcing with integrity: Winner of the Marine Stewardship Council's UK Supermarket of the Year for the fifth year in a row
- Respect for our environment: 100 million+ items with reduced or zero plastic packaging through design changes this year, with further reductions in the pipeline
- Making a positive difference to our community: A record 94 per cent of our stores partnered with local charities this year
- Great place to work: As part of our efforts to be the most inclusive retailer, 31.4 per cent of senior roles are now held by women, making progress towards achieving our target of 40 per cent

Notes

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 on 1 May 2019 at 9.30am.

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 753 931. 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.

Sainsbury's will issue its 2019/20 First Quarter Trading Statement at 07:00 (BST) on 3 July 2019.

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MARKET CONTEXT

The Market

Economic conditions eased slightly for UK consumers over the last 12 months, as average weekly earnings grew ahead of a reducing inflation burden for most of the year. Despite this, consumer confidence was impacted by the continuing uncertainty around Brexit.

Lower levels of inflation and declining consumer confidence have resulted in reduced sales growth in both the food and non-food sectors. Non-food retailers were particularly impacted by weak demand, rising costs and the ongoing impact of increasing online penetration, driving further consolidation and restructuring of the sector.

Retail trends

The past year has seen continued rapid change in how customers shop in the UK. With greater access to a variety of shopping channels, the UK consumer has more flexibility and choice than ever in how and when they shop for food, general merchandise and clothing. Barriers to entry in some of these channels are far lower than before, giving disruptors the opportunity to gain strong footholds across the retail landscape. The impact of this can be seen in the record levels of store closures, traditional retail business collapses and redundancy for retail colleagues. Restructuring of the UK retail industry is likely to continue for some time given rising cost pressures in wages, rates and other fixed costs.

Consumers are shopping for groceries more frequently across different channels and store formats, with online and convenience channels showing strong growth. There is limited new space being added to the market from traditional grocers but discount and bargain retailers continue to open significant numbers of new stores and gain market share. Consumers are also eating more meals outside the home and the growth of food delivery services such as Deliveroo, Just Eat and Uber Eats is also impacting grocery spending.

High streets and retail parks continue to experience footfall and sales declines as online participation grows. A key driver of the trend towards general merchandise and clothing being bought online is the wide choice of delivery and pick-up options. Delivery services have improved in terms of speed and reliability, while Click & Collect is both cost-effective and convenient for customers and accounts for a significant proportion of online general merchandise and clothing sales.

Retailers that can fulfil their customers' needs flexibly, rapidly and conveniently, offering a consistent experience to consumers across all channels, will be set up to succeed in this increasingly tough and competitive retail environment.

Sainsbury's response to a competitive and evolving market

Our strategy is to respond to the changing needs of our customers and enable them to shop with us whenever and wherever they want.

The quality of our food continues to be a strong differentiator and we are working in partnership with our suppliers to bring exclusive, innovative and distinctive products to our customers. We are adapting our supermarket space to serve a wide variety of shopping missions, ensuring we offer customers a broad range of products and services under one roof. This includes Argos stores as well as popular brands such as Specsavers, Sushi Gourmet and Explore Learning. Maximising the productivity of our supermarket space in this way is driving an increase in trading intensity across our supermarket estate. We have also transformed the way we run Sainsbury's stores, fundamentally changing how our managers and colleagues work, aligning better with the ways customers shop.

In the fast-growing Groceries Online channel, technological improvements have improved productivity and helped to drive sales, making this channel to market more profitable. Our convenience store estate consists of over 800 stores and is outperforming the market in value and volume as we continue to tailor the ranges we offer to ensure they reflect the local demographics and different shopping missions in each store.

Our General Merchandise and Clothing business is performing well in a highly competitive market and we had 281 Argos stores in our supermarkets at the year end. Argos's unique hub and spoke distribution network enables quick, convenient and efficient fulfilment of customer orders for collection or home delivery. Our *Fast Track* collection and delivery channels have grown significantly as the combination of a strong online proposition and a wide availability of delivery and pick-up options continues to be popular with customers.

We have accelerated the rate of change across the Group, with a focus on technology-led innovation that makes shopping faster, easier and more convenient for our customers. SmartShop self-scan, which enables customers to scan their shopping directly on to their phone or hand-held device, is available in over 100 supermarkets. We were the first grocer in the UK to introduce SmartShop mobile pay in eight convenience stores, enabling customers to bypass the checkout and pay on their smartphone from anywhere in the store. Pay@Browse is currently available in 162 Argos stores, offering customers a convenient payment option without the need to queue at a till. We have also introduced a visual search function which allows customers to search the Argos product range using a photo of the product they want.

We have delivered £160 million EBITDA of synergies from the acquisition of Argos. Together with ongoing cost savings progress and a focus on maintaining balance sheet strength, we are confident that we have the resources to remain competitive in our rapidly changing markets.

OUR STRATEGY

Priority 1: Differentiate food and grocery through quality, value and service

Great quality food has been at the heart of our business since John James and Mary Ann Sainsbury opened the doors of our first shop in Drury Lane in 1869. 150 years later, we continue to invest in quality, value and choice, differentiating our offer in a highly competitive market.

Grocery sales increased by 0.6 per cent, predominantly in the first half of the year. Sales in Convenience and Groceries Online grew 3.7 per cent and 6.9 per cent respectively and Convenience outperformed the market[4].

Grocery shopping habits continue to change rapidly as customers seek higher quality at lower prices. Quality is a key differentiator for us. Customers consistently rate the quality of our food as market-leading[5] and continue to switch to us from more premium competitors[6]. We outperform the market in our top tier categories[7] such as *Taste the Difference*, which grew faster than the market, with volume growth of 2.2 per cent.

Our strength and growth in premium, value-added ranges help us to invest in making our commodity ranges better value. But in this highly competitive area, we know we have more work to do to grow sales. We continue to review our ranges to ensure we offer our customers the right combination of value and choice. Our cheese category is a good example of this. By reducing costs in our supply chain, we were able to lower prices at the value end of the category, making us more competitive on price and driving volume growth. Together with an improvement in quality and greater choice at the premium end, we improved our market share position[8] and drove growth in cheese volumes of six per cent compared to the period before we implemented the changes.

In fresh produce, we have worked closely with suppliers to develop our Ripe & Ready ranges. As a result, we have grown volumes by 72 per cent over the last five years, with prices on average 13 per cent lower than the market leader in this category.

We are well positioned in a number of high growth food categories where we can add value for our customers. For example, we have a strong share in the fast-growing vegetarian and vegan markets and we have invested in new ranges of plant-based meals for customers who want more alternatives to meat. Our free-from ranges contribute over £100 million in sales and we outperform the growing allergen-free market[9]. We also increased volumes in our dairy alternatives category by 8.7 per cent and outperformed the market by offering a wide choice of branded products.

Customers want distinctive products they can't find anywhere else and the number of customers who said this was their primary reason for shopping with us increased. Our dedicated Future Brands team works closely with small, specialist suppliers to bring these innovative and exclusive ranges to our customers. We have a longstanding history of working in genuine partnership with our suppliers and, over the last seven years, they have consistently ranked us first or second for supplier relationships in the industry's largest independent supplier survey[10]. We now have 126 Future Brands in our stores. Every £1 of profit made from a Future Brand is more than 50p of profit that we would not have otherwise made.

Our strategy is to enable our customers to shop with us whenever and wherever they want. Our supermarkets are the right size, in high quality locations and we continue to invest in them. By regularly reviewing our ranges, introducing new and exclusive products and opening Argos stores in Sainsbury's supermarkets, we have increased trading intensity in supermarkets. We have further invested in our store estate by refitting our General Merchandise and *Tu* clothing areas and bringing in the right ranges to serve local customer needs. We will increase investment in our supermarkets in 2019/20.

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[4] Nielsen EPOS Convenience Total Business, Quarterly data to Q4 18/19
[5] Sainsbury's Brand Tracker
[6] Nielsen Panel Market Universe: Total Outlet (52 wks data to P13 18/19)
[7] Nielsen EPOS Data Market Universe: Grocer Multiples (52 weeks ending 9th March 2019)
[8] Nielsen Panel & EPOS Report, as at week 24
[9] Nielsen Panel Market Universe : Total Outlet (52 wks data to P13 18/19)
[10] Advantage Supplier Survey

We work with selected concession partners such as Sushi Gourmet, Timpsons and Specsavers so that our customers can do more of their shopping under one roof. We trialled a major upgrade of our beauty range in eight stores, with new and exclusive products and larger, more inspiring store layouts. This has proved popular and elements of this will be rolled out further next year.

In food and grocery, online and convenience sales continue to grow faster than supermarket sales. Both of these channels continue to be strong drivers of profitable growth for us. Increasingly, ranges in our convenience stores are specifically tailored to local customer demographics, generating market-leading trading intensities.

We are investing in our Groceries Online offer so that we can continue to improve the ease, speed and reliability of the service for customers. Our Groceries Online app now accounts for over 20 per cent of orders. We offer same day delivery to 57 per cent of UK households, up from 40 per cent in 2017/18. Customers can also collect online orders from 124 supermarkets. Our Chop Chop one-hour delivery service now operates in London zones one and two, covering over 1.7 million customers.

We are also investing in technology in supermarkets to make shopping easier and more convenient. SmartShop, which allows customers to scan their shopping using a hand-held device or their mobile phone, is now available in over 100 supermarkets, helping customers save time and manage their budgets. We introduced SmartShop Mobile Pay in eight convenience stores, enabling customers to scan their shopping and pay on their smartphone from anywhere in the store – a first for the UK grocery market. Customers who use SmartShop are more likely to buy more and to be more loyal to Sainsbury's.

During the year we completed the largest reorganisation in our stores for more than a decade. We made two major changes to the way Sainsbury's stores operate, to ensure we are fit for the future and able to adapt to evolving shopping habits. Firstly, we created a more efficient and effective management structure which is designed to ensure that our managers are genuinely managing our stores and our colleagues and that our customer-facing colleagues have more time to spend with customers on the shop floor. We also introduced one fair and consistent colleague contract, which includes greater flexibility, so that we can make sure our colleagues are always in the right place at the right time for our customers. In recognition of these changes, we made an industry-leading investment in colleague pay, taking the base rate to £9.20 per hour and bringing the total pay increase to 30 per cent over the last four years for Sainsbury's store colleagues.

We have made significant improvements to store standards in recent months, which remain a focus. Our new customer feedback service, Lettuce Know, provides detailed data to each of our stores individually, enabling them to respond to customer feedback in real time. We would like to thank our store colleagues for all their commitment and hard work as we have worked through a year of significant change.

Priority 2: Grow General Merchandise and Clothing

We are one of the largest general merchandise retailers in the UK, offering customers choice, value, convenience, flexibility and fast delivery. The majority of our General Merchandise sales are through Argos, which we continue to integrate with the Sainsbury's General Merchandise business to drive scale and efficiency. We have delivered £160 million in Argos EBITDA synergies nine months ahead of our original schedule.

Overall, General Merchandise sales were flat in a declining market. Argos sales grew, outperforming a highly competitive and very promotional market by 2.2 per cent[11]. Margins remained under pressure, impacted by strong sales of lower margin consumer technology products.

Sainsbury's General Merchandise sales, particularly electricals, declined as we continued to streamline our ranges in nearly 300 supermarkets in favour of Argos General Merchandise. We continued to rebalance Sainsbury's ranges away from lower margin products such as electricals towards higher margin ranges such as clothing.

[11] British Retail Consortium, market data 52 weeks ended 9th March 2019

Argos saw sales growth in electricals, leisure and toys and, during the hot summer, in seasonal categories such as garden furniture, outdoor games and barbeques. We are investing in our home, garden and furniture categories with an emphasis on our own-brand ranges.

We have 281 Argos stores in Sainsbury's supermarkets, achieving our 2018/19 year-end target of 280. These stores now account for around 20 per cent of Argos store sales. Sales in Argos stores in Sainsbury's supermarkets that have been trading for more than three years are 43 per cent higher than in their first year and sales in stores trading for more than two years are 31 per cent higher than their first year of trading. We continue to see an uplift in grocery sales in supermarkets that have an Argos store. We opened our first Argos in a Sainsbury's convenience store in Ascot, Berkshire, as we trial new ways to bring our broader Food and General Merchandise offer to more customers.

As the third most visited website in the UK, Argos is already a leading online retailer. Around 60 per cent of Argos sales start online, exceeding £3 billion in the year, and sales generated through mobile devices have now passed £2 billion. Over the last two years we have significantly improved the Argos online shopping experience, making our website easier to use and giving customers more information on product availability and more control over delivery times. We have improved the display of homewares and furniture online, making browsing easier and more inspiring. We also improved the online experience to make it quicker for customers to buy through Argos Financial Services, increasing penetration to 19 per cent of Argos store sales.

Argos has a market-leading delivery and collection proposition and we have invested in improving our ability to rapidly fulfil online orders. We can deliver to over 90 per cent of UK postcodes within four hours and offer immediate in-store collection. Sales through our unique *Fast Track* delivery service increased by 13 per cent and *Fast Track* Click & Collect by 10 per cent. We offer customers a number of convenient options for online delivery and collection. 85 per cent of customers who order online choose to collect from Argos's 1,200 physical locations across the UK, including 594 standalone Argos stores, 281 Argos stores in Sainsbury's supermarkets and 317 collection points in supermarkets and convenience stores. We opened our regional fulfilment centre in Croydon last year to improve our service to 3.4 million households across London and the South East. This enables us to deliver our full range the same day to over 50 per cent of the country. We had on average over 20,000 products stocked in our stores available for delivery within four hours through our *Fast Track* service. This service is available to over 90 per cent of UK postcodes.

We continue to invest in technology to make customers' lives easier. Since we acquired the business in 2016, we have made significant progress in upgrading the Argos store estate to digital stores. We have 476 digital Argos stores, including 281 in Sainsbury's supermarkets, compared to 104 digital stores at the end of 2016/17. We will have 650 by the end of 2019/20. We have introduced Pay@Browse to 162 Argos stores, which enables customers to pay digitally, without queuing at a till and we will roll this out to a further 200 stores in 2019/20.

We are pleased that Argos's customer satisfaction levels, measured through our Net Promoter Scores, increased in the year. We are also delighted that, in an independent UK-wide survey, our ranking for customer service satisfaction jumped from 46th place last year to eighth place this year[12].

In recognition of the great service Argos colleagues give customers every day, we awarded a pay increase for the majority of Argos colleagues from £8 to £8.50 from April 2019, bringing the total increase to 18 per cent since we acquired Argos in September 2016.

The general merchandise market will remain highly competitive as online shopping offers customers greater choice and convenience. We continue to drive efficiency throughout the business so that we can give customers better value for money. We combined our Sainsbury's and Argos General Merchandise commercial teams this year. By buying and managing our ranges together we are able to improve our offer to customers and reduce costs. For example, we brought together our homewares ranges under our own brand, Home, sold through both Sainsbury's and Argos.

[12] Institute of Customer Service UK Customer Satisfaction Index ranking

Offering high street quality at supermarket prices has made *Tu* the sixth largest clothing brand in the UK by volume. *Tu* clothing outperformed the market and while sales declined, our decision to remove a key promotional event during the year helped increase full price clothing sales by 12 per cent. We continued to develop our *Tu* online offer and online sales of *Tu* clothing grew by 55 per cent in the year. We have also launched *Tu* clothing on the Argos website for home delivery or collection from Argos stores and collection points in Sainsbury's stores across the UK.

Priority 3: Offer our customers easy access to financial services

We are focused on delivering great value financial services to more customers across the Sainsbury's Group. Customer numbers increased by five per cent to two million at Sainsbury's Bank and by six per cent at Argos Financial Services, to two million. Nectar is a key differentiator for Sainsbury's Bank and around 74 per cent of our customers have a Nectar card and benefit from Nectar points across a range of products.

Financials Services underlying operating profits decreased to £31 million, as we previously guided. This is because of a combination of higher bad debt charges due to the adoption of IFRS 9, higher costs and a more cautious approach to unsecured lending. Our new strategy focuses on growing our mortgage book and commission products. Customer lending increased by £1.3 billion. Growth in mortgage balances accounted for the majority of the increase, alongside increases in Credit Card and Argos Financial Services card balances, while personal loan balances were slightly down year–on-year.

Income was three per cent lower, reflecting the incremental cost of Tier 2 capital of £8 million and an increase in the cost of savings as interest rates rose.

We continue to grow mortgages, focusing on high quality, low loan to value lending, and had lent £1.4 billion at the year end. Margins were under some pressure in the first half of the year, but this eased in the second half, in line with the market, and overall returns on mortgages continue to be strong. Mortgage balances now account for 21 per cent of customer lending, up from five per cent last year.

Argos Financial Services customer numbers grew, with 19 per cent of Argos store sales made on Argos Cards and balances up 11 per cent.

Our Commissions business has grown significantly this year, with combined Home, Car, Pet and Life Insurance new business volumes up 25 per cent, while Travel Money income increased 14 per cent. ATM income decreased due to a fall in transactions.

We are focused on improving our digital offer to help customers access information and manage their finances in real time. During the year, we launched Insurance and Credit Card apps and enhanced the My Argos Card app, improving customer experience and reducing costs. We will continue to enhance our digital offer over the coming year.

While we expect the banking market to remain competitive, we are well positioned to grow revenue and increase customer loyalty. We will continue to grow our mortgage business and maintain our cautious approach to unsecured lending, focusing on customers with a Nectar card and on increasing Argos Financial Services sales.

Priority 4: Generate efficiencies to invest in our digital future

Over the last four years we have built a business serving customers with a broader range of products and services. We offer great quality at fair prices across food, grocery, general merchandise and clothing. Through our network of well-located supermarkets, convenience and Argos stores, our online offer and our delivery network, customers can shop with us whenever and wherever they want. We help our customers manage their finances – making it easier for them to shop with us – and we reward them for their loyalty through Nectar. This gives us unique insight into our customers across the Group, which means we can make their lives easier while rewarding them for shopping with us.

The traditional physical retail model remains under pressure. The continued shift towards online requires investment in new digital and delivery infrastructures, while physical store costs continue to rise. We are well placed to address these challenges and become more efficient. Bringing Sainsbury's and Argos together is one example of how we have already delivered a step change in reducing our costs. In 2018/19, we delivered £220 million of cost savings in addition to the £160 million cumulative EBITDA synergies delivered through the integration of Argos.

We have an excellent store estate in great locations and, by integrating Argos stores into Sainsbury's, we are capitalising on our property portfolio to make Argos more accessible to Sainsbury's customers. We will continue to open Argos stores in Sainsbury's supermarkets and build further concession partnerships to offer customers a broader range of products and services, increasing trading intensity in stores, driving additional profit and making shopping with us easier. Offering customers products and services from Specsavers, Timpsons, Explore Learning and Sushi Gourmet make our stores more attractive shopping destinations.

The next stage in delivering our strategy requires closer integration across our Group. In 2018/19 we brought together the Sainsbury's and Argos General Merchandise commercial teams and we now have one team creating ranges, negotiating with our suppliers and selling through both the Sainsbury's and Argos brands. Over time this will allow us to lower our costs and create efficiencies in our General Merchandise own-brand development and supply chain operations. We are developing the Argos Financial Services offer, using the expertise and capability we have in Sainsbury's Bank. Bringing together some central functions across Sainsbury's and Argos has reduced our costs and there is more to do in the future.

We are well positioned to benefit from the shift to online shopping in food and grocery, general merchandise, clothing and financial services. We have enhanced our digital scale and capability in recent years and, across the Group, £4.7 billion of our sales are generated online. We are developing new technologies to improve the customer experience and make shopping with us easy, fast and convenient. For example, we are focused on improving our digital financial services offer to help customers manage their finances and access the information they need in real time. During the year, we launched apps for Insurance and Credit Cards and enhanced the My Argos Card app, improving customer experience and reducing costs.

We will continue to invest in technology that will make it easier for customers to shop with us and in technology that will help us make the business more efficient. This will support our long-term profitability. We will bring our digital offer together to make it easy for customers to shop across all of our channels and access a variety of financial services products, with increasingly personalised rewards.

As we strive to make our customers' lives easier, we will invest in innovative new services that enable them to browse, select, pay, earn rewards, save and borrow with us in just a few clicks. As well as digitising the Argos store estate, we will continue to develop technologies such as SmartShop, helping customers save time and manage their budgets.

We have also developed a number of digital tools that make it easier for our colleagues to provide good service and availability to our customers across all of our channels. For example, we improved the productivity of Sainsbury's online pickers by 13 per cent in the last year by using technologically advanced handsets. We have introduced new apps in Sainsbury's stores, which are helping colleagues to replenish stock and reduce waste in the most efficient way.

As part of our focus on investing in data and technology, we acquired Nectar in February 2018. Nectar has 18.5 million registered users, 1.2 million of whom actively use the Nectar app – an increase of eight per cent compared to last year. We signed up five new partners in the year, including Esso and EE, and renewed our long-term agreements with a number of key partners including eBay and Brakes. Nectar deepens our understanding of how customers are shopping across the Group, enabling us to provide more of what they want. We are trialling a new digital Nectar proposition in Wales which allows customers to collect, spend and manage their Nectar rewards using their mobile phone, making it easier and quicker for customers to shop with us.

Priority 5: Strengthen the balance sheet

We continue to maintain a strong balance sheet and have reduced net debt by £222 million to £1,636 million (including perpetual securities). This represents a decrease of £162 million before fair value movements on derivatives and exceeds our target £100 million reduction for the year. Our focus on net debt reduction will continue and we are introducing a new target to reduce this by at least £600 million over the next three years through a disciplined approach to cash generation and capital allocation[13]. Gross retail capital expenditure of £554 million (including Argos integration) remains low compared to the preceding five years and capex is expected to remain at around £550 million next year.

We are targeting adjusted net debt to EBITDAR (treating perpetual securities as debt) of less than three times and fixed charge cover above three times in the medium term supported by the reduction in net debt[13].

The pension scheme moved from a £261 million deficit at the end of 2017/18 to a £743 million surplus at the end of 2018/19. This was a result of both experience and actuarial gains in relation to changes in demographic assumptions.

The Group has financing facilities of £3.6 billion, of which only £2.1 billion was drawn down at the year end. As a result of the repayment of the securitised loan in April 2018, net finance costs reduced by £23 million. We expect finance costs in 2019/20 to remain in line with 2018/19.

[13] Stated before the impact of IFRS 16

Financial Review of the full year results for the 52 weeks to 9 March 2019

2018/19 has been another year of progress against our strategic priorities which saw us deliver strong growth in underlying profit and retail free cashflow and a reduction in net debt ahead of expectations. During the year we completed the Argos integration programme and delivered the target synergies nine months ahead of schedule, consolidated the Nectar business following the acquisition in 2017/18 and completed a significant management reorganisation in Sainsbury's stores.

In a highly competitive market Sainsbury's underlying Group sales (including VAT) were up 2.1 per cent to £32,412 million. On a 52-week rolling basis Sainsbury's grocery market share (as measured by Kantar) declined 37 basis points with the discounters and Co-op gaining share from the rest of the market largely as a result of new store openings. Argos sales grew, outperforming a declining and highly competitive general merchandise market (as measured by the British Retail Consortium, 'BRC'). *Tu* clothing held share as sales declined in line with the market whilst full price sales increased as a result of reduced promotional activity.

In 2018/19, retail underlying EBITDAR margin increased eight basis points to 7.52 per cent and retail underlying operating margin improved 19 basis points to 2.43 per cent. Underlying profit before tax ('UPBT') increased by 7.8 per cent to £635 million (2017/18: £589 million) driven by strong retail underlying profit growth and reduced interest costs, partly offset by lower Financial Services profit. Profit after tax of £219 million (2017/18: £309 million) was down 29.1 per cent as a result of a £396 million charge recognised outside of underlying profit. This charge includes the restructuring charge for changes to Sainsbury's store operations implemented during the year, the final Argos integration costs, Sainsbury's Bank transition costs, Asda transaction costs and a £98 million pension provision following the guaranteed minimum pensions ruling.

£220 million of cost savings were delivered during the year to offset the impact of cost inflation and the increase in Sainsbury's colleague base rate of pay to a market leading £9.20 per hour. We have well developed plans in place to continue to deliver efficiencies to offset cost inflation in future years.

Financials Services underlying operating profits decreased to £31 million, as guided in May 2018 (2017/18: £69 million), primarily due to additional bad debt charges following the adoption of IFRS 9 as well as a more cautious approach to unsecured lending and higher costs. We have focused on growing our mortgage book and commission products and have seen Bank customer numbers grow by five per cent and customer lending increase by £1.3 billion, driven mainly by mortgage balance growth. Argos Financial Services customer numbers increased by six per cent.

The balance sheet remains strong with a further reduction in net debt. Net debt (including perpetual securities) was £1,636 million as at 9 March 2019 (10 March 2018: £1,858 million), a total decrease of £222 million in the year and a decrease of £162 million before fair value movements on derivatives, ahead of our guidance of £100 million reduction. The business generated retail free cash flow of £461 million which resulted in a dividend cash cover of 2.1. We will remain disciplined and focused on cash management, taking action to reduce net debt. We are aiming to reduce net debt by at least a further £600 million over the next three years. The Group has facilities of £3.6 billion with only £2.1 billion drawn at the end of the year.

The Group pension scheme IAS 19 accounting surplus (net of deferred tax) improved to £743 million (2017/18: £261 million deficit) as at 09 March 2019 as a result of both experience and actuarial gains in relation to changes in mortality assumptions.

Underlying basic earnings per share increased 7.8 per cent to 22.0 pence (2017/18: 20.4 pence). Basic earnings per share decreased 31.6 per cent to 9.1 pence (2017/18: 13.3 pence) due to the £396 million charge recognised outside of underlying results.

The Board has recommended a final dividend of 7.9 pence (2017/18: 7.1 pence), resulting in a full-year dividend of 11.0 pence per share (2017/18: 10.2 pence per share), an increase of 7.8 per cent.

Financial Review of the full year results for the 52 weeks to 9 March 2019

Summary income statement	52 weeks to 9 March 2019 £m	52 weeks to 10 March 2018 £m	Change %
Underlying Group sales (including VAT)	**32,412**	31,735	2.1
Underlying Retail sales (including VAT)	**31,871**	31,220	2.1
Underlying Group sales (excluding VAT)[1]	**29,007**	28,453	1.9
Underlying Retail sales (excluding VAT)[2]	**28,466**	27,938	1.9
Underlying operating profit			
Retail	**692**	625	10.7
Financial services	**31**	69	(55.1)
Total underlying operating profit	**723**	694	4.2
Underlying net finance costs[3]	**(96)**	(119)	19.3
Underlying share of post-tax profit from JVs[4]	**8**	14	(42.9)
Underlying profit before tax	**635**	589	7.8
Items excluded from underlying results	**(396)**	(180)	(120.0)
Profit before tax	**239**	409	(41.6)
Income tax expense	**(20)**	(100)	80.0
Profit for the financial period	**219**	309	(29.1)
Underlying basic earnings per share	**22.0p**	20.4p	7.8
Basic earnings per share	**9.1p**	13.3p	(31.6)
Dividend per share	**11.0p**	10.2p	7.8

1. 2017/18 underlying Group revenue of £28,459 million, disclosed in note 4 of the accounts, includes £6 million of revenue consolidated post the acquisition of Nectar that is excluded from the underlying Group sales.
2. 2017/18 underlying retail revenue of £27,944 million, disclosed in note 4 of the accounts, includes £6 million of revenue consolidated post the acquisition of Nectar that is excluded from the underlying retail sales.
3. Net finance costs including perpetual securities coupons before non-underlying finance movements.
4. 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.

Group sales

Underlying Group sales (including VAT, including fuel) increased by 2.1 per cent year-on-year. Underlying retail sales (including VAT, including fuel) increased by 2.1 per cent. Retail sales (including VAT, excluding fuel) increased by 0.4 per cent driven by new space. Fuel sales grew 12.3 per cent, driven by both retail price inflation and volume growth.

Total sales performance by category	**52 weeks to 9 March 2019 £m**	**52 weeks to 10 March 2018 £m**	**Change %**
Grocery	19,453	19,330	0.6
General Merchandise	6,561	6,561	0.0
Clothing	953	961	(0.8)
Retail (exc. fuel)	**26,967**	**26,852**	**0.4**
Fuel sales	4,904	4,368	12.3
Retail (inc. fuel)	**31,871**	**31,220**	**2.1**

Grocery and General Merchandise sales grew in the first half, benefitting from the hot summer, with a more subdued performance in the second half of the year. Grocery sales grew by 0.6 per cent year-on-year driven by retail price inflation and improved sales mix, partly offset by volume decline. General Merchandise sales were flat year-on-year in a highly competitive market. Clothing sales declined by 0.8 per cent due to reduced promotional activity whilst full price sales increased.

Convenience sales growth was nearly four per cent, primarily driven by like-for-like growth, with fewer new store openings than the prior year. Groceries Online sales growth was nearly seven per cent, driven by order growth. Supermarkets (including Argos stores in Sainsbury's) sales increased by one per cent, driven by supermarket space being repurposed to Argos.

Total sales performance by channel	**52 weeks to 9 March 2019**	**52 weeks to 10 March 2018**
Supermarkets (inc. Argos stores in Sainsbury's)[1]	1.0%	2.1%
Convenience	3.7%	7.5%
Groceries Online	6.9%	6.8%

1. Supermarkets channel includes sales from Argos stores installed in a Sainsbury's supermarket with the comparative for the 52 weeks to 10 March 2018 adjusted to be presented on a consistent basis.

Retail like-for-like sales (excluding fuel) decreased by 0.2 per cent (2017/18: 1.3 per cent increase) mainly as a result of like-for-like sales declines in General Merchandise and Clothing.

Retail like-for-like sales performance	**52 weeks to 9 March 2019**	**52 weeks to 10 March 2018**
Like-for-like sales (exc. fuel)	(0.2)%	1.3%
Like-for-like sales (inc. fuel)	1.5%	1.4%

Space

In 2018/19 Sainsbury's opened three new supermarkets and closed three (2017/18: three new supermarkets opened and none closed). Sainsbury's opened 10 new convenience stores in the year and closed five (2017/18: 24 stores opened and 15 closed).

The 191,000 sq ft reduction in Sainsbury's supermarket space is mainly driven by 164,000 sq ft repurposed to Argos stores in Sainsbury's. During the year Argos opened 90 new stores in Sainsbury's and closed 46 stand-alone Argos stores. The number of Argos collection points in Sainsbury's stores increased to 317, with 169 openings partially offset by 44 closures replaced by Argos stores in supermarkets. As at 9 March 2019, Argos had 833 stores and 317 collection points of which 207 are within Sainsbury's convenience stores. Habitat continues to trade 16 stores.

Store numbers and retailing space

	As at 10 March 2018	New stores	Disposals / closures	Extensions / refurbishments / downsizes	**As at 9 March 2019**
Supermarkets	608	3	(3)	-	**608**
Supermarkets area '000 sq ft	21,296	158	(53)	(191)	**21,210**
Convenience	815	10	(5)	-	**820**
Convenience area '000 sq ft	1,913	29	(9)	1	**1,934**
Sainsbury's total store numbers	1,423	13	(8)	-	**1,428**
Argos stores	639	1	(46)	-	**594**
Argos stores in Sainsbury's	191	90	-	-	**281**
Argos in Homebase	14	-	(6)	-	**8**
Argos total store numbers	844	91	(52)	**-**	**883**
Argos collection points	192	169	(44)	**-**	**317**
Habitat	16	2	(2)	-	**16**

In 2019/20, Sainsbury's expects to open two new supermarkets and around 10 new convenience stores.

In 2019/20, Sainsbury's expects to open around 10 Argos stores in supermarkets (of which three are relocations) resulting in around 290 Argos stores in supermarkets.

Retail underlying operating profit

Retail underlying operating profit increased by 10.7 per cent to £692 million (2017/18: £625 million).

Retail underlying operating margin improved by 19 basis points year-on-year to 2.43 per cent (2017/18: 2.24 per cent), equivalent to a 21 basis point increase at constant fuel prices.

Retail underlying operating profit

	52 weeks to 9 March 2019	52 weeks to 10 March 2018	Change	Change at constant fuel prices
Retail underlying operating profit (£m)[1]	**692**	625	10.7%	
Retail underlying operating margin (%)[2]	**2.43**	2.24	19bps	21bps
Retail underlying EBITDAR (£m)[3]	**2,140**	2,078	3.0%	
Retail underlying EBITDAR margin (%)[4]	**7.52**	7.44	8bps	15bps

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 £733 million (2017/18: £740 million) and underlying depreciation and amortisation of £715 million (2017/18: £713 million).
4. Retail underlying EBITDAR divided by underlying retail sales excluding VAT.

In 2019/20, Sainsbury's expects cost inflation of around three per cent and will continue to deliver cost savings to offset the impact.

In 2019/20, Sainsbury's expects an underlying retail depreciation and amortisation charge of around £720 million (2018/19: £715 million).

Synergies arising from the acquisition of Argos
In 2018/19, Sainsbury's achieved the target £160 million cumulative EBITDA synergies (£150 million EBIT), of which £73 million (£68 million EBIT) were incremental to prior years. The three-year target £160 million was achieved nine months ahead of schedule.

Total exceptional costs of £276 million were incurred to deliver the synergies over the course of the integration programme, in line with guidance.

Financial Services

Financial Services results 12 months to 28 February	**2019**	2018	Change
Underlying revenue (£m)	**541**	515	5%
Interest and fees payable (£m)	**(102)**	(64)	59%
Total income (£m)	**439**	451	(3)%
Underlying operating profit (£m)	**31**	69	(55)%
Cost:income ratio (%)	**71**	70	(100)bps
Active customers (m) - Bank	**2.02**	1.92	5%
Active customers (m) - AFS	**2.06**	1.95	6%
Net interest margin (%)[1]	**3.8**	4.9	(110)bps
Bad debt as a percentage of lending (%)[2]	**1.6**	1.3	(30)bps
Tier 1 capital ratio (%)[3]	**13.7**	14.1	(40)bps
Total capital ratio (%)[4]	**16.7**	17.1	(40)bps
Customer lending (£m)[5]	**6,987**	5,691	23%
Customer deposits (£m)	**(5,950)**	(4,980)	19%

1. Net interest receivable divided by average interest-bearing assets.
2. Bad debt expense divided by average net lending.
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 decreased by three per cent, as higher interest and commission income was offset by increased interest payable. Financial Services underlying operating profit decreased by 55 per cent year-on-year to £31 million, in line with previous guidance, as a result of additional bad debt charges (largely due to IFRS 9 adoption), a more cautious approach to unsecured lending and higher costs.

Financial Services cost:income ratio has increased by 100 basis points due to an increase in administrative expenses. This was 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 active Bank customers increased by five per cent year-on-year to 2.02 million (2017/18: 1.92 million).

Net interest margin decreased by 110 basis points year-on-year to 3.8 per cent (2017/18: 4.9 per cent) driven by margin pressure and mix of business. This was largely due to the launch of mortgages and the issuance of Tier 2 loan notes in 2017/18. Bad debt levels as a percentage of lending increased to 1.6 per cent (2017/18: 1.3 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 40 basis points year-on-year to 13.7 per cent (2017/18: 14.1 per cent), reflecting lending growth partially offset by the effect of additional funds contributed from the Parent in the prior financial year.

Customer lending increased by 23 per cent to £6,987 million, mainly due to growth in mortgages which were launched in 2017. Customer deposits increased by 19 per cent to £5,950 million.

Transition costs of £70 million were £10 million lower than previous guidance of £80 million. Sainsbury's Bank transition costs in 2019/20 are expected to be around £30 million, £10 million of which is a result of the underspend in 2018/19.

Financial Services underlying operating profit is expected to be around £45 million in 2019/20, including a £10 million benefit as a result of a change in transfer pricing between Argos and Argos Financial Services.

Capital injections into the Bank are expected to be £80 million in 2019/20. This is to cover card and loan platforms, regulatory capital and growth in loan, card and mortgage balances.

Underlying net finance costs
Underlying net finance costs reduced by 19 per cent to £96 million (2017/18: £119 million), driven by the £568 million repayment in April 2018 of the securitised loan taken out in 2006.

Sainsbury's expects net finance costs in 2019/20 to be in line with 2018/19.

Joint ventures
Share of underlying profit from joint ventures was £8 million (2017/18: £14 million). The reduction is mainly driven by the previously reported Insight 2 Communication business now fully consolidated following the acquisition of Nectar, and reduced British Land profits due to property disposals during the year.

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	**52 weeks to 9 March 2019 £m**	52 weeks to 10 March 2018 £m
Sainsbury's Bank transition	(70)	(38)
Argos integration	(40)	(85)
Property-related	(22)	12
Restructuring costs	(81)	(85)
Asda transaction costs	(46)	-
Defined benefit pension expenses	(118)	(5)
Other	(19)	21
Items excluded from underlying results	**(396)**	(180)

- Sainsbury's Bank transition costs of £70 million were part of the previously announced costs incurred in transitioning to a new, more flexible banking platform and will complete in the first half of 2019/20.
- Argos integration costs for the year of £40 million were part of the previously announced requirement over three years and are now complete.
- Property-related items of £22 million comprise losses on disposal of properties and investment property fair value movements.
- Retail restructuring costs in the year of £81 million relate to previously announced material changes to Sainsbury's management and store colleague structures and working practices.
- £46 million of transaction costs were incurred in relation to the proposed combination with Asda, and principally comprised deal preparation, integration preparation and financing.
- Following a High Court judgment in October 2018 relating to Lloyds Banking Group, Sainsbury's was required to recognise a guaranteed minimum pension provision of £98 million for the estimated cost of equalising historic pension benefits between men and women. The £98 million charge is non-cash and does not impact contractual pension contributions. In addition, £20 million was recognised in relation to pension scheme expenses and financing charges.
- Other includes the unwind of non-cash fair value adjustments arising on previous acquisitions of Sainsbury's Bank, Home Retail Group and Nectar UK acquisitions.

In 2019/20 cash outflows as a result of items excluded from underlying results should not exceed £100 million.

Taxation
The tax charge was £20 million (2017/18: £100 million), with an underlying tax rate of 23.8 per cent (2017/18: 24.1 per cent) and an effective tax rate of 8.4 per cent (2017/18: 24.4 per cent).

The underlying tax rate was lower year-on-year, partly due a reduction in the statutory tax rate.

The effective tax rate in 2018/19 decreased to 8.4 per cent, mainly due to prior year adjustments to current and deferred tax. This includes a prior year deferred tax credit of £50 million arising on the recognition of a previously unrecognised capital loss.

In 2019/20, Sainsbury's expects the full-year underlying tax rate to be around 24 per cent.

Earnings per share
Underlying basic earnings per share increased to 22.0 pence (2017/18: 20.4 pence) driven by the increase in underlying earnings year-on-year. Basic earnings per share decreased to 9.1 pence (2017/18: 13.3 pence), mainly as a result of the £396 million charge for items excluded from underlying results (2017/18: £180 million charge), offset by a lower effective tax rate.

Dividends
The Board has recommended a final dividend of 7.9 pence per share (2017/18: 7.1 pence). This will be paid on 12 July 2019 to shareholders on the Register of Members at the close of business on 7 June 2019. In line with the Group's policy to keep the dividend covered two times by underlying earnings, this will result in an increased full-year dividend of 11.0 pence (2017/18: 10.2 pence).

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 9 March 2019, net debt (including perpetual securities as debt) was £1,636 million (10 March 2018: £1,858 million), a decrease of £222 million.

Summary cash flow statement[1]	**Retail 52 weeks to 9 March 2019 £m**	Retail 52 weeks to 10 March 2018 £m
Adjusted retail operating cash flow before changes in working capital[2,3]	**1,264**	1,193
(Increase)/decrease in working capital	**(45)**	196
Cash generated from retail operations[4]	**1,219**	1,389
Pension cash contributions	**(63)**	(130)
Net interest paid[5]	**(89)**	(105)
Corporation tax paid	**(61)**	(72)
Net cash generated from retail operating activities	**1,006**	1,082
Cash capital expenditure before strategic capital expenditure[6]	**(512)**	(542)
Proceeds from disposal of property, plant and equipment	**64**	54
Bank capital injections	**(110)**	(190)
Dividends and distributions received from JVs net of capital injections	**13**	28
Retail free cash flow	**461**	432
Dividends paid on ordinary shares	**(224)**	(212)
Strategic capital expenditure - Argos integration[5]	**(36)**	(80)
Acquisition of subsidiaries[5]	**-**	135
Repayment of borrowings including finance leases[5]	**(451)**	(174)
Other[5]	**(8)**	(2)
Net increase/(decrease) in cash and cash equivalents	**(258)**	99
Decrease in debt	**451**	174
Acquisition movements	**-**	(15)
Other non-cash and net interest movements[7]	**(31)**	(22)
Movement in net debt before fair value movements on derivatives	**162**	236
Fair value movements on derivatives	**60**	(123)
Movement in net debt	**222**	113
Opening net debt	**(1,364)**	(1,477)
Closing net debt	**(1,142)**	(1,364)
Closing net debt (inc. perpetual securities as debt)	**(1,636)**	(1,858)

1. See note 4 for a reconciliation between the Retail and Group cash flows.
2. Excludes working capital and pension cash contributions.
3. 2017/18 adjustment of £21 million relating to non-cash pension scheme expenses previously included in retirement benefit obligations. No impact to net cash generated from retail operating activities.
4. Excludes pension contributions.
5. Refer to the Alternative Performance Measures on page 185 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 increased by £71 million year-on-year to £1,264 million (2017/18: £1,193 million) due to higher retail underlying operating profit partially offset by retail one-off items. Working capital increased by £45 million (2017/18: £196 million decrease). Capital expenditure before strategic capital expenditure was £512 million (2017/18: £542 million) driven by a reduction in Sainsbury's core retail capital expenditure. Bank capital injections reduced to £110 million (2017/18: £190 million).

Retail free cash flow increased by £29 million year-on-year to £461 million (2017/18: £432 million). Free cash flow was used to fund dividends and repay debt. Dividends of £224 million were paid in the year, which are covered 2.1 times by free cash flow (2017/18: 2.0 times). Strategic capital expenditure relating to Argos integration capital expenditure was £36 million, £44 million lower year-on-year (2017/18: £80 million) driven by the completion of the Argos integration programme.

Net debt before fair value movements on derivatives reduced by £162 million in the year (2017/18: £236 million reduction). Fair value movements on derivatives of £60 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 9 March 2019 was above the spot rate, generating an unrealised fair value gain (2017/18: unrealised loss as the WAHR at 10 March 2018 below the spot rate).

As at 9 March 2019, Sainsbury's had drawn debt facilities of £2.1 billion including the perpetual securities (2017/18: £2.5 billion) and additional undrawn committed credit facilities of £1.4 billion. The Group also held £85 million of uncommitted facilities, which were undrawn as at 9 March 2019. In April 2018, Sainsbury's repaid debt of £568 million in relation to Commercial Mortgage Backed Securities.

Sainsbury's expects 2019/20 year-end net debt before fair value movements on derivatives to reduce by at least £200 million. Sainsbury's is targeting to reduce net debt by at least £600 million over the next three years.[14]

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.[1]

Sainsbury's is targeting fixed charge cover of more than three times in the medium term.[1]

Capital expenditure

Retail capital expenditure (including Argos integration capital expenditure) was £554 million (2017/18: £629 million), the decrease driven by the completion of the Argos integration programme and reduced new store development. Retail capital expenditure (excluding Argos integration) was £518 million (2017/18: £549 million). Retail capital expenditure net of proceeds was £490 million (2017/18: £575 million)

In 2019/20, Sainsbury's expects gross retail capital expenditure to be around £550 million. Proceeds from disposal of property, plant and equipment are expected to be in line with 2018/19.

Gross retail capital expenditure is expected to be around £550 million per annum over the medium term.

Retail capital expenditure	**52 weeks to 9 March 2019 £m**	52 weeks to 10 March 2018 £m
Core capital expenditure	**(518)**	(549)
Strategic capital expenditure - Argos integration	**(36)**	(80)
Gross capital expenditure	**(554)**	(629)
Proceeds from the disposal of property, plant and equipment	**64**	54
Net capital expenditure	**(490)**	(575)

[14] Stated before the impact of IFRS 16.

Financial ratios

Key financial ratios[1]	**As at 9 March 2019**	As at 10 March 2018
Return on capital employed (%)[2]	**8.5**	8.4
Return on capital employed (exc. pension surplus) (%)[2]	**8.5**	7.7
Adjusted net debt to EBITDAR[3,4,5]	**3.2 times**	3.3 times
Interest cover[5]	**7.6 times**	5.9 times
Fixed charge cover[6]	**2.7 times**	2.5 times
Gearing[7]	**13.5%**	18.4%
Gearing (exc. pension surplus)[8]	**14.8%**	17.8%

Key financial ratios (with perpetual securities treated as debt)[9]		
Adjusted net debt to EBITDAR	**3.5 times**	3.6 times
Gearing	**20.5%**	26.9%
Gearing (exc. pension surplus)	**22.7%**	25.9%

Key financial ratios (with perpetual securities coupons excluded from net underlying finance costs)		
Interest cover[10]	**10.1 times**	7.4 times
Fixed charge cover[11]	**2.7 times**	2.6 times

1. These metrics have been prepared on a pre-IFRS 16 basis. IFRS 16 is effective for all accounting periods beginning on or after 1 January 2019. For Sainsbury's the first reported accounting period under IFRS 16 will be the 2019/20 financial year.
2. The 14 point period includes the opening capital employed as at 10 March 2018 and the closing capital employed for each of the 13 individual four-week periods to 9 March 2019.
3. Net debt of £1,142 million (2017/18: £1,364 million) plus capitalised lease obligations of £6,009 million (2017/18: £5,931 million), divided by Group underlying EBITDAR of £2,202 million (2017/18: £2,181 million), calculated for a 52-week period to 9 March 2019. Perpetual securities treated as equity.
4. 2017/18 capitalised lease obligations of £5,931 million have been updated following a review of lease cost profile. This does not impact total lease obligations of £10 billion.
5. Underlying profit before interest and tax divided by underlying net finance costs, where interest on perpetual securities is included in underlying finance costs.
6. Group underlying EBITDAR divided by net rent and underlying net finance costs, where interest on perpetual securities is included in underlying finance costs.
7. Net debt divided by net assets. Perpetual securities treated as equity.
8. Net debt divided by net assets, excluding pension surplus/deficit. Perpetual securities treated as equity.
9. 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 £1,636 million (2017/18: £1,858 million), and reduces net assets to £7,962 million (2017/18: £6,917 million).
10. Underlying profit before interest and tax divided by underlying net finance costs, where interest on perpetual securities is excluded from underlying finance costs.
11. 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 9 March 2019, Sainsbury's estimated market value of properties, including its 50 per cent share of properties held within property joint ventures, was £10.4 billion (10 March 2018: £10.5 billion), the reduction due to a shift in the yield.

Since the year-end, Sainsbury's has agreed the sale of 12 supermarkets from the joint venture with British land to Realty Income Corporation. This will reduce the value of the property portfolio by £0.2 billion.

Defined benefit pensions

At 9 March 2019, the net defined benefit surplus for the Group was £743 million (including the unfunded obligation and adjusting for associated deferred tax). The £1,004 million movement from deficit to surplus from 10 March 2018 was primarily driven by experience gains of £644 million and actuarial gains of £547 million in relation to changes in demographic assumptions, partially offset by a deferred income tax liability of £216 million. Both gains have been recognised within other comprehensive income.

The experience gains are as a result of updating the underlying membership data behind the actuarial calculations to that used for the September 2018 triennial valuation. The gain due to demographic assumptions reflects updating the mortality assumptions to the most recent available data as at the balance sheet date.

Under the Recovery Plans agreed as part of the 2015 triennial valuation process Sainsbury's is contracted to make contributions totalling £124 million in 2019/20 which includes the £19 million coupon from Sainsbury's Property Scottish Partnership. The 2018 triennial valuation is currently being agreed with the Trustee.

Retirement benefit obligations	**Sainsbury's as at 9 March 2019 £m**	**Argos as at 9 March 2019 £m**	**Group as at 9 March 2019 £m**	Group as at 10 March 2018 £m
Present value of funded obligations	**(7,654)**	**(1,202)**	**(8,856)**	(10,028)
Fair value of plan assets	**8,759**	**1,224**	**9,983**	9,884
Additional liability due to IFRIC 14	**-**	**(134)**	**(134)**	(78)
Pension surplus/(deficit)	**1,105**	**(112)**	**993**	(222)
Present value of unfunded obligations	**(20)**	**(14)**	**(34)**	(35)
Retirement benefit obligations	**1,085**	**(126)**	**959**	(257)
Deferred income tax (liability)/asset	**(241)**	**25**	**(216)**	(4)
Net retirement benefit obligations	**844**	**(101)**	**743**	(261)

IFRS 16 leases
The new IFRS 16 lease standard applies to the Group for the first time in 2019/20. The Group has chosen to adopt IFRS 16 on a fully retrospective basis and the first reporting under IFRS 16 (with restated comparatives) will be the Group's interim results as at 21 September 2019.

The new standard represents a significant change in the accounting and reporting for leases, impacting the income statement and balance sheet as well as statutory and other performance metrics used by the Group. The work is nearing completion and the Group estimates that adopting IFRS 16 will have the following impact on the consolidated balance sheet at 10 March 2018:

- Recognition of a right of use asset in the region of £5.1 billion.
- Recognition of a lease liability in the region of £5.9 billion.
- Other balance sheet adjustments of around £0.1 billion and an adjustment to opening reserves in the region of £0.9 billion (pre-tax).

These adjustments have no impact on cash and are not expected to have any impact on the Group's ability to continue to pay dividends to shareholders.

The lease liability adjustment to the balance sheet is broadly consistent with the adjustment made in the Group's adjusted net debt to EBITDAR metrics. Following the adoption of IFRS 16, these metrics are therefore expected to remain unchanged.[1]

Subject to the completion of our work, we expect restated 2018/19 underlying profit before tax to be in the region of £30 million lower than under the current accounting standards.

We will provide a full update on the IFRS 16 restatement impacts ahead of the 2019/20 interim results.

Further details of the impacts of IFRS 16 are included in Note 1 on page 101.

[1] Unless otherwise stated, all other forward guidance throughout this document is stated before the impact of IFRS 16.

Consolidated income statement
for the 52 weeks to 9 March 2019

	Note	2019 £m	2018 £m
Revenue	4	**29,007**	28,456
Cost of sales		**(27,000)**	(26,574)
Gross profit		**2,007**	1,882
Administrative expenses		**(1,733)**	(1,415)
Other income		**38**	51
Operating profit		**312**	518
Finance income	6	**22**	19
Finance costs	6	**(99)**	(140)
Share of post-tax profit from joint ventures and associates		**4**	12
Profit before tax		**239**	409
Analysed as:			
Underlying profit before tax	3	**635**	589
Non-underlying items	3	**(396)**	(180)
		239	409
Income tax expense	7	**(20)**	(100)
Profit for the financial year		**219**	309

Earnings per share	8	**Pence**	Pence
Basic earnings		**9.1**	13.3
Diluted earnings		**8.9**	12.7
Underlying basic earnings		**22.0**	20.4
Underlying diluted earnings		**20.3**	19.1

Consolidated statement of comprehensive income

for the 52 weeks to 9 March 2019

	Note	**2019 £m**	2018 £m
Profit for the financial year		**219**	309
Items that will not be reclassified subsequently to the income statement			
Remeasurement on defined benefit pension schemes	12	**1,269**	592
Current tax relating to items not reclassified		**-**	19
Deferred tax relating to items not reclassified		**(216)**	(118)
		1,053	493
Items that may be reclassified subsequently to the income statement			
Currency translation differences		**1**	(4)
Movements on financial assets at fair value through other comprehensive income		**55**	14
Items reclassified from financial assets at fair value through other comprehensive income reserve		**(10)**	2
Cash flow hedges effective portion of fair value movements		**71**	(139)
Items reclassified from cash flow hedge reserve		**(45)**	50
Current tax on items that may be reclassified		**2**	-
Deferred tax relating to items that may be reclassified		**(15)**	13
		59	(64)
Total other comprehensive income for the year (net of tax)		**1,112**	429
Total comprehensive income for the year		**1,331**	738

Consolidated balance sheet

At 9 March 2019 and 10 March 2018

	Note	**2019 £m**	2018 £m
Non-current assets			
Property, plant and equipment		**9,708**	9,898
Intangible assets		**1,044**	1,072
Investments in joint ventures and associates		**205**	232
Financial assets at fair value through other comprehensive income		**645**	540
Other receivables		**33**	44
Amounts due from Financial Services customers		**3,349**	2,332
Derivative financial instruments		**9**	17
Net retirement benefit surplus	12	**959**	-
		15,952	14,135
Current assets			
Inventories		**1,929**	1,810
Trade and other receivables		**661**	744
Amounts due from Financial Services customers		**3,638**	3,360
Financial assets at fair value through other comprehensive income		**211**	203
Derivative financial instruments		**21**	10
Cash and cash equivalents	10	**1,121**	1,730
		7,581	7,857
Assets held for sale		**8**	9
		7,589	7,866
Total assets		**23,541**	22,001
Current liabilities			
Trade and other payables		**(4,444)**	(4,322)
Amounts due to Financial Services customers and other deposits		**(5,797)**	(4,841)
Borrowings		**(832)**	(638)
Derivative financial instruments		**(17)**	(53)
Taxes payable		**(204)**	(247)
Provisions		**(123)**	(201)
		(11,417)	(10,302)
Net current liabilities		**(3,828)**	(2,436)
Non-current liabilities			
Other payables		**(340)**	(313)
Amounts due to Financial Services customers and other deposits		**(1,804)**	(1,683)
Borrowings		**(950)**	(1,602)
Derivative financial instruments		**(17)**	(26)
Deferred income tax liability		**(397)**	(241)
Provisions		**(160)**	(166)
Net retirement benefit obligations	12	**-**	(257)
		(3,668)	(4,288)
Net assets		**8,456**	7,411
Equity			
Called up share capital		**630**	627
Share premium account		**1,147**	1,130
Merger reserve		**568**	568
Capital redemption reserve		**680**	680
Other reserves		**172**	121
Retained earnings		**4,763**	3,789
Total equity before perpetual securities		**7,960**	6,915
Perpetual capital securities		**248**	248
Perpetual convertible bonds		**248**	248
Total equity		**8,456**	7,411

Consolidated cash flow statement
for the 52 weeks to 9 March 2019

	Note	**2019 £m**	2018 £m
Cash flows from operating activities			
Profit before tax		**239**	409
Net finance costs	6	**77**	121
Share of post-tax profit from joint ventures and associates		**(4)**	(12)
Operating profit		**312**	518
Adjustments for:			
Depreciation expense		**649**	659
Amortisation expense		**143**	72
Non-cash adjustments arising from acquisitions (excluding depreciation and amortisation)	3	**(2)**	1
Financial Services impairment losses on loans and advances		**98**	68
Loss/(profit) on sale of properties	3	**17**	(11)
Loss on disposal of intangibles		**-**	2
Profit on disposal of joint ventures		**-**	(4)
Impairment charge of property, plant and equipment	3	**3**	-
Share-based payments expense		**39**	33
Non-cash defined benefit scheme expenses	12	**108**	(21)
Cash contributions to defined benefit scheme	12	**(63)**	(130)
Operating cash flows before changes in working capital		**1,304**	1,187
Changes in working capital			
Increase in inventories		**(118)**	(36)
Increase in current financial assets at fair value through other comprehensive income		**(97)**	(192)
Decrease/(increase) in trade and other receivables		**74**	(44)
Increase in amounts due from Financial Services customers and other deposits		**(1,480)**	(1,161)
Increase in trade and other payables		**94**	142
Increase in amounts due to Financial Services customers and other deposits		**1,077**	1,602
(Decrease)/increase in provisions and other liabilities		**(105)**	28
Cash generated from operations		**749**	1,526
Interest paid		**(63)**	(89)
Corporation tax paid		**(68)**	(72)
Net cash generated from operating activities		**618**	1,365
Cash flows from investing activities			
Purchase of property, plant and equipment		**(478)**	(561)
Purchase of intangible assets		**(116)**	(140)
Proceeds from disposal of property, plant and equipment		**64**	54
Proceeds from financial assets at fair value through other comprehensive income		**39**	-
Acquisition of subsidiaries, net of cash acquired		**-**	135
Investment in joint ventures		**(5)**	(9)
Interest received		**4**	14
Dividends and distributions received		**18**	37
Net cash used in investing activities		**(474)**	(470)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**22**	12
Repayment of borrowings		**(593)**	(148)
Proceeds from borrowings		**135**	174
Purchase of own shares		**(30)**	(14)
Repayment of capital element of obligations under finance lease borrowings		**(32)**	(26)
Interest elements of obligations under finance lease payments		**(7)**	(7)
Dividends paid on ordinary shares	9	**(224)**	(212)
Dividends paid on perpetual securities		**(23)**	(23)
Net cash used in financing activities		**(752)**	(244)
Net (decrease)/increase in cash and cash equivalents		**(608)**	651
Opening cash and cash equivalents		**1,728**	1,077
Closing cash and cash equivalents	10	**1,120**	1,728

Consolidated statement of changes in equity

for the 52 weeks to 9 March 2019

	Note	Called up share capital £m	Share premium account £m	Merger reserve £m	Capital redemption and other reserves £m	Retained earnings £m	Total equity before perpetual securities £m	Perpetual capital securities £m	Perpetual convertible bonds £m	Total equity £m
At 11 March 2018		**627**	**1,130**	**568**	**801**	**3,789**	**6,915**	**248**	**248**	**7,411**
Day 1 accounting adjustments (net of tax)[1]		**-**	**-**	**-**	**-**	**(74)**	**(74)**	**-**	**-**	**(74)**
Profit for the year		**-**	**-**	**-**	**-**	**201**	**201**	**12**	**6**	**219**
Other comprehensive income		**-**	**-**	**-**	**59**	**1,053**	**1,112**	**-**	**-**	**1,112**
Total comprehensive income for the year ended 9 March 2019		**-**	**-**	**-**	**59**	**1,180**	**1,239**	**12**	**6**	**1,257**
Transactions with owners:										
Dividends	9	**-**	**-**	**-**	**-**	**(224)**	**(224)**	**-**	**-**	**(224)**
Distribution to holders of perpetual securities (net of tax)		**-**	**-**	**-**	**-**	**-**	**-**	**(12)**	**(6)**	**(18)**
Amortisation of convertible bond equity component		**-**	**-**	**-**	**(8)**	**8**	**-**	**-**	**-**	**-**
Share-based payment (net of tax)		**-**	**-**	**-**	**-**	**38**	**38**	**-**	**-**	**38**
Purchase of own shares		**-**	**-**	**-**	**-**	**(30)**	**(30)**	**-**	**-**	**(30)**
Allotted in respect of share option schemes		**3**	**17**	**-**	**-**	**2**	**22**	**-**	**-**	**22**
At 9 March 2019		**630**	**1,147**	**568**	**852**	**4,763**	**7,960**	**248**	**248**	**8,456**
At 12 March 2017		625	1,120	568	873	3,190	6,376	248	248	6,872
Profit for the year		-	-	-	-	291	291	12	6	309
Other comprehensive (expense)/income		-	-	-	(64)	493	429	-	-	429
Total comprehensive (expense)/income for the year ended 10 March 2018		-	-	-	(64)	784	720	12	6	738
Transactions with owners:										
Dividends	9	-	-	-	-	(212)	(212)	-	-	(212)
Distribution to holders of perpetual securities (net of tax)		-	-	-	-	-	-	(12)	(6)	(18)
Amortisation of convertible bond equity component		-	-	-	(8)	8	-	-	-	-
Share-based payment (net of tax)		-	-	-	-	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	568	801	3,789	6,915	248	248	7,411

1. This is comprised of IFRS 9 ‘Financial Instruments’ and IFRS 15 ‘Revenue from Contracts with Customers’ day 1 adjustments. See note 2.

1 Status of financial information

The financial information, which comprises the Group income statement, Group statement of comprehensive income, Group balance sheet, Group cash flow statement, Group statement of changes in equity and related notes, is derived from the full Group financial statements for the 52 weeks to 9 March 2019 and does not constitute full accounts within the meaning of section 435 (1) and (2) of the Companies Act 2006.

The Group Annual Report and Financial Statements 2019 on which the auditors have given an unqualified report and which does not contain a statement under section 498 (2) or (3) of the Companies Act 2006, will be delivered to the Registrar of Companies in due course, and made available to shareholders in June 2019.

The financial year represents the 52 weeks to 9 March 2019 (prior financial year: 52 weeks to 10 March 2018). The consolidated financial statements for the 52 weeks to 9 March 2019 comprise the financial statements of the Company and its subsidiaries (the 'Group') and the Group's share of the post-tax results of its joint ventures and associates.

Sainsbury's Bank Plc and its subsidiaries have been consolidated for the twelve months to 28 February 2019 being the Bank's year-end date (prior financial year: 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.

Nectar Loyalty Holding Limited and its subsidiaries have been consolidated from 1 March 2018 to 9 March 2019 (prior financial year: four weeks to 28 February 2018). Nectar's year-end date is now aligned with the Group.

2 Basis of preparation

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

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

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

Amendments to published standards
Effective for the Group and Company in these financial statements:
The Group considered the following amendments to published standards that are effective for the Group for the financial year beginning 11 March 2018 and concluded that, with the exception of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers', they are either not relevant to the Group or they do not have a significant impact on the Group's financial statements other than disclosures. These standards and interpretations have been endorsed by the European Union.

— Amendments to IFRS 2 'Share-based Payment' on the classification and measurement of share-based payment transactions
— Amendments to IAS 40 'Investment Property' on the transfers of investment property
— IFRIC Interpretation 22 'Foreign Currency Transactions and Advance Consideration'
— Annual Improvements Cycle 2014-2016 (issued in December 2016)
— IFRS 4 'Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts'
— IFRS 9 'Financial Instruments'
— IFRS 15 'Revenue from Contracts with Customers'

Further information on the impact of IFRS 9 and IFRS 15 is included below.

2 Basis of preparation (continued)

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

- IFRS 16 'Leases'
- IFRIC Interpretation 23 'Uncertainty over Income Tax Treatments'
- Amendments to IFRS 9 'Financial Instruments' on prepayment features with negative compensation
- Amendments to IAS 1 'Presentation of Financial Statements' and IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' on the definition of material
- Amendments to IAS 19 'Employee Benefits' on plan amendments, curtailments or settlements
- Amendments to IAS 28 'Investments in Associates and Joint Ventures' on long term interests in associates and joint ventures
- Annual Improvements Cycle 2015-2017 (issued in December 2017)

The Group has considered the impact of the remaining above standards and revisions and have concluded that, with the exception of IFRS 16, they will not have a significant impact on the Group's financial statements. Further information on IFRS 16 is included below.

Transitional disclosures on adoption of new accounting standards

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 Consolidated Balance Sheet at 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.

An 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:

2 Basis of preparation (continued)

Balance sheet line	Periodicity	IAS 39	IFRS 9	11 March 2018 £m
Financial assets				
Financial assets at fair value through other comprehensive income	Non-current	Available for sale	Fair value through other comprehensive income	**540**
Financial assets at fair value through other comprehensive income	Current	Available for sale	Fair value through other comprehensive income	**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[1]	**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[1]	**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 and loss	Fair value through profit and loss	**17**
Derivative financial instruments	Current	Fair value through profit and loss	Fair value through profit and loss	**10**

1. Travel money and cash in ATMs (including cash on order for ATMs) are considered separately from cash held in banks. With regard to travel money, the business model is 'held to sell foreign currency to customers' and the contractual cash flows are 'margin on foreign exchange rates'. With regard to cash in ATMs, the business model is 'held to sell ATM services' and the contractual cash flows are 'ATM fees'. Therefore, both assets are measured at FVPL.
2. The balances presented are consistent with those presented as at 10 March 2018. There is a day 1 adjustment to amounts due from Financial Services customers relating to the recognition of Expected Credit Loss (ECL) provisions under IFRS 9. Further details presented below.

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 and loss	Fair value through profit and loss	**(26)**
Derivative financial instruments	Current	Fair value through profit and loss	Fair value through profit and loss	**(53)**

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

b. Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a three stage forward-looking expected credit loss (ECL) approach. 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).

2 Basis of preparation (continued)

The impact of the above is to increase the impairment provisions held within the Financial Services business as at 11 March 2018 by £101 million, with a corresponding reduction to retained earnings of £84 million, net of deferred tax of £17 million. The net impact to retained earnings has been segregated within the Group statement of changes in equity.

The following table reconciles the aggregate opening movement of £101 million to the relevant line items on the balance sheet:

	IAS 39 closing balance	Re-measurement on transition to IFRS 9	IFRS 9 opening balance
	10 March 2018	**11 March 2018**	**11 March 2018**
	£m	**£m**	**£m**
Gross advances	5,824	(15)	5,809
Impairment provision	(132)	(72)	(204)
Amounts due from Financial Services Customers	**5,692**	**(87)**	**5,605**
Provisions for loan commitments (within Provisions)	-	(14)	(14)
Total day 1 impact of IFRS 9		**(101)**	

During the year, the Group has been refining its ECL models to better reflect information that was available at the transition date of 11 March 2018. The refinements made include:

- Amending economic scenarios included in the ECL models
- Updated cash recovery assumptions
- Calibrations of the model to reflect up to date data which was available at 11 March 2018

The above updates have been incorporated as at the transition date and as a result, the opening balance sheet adjustment of £101 million (£84 million net of tax) differs from that reported at the half year of £80 million (£66 million net of tax).

c. Hedge accounting

The Group has continued 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.

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 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.

2 Basis of preparation (continued)

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

	Adjustment	52 weeks to 10 March 2018 £m
Assets		
Right of return assets	(a)	3
Liabilities		
Provisions	(a)	(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	52 weeks to 10 March 2018 £m
Revenue from contracts with customers	(c)	7
Cost of sales	(c)	(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 a 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 of return asset and provision. 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 'Revenue', 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 is disaggregated against individual performance obligations. These fees are now recognised on a straight line basis over the term of the agreement with the relevant party. Applying IFRS 15 retrospectively, the brought forward deferred revenue balance includes £10 million of PSF relating to prior periods. This balance has accumulated over many years, with the year on year impact considered immaterial to the Group. This restatement has been represented as a day 1 adjustment within the statement of changes in equity.

(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 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. This is immaterial to the Group results and has not been restated within the comparatives within the profit and loss statement.

2 Basis of preparation (continued)

IFRS 16 'Leases'

IFRS 16 'Leases' was issued in January 2016 and introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees and will supersede the current lease guidance including IAS 17 Leases and the related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and will be adopted by Sainsbury's for the financial year commencing 10 March 2019.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. The current distinction of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The standard represents a significant change in the accounting and reporting of leases, impacting the income statement and balance sheet as well as statutory and Alternative Performance Measures used by the Group.

The Group has chosen to adopt the fully retrospective approach to transition. The comparatives in the consolidated financial statements for the 52 weeks ending 7 March 2020 will be restated as if IFRS 16 had always applied. The first reporting under IFRS 16 (with restated comparatives) will be for the Group's interim results as at 21 September 2019.

The Group has performed an extensive review of all the Group's leasing arrangements in light of the new accounting standard. The work is nearing completion and the Group estimates that, had IFRS 16 been applied in the 52 weeks ended 10 March 2018, the impact on the consolidated balance sheet as at 10 March 2018 would have been:

- Recognition of a right-of-use asset in the region of £5.1 billion disclosed within non-current assets
- The recognition of a corresponding lease liability in the region of £5.9 billion
- Derecognition of other balance sheet items, including onerous leases, rent free accruals and fair value adjustments relating to acquired leases of around £0.1 billion
- As a result of the above, an adjustment to opening retained earnings in the region of £0.9 billion (before adjusting for associated tax impacts).

The above adjustment to retained earnings causes no hindrance on the Group's ability to pay dividends to shareholders.

The right-of-use asset is initially measured at cost (being the initial lease liability plus any associated direct costs) and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

As a result, the profile of costs recognised in the consolidated income statement will materially change in comparison to IAS 17 as follows:

- Depreciation will increase due to the recognition of right-of-use assets
- Existing rental costs will reduce – the only rental costs that remain will relate to low value assets or short-term leases
- Finance costs will increase due to the unwinding of the discount on the discounted lease liability.

2 Basis of preparation (continued)

Whilst the total cash outflow for leases will not change, the classification of cash flows will be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing cash flows.

In preparing for the transition to IFRS 16, the Group has been developing new controls, policies and governance procedures in several areas that contribute to the calculation of the overall lease liability and right-of-use asset. These include the identification of any embedded leases, accounting for lease modifications, as well as electing to not apply IFRS 16 to short-term leases (less than a year) and low value assets in line with the practical expedients offered under IFRS 16.

Key judgements have also been addressed, including the assessment of how reasonably certain it is considered to be that a lease option (extension, termination or purchase) will be exercised, and the determination of an appropriate discount rate used to present value the lease liability and to initially measure the right-of-use asset. With regards to these, the Group has determined that the lease term will correspond to the duration of the contracts except in cases where the Group is reasonably certain that it will exercise contractual extension or break options. The historical discount rates applied have been based on the incremental borrowing rate where the implicit rate in the lease is not readily determinable.

All relevant accounting policies will be updated to reflect the changes under IFRS 16 in the consolidated financial statements for the 52 weeks ending 7 March 2020.

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. These adjusted items are as follows:

	2019 £m	2018 £m
Underlying profit before tax	**635**	589
Property related		
(Loss)/profit on disposal of properties	**(17)**	5
Investment property fair value movements	**(2)**	7
Impairment and onerous contract charge	**(3)**	-
Argos		
Argos integration costs	**(40)**	(75)
Homebase separation	**-**	(10)
Sainsbury's Bank transition	**(70)**	(38)
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	**(46)**	-
Restructuring costs	**(81)**	(85)
Other		
Perpetual securities coupons	**23**	23
Non-underlying finance movements	**11**	(2)
Acquisition adjustments	**(53)**	(2)
Defined benefit pension expenses	**(118)**	(5)
Total adjustments	**(396)**	(180)
Profit before tax	**239**	409

Property related

- Loss on disposal of properties for the financial year comprised £(17) million for the Group (2018: profit of £11 million) included within other income and £nil million for the property joint ventures (2018: £(6) million) included within share of post-tax profit from joint ventures and associates.
- Impairment charges comprised £(3) million (2018: £nil million) within property, plant and equipment.

Argos

- Argos integration costs for the year were £(40) million which principally comprise of property-related costs. The Argos integration programme is now complete.
- The Homebase separation and restructuring costs in the prior year of £(10) million were part of the revised anticipated total exceptional costs of £(45) million. There were no costs incurred during the current financial year.

Sainsbury's Bank transition

- Sainsbury's Bank transition costs of £(70) million (2018: £(38) million) were incurred in transitioning to a new, more flexible banking platform as part of the previously announced New Bank Programme. New Bank Programme transition costs principally comprise contractor and service provider costs relating to the migration of data and other services to the Bank's new infrastructure and operating model.

3 Non-GAAP performance measures (continued)

Nectar UK

- Acquisition-related costs (included in administrative expenses and recognised outside of 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 in the prior year (and excluded from underlying profit before tax).

Asda transaction costs

- Sainsbury's transaction costs relating to the proposed merger with Asda of £(46) million principally comprised of fees incurred in relation to deal preparation, integration planning and transaction financing.

Restructuring costs

- Restructuring costs of £(81) million in the year have been recognised following announced transformational changes to the Group's in-store operating model, responding to changing customer shopping habits and reducing costs throughout the store estate. These costs 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 are accrued on a straight-line basis and included as an expense within underlying profit before tax.
- Non-underlying finance movements for the financial year comprised £13 million for the Group (2018: £1 million) and £(2) million for the joint ventures (2018: £(3) million).
- Acquisition adjustments of £(53) million (2018: £(2) million) reflect the unwind of non-cash fair value adjustments arising from the Sainsbury's Bank, Home Retail Group and Nectar UK acquisitions and are split as follows:

	2019				2018			
	Financial Services £m	**Argos £m**	**Nectar £m**	**Total Group £m**	Financial Services £m	Argos £m	Nectar £m	Total Group £m
Revenue	**-**	**-**	**-**	**-**	(3)	-	-	(3)
Cost of sales	**-**	**2**	**-**	**2**	-	2	-	2
Depreciation	**-**	**(13)**	**-**	**(13)**	-	(18)	-	(18)
Amortisation	**(1)**	**(16)**	**(25)**	**(42)**	(3)	22	(2)	17
	(1)	**(27)**	**(25)**	**(53)**	(6)	6	(2)	(2)

- Defined benefit pension expenses comprise the pension financing charge of £(8) million (2018: £(26) million) and scheme expenses of £(10) million (2018: £(10) million). Also included are £(2) million of pension related expenses incurred directly by the Group.
- In addition there are £(98) million non-cash past service costs relating to Guaranteed Minimum Pension (GMP) equalisation. The prior year included a £31 million past service credit in relation to a Pension Increase Exchange (PIE) at retirement option introduced from 1 April 2018.

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, where not already separately presented in the cash flow statement:

	2019	2018
	£m	£m
Defined benefit pension expenses	**(10)**	(10)
Sainsbury's Bank transition	**(66)**	(38)
Business rationalisation	**-**	(1)
Argos integration costs	**(52)**	(32)
Homebase separation	**-**	(14)
Restructuring costs	**(152)**	(28)
Asda transaction costs	**(39)**	-
Cash used in operating activities	**(319)**	(123)
Proceeds from property disposals	**64**	54
Cash generated from investing activities	**64**	54
Net cash flows	**(255)**	(69)

4 Segment reporting

Background

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

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

The Food and General Merchandise and Clothing segments have been aggregated into a Retail segment in the financial statements.

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 financial year ended 9 March 2019 includes Nectar results from 1 March 2018 to 9 March 2019 (prior financial year: four 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 capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Revenue consists of sales through retail outlets and online and, in the case of Financial Services, interest receivable, fees and commissions and excludes Value Added Tax. Revenue is recognised when the Group has a contract with a customer and a performance obligation has been satisfied, at the transaction price allocated to that performance obligation. Further information on the impact of adopting IFRS 15 is included in note 2.

4 Segment reporting (continued)

Income statement and balance sheet

52 weeks to 9 March 2019	Retail £m	Financial services £m	Property investment £m	Group £m
Segment revenue				
Retail sales to external customers	**28,466**	**-**	**-**	**28,466**
Financial Services to external customers[1]	**-**	**541**	**-**	**541**
Underlying revenue	**28,466**	**541**	**-**	**29,007**
Revenue	**28,466**	**541**	**-**	**29,007**
Underlying operating profit	**692**	**31**	**-**	**723**
Underlying finance income	**3**	**-**	**-**	**3**
Underlying finance costs	**(99)**	**-**	**-**	**(99)**
Underlying share of post-tax profit from joint ventures and associates	**-**	**-**	**8**	**8**
Underlying profit before tax	**596**	**31**	**8**	**635**
Non-underlying expense (note 3)				**(396)**
Profit before tax				**239**
Income tax expense (note 7)				**(20)**
Profit for the financial period				**219**
Assets	**14,420**	**8,916**	**-**	**23,336**
Investment in joint ventures and associates	**-**	**-**	**205**	**205**
Segment assets	**14,420**	**8,916**	**205**	**23,541**
Segment liabilities	**(7,147)**	**(7,938)**	**-**	**(15,085)**
Other segment items				
Capital expenditure[2]	**585**	**44**	**-**	**629**
Depreciation expense[3]	**642**	**7**	**-**	**649**
Amortisation expense[4]	**127**	**16**	**-**	**143**
Net impairment and onerous contract charge	**3**	**-**	**-**	**3**
Share based payments	**36**	**3**	**-**	**39**

1 Financial Services income includes £385 million recognised using the effective interest rate method.
2 Retail capital expenditure consists of property, plant and equipment additions of £505 million and intangible asset additions of £80 million. Financial Services capital expenditure consists of property, plant and equipment additions of £8 million and intangible asset additions of £36 million.
3 Depreciation within the Retail segment includes a £13 million charge in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK.
4 Amortisation expense within the Retail segment includes a £41 million charge in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK. Amortisation expense within the Financial Services segment includes a £1 million charge in relation to the unwind of fair value adjustments recognised on acquisition of Sainsbury's Bank.

4 Segment reporting (continued)

52 weeks to 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[1]	-	515	-	515
Underlying revenue	27,944	515	-	28,459
Acquisition adjustment fair value unwind[2]	-	(3)	-	(3)
Revenue	27,944	512	-	28,456
Underlying operating profit	625	69	-	694
Underlying finance income	14	-	-	14
Underlying finance costs[3]	(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 (note 3)				(180)
Profit before tax				409
Income tax expense (note 7)				(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)
Other segment items				
Capital expenditure[4]	640	77	-	717
Depreciation expense[5]	651	8	-	659
Amortisation expense[6]	59	13	-	72
Share based payments	30	3	-	33

1 Financial Services income includes £365 million recognised using the effective interest rate method.
2 Represents fair value unwind on loans and advances to customers resulting from the Sainsbury's Bank and Home Retail Group Financial Services acquisitions.
3 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 Retail capital expenditure consists of property, plant and equipment additions of £570 million and intangible asset additions of £70 million. Financial Services capital expenditure consists of property, plant and equipment additions of £8 million and intangible asset additions of £69 million.
5 Depreciation within the Retail segment includes an £18 million charge in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK.
6 Amortisation expense within the Retail segment includes £20 million income in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK. Amortisation expense within the Financial Services segment includes a £(3) million charge in relation to the unwind of fair value adjustments recognised on acquisition of Sainsbury's Bank.

Geographical segments

The Group trades predominantly in the UK and the Republic of Ireland and consequently the majority of revenues, capital expenditure and segment net assets arise there. The profits, turnover and assets of the businesses in the Republic of Ireland are not material to the Group.

4 Segment reporting (continued)

Segmented Cash flow statement

	APM reference	52 weeks to 9 March 2019 Retail £m	Financial Services £m	Group £m	52 weeks to 10 March 2018 Retail £m	Financial Services £m	Group £m
Profit/(loss) before tax[1]		**260**	**(21)**	**239**	382	27	409
Net finance costs		**77**	**-**	**77**	121	-	121
Share of post-tax profit from joint ventures and associates[1]		**(4)**	**-**	**(4)**	(12)	-	(12)
Operating profit/(loss)		**333**	**(21)**	**312**	491	27	518
Adjustments for:							
Depreciation/amortisation		**769**	**23**	**792**	710	21	731
Non-cash adjustments arising from acquisitions[2]		**(2)**	**-**	**(2)**	(2)	3	1
Financial Services impairment losses on loans and advances		**-**	**98**	**98**	-	68	68
Loss/(profit) on sale of properties		**17**	**-**	**17**	(11)	-	(11)
Loss on disposal of intangibles		**-**	**-**	**-**	-	2	2
Profit on disposal of joint ventures		**-**	**-**	**-**	(4)	-	(4)
Impairment charge of property, plant and equipment		**3**	**-**	**3**	-	-	-
Share-based payments expense		**36**	**3**	**39**	30	3	33
Non-cash defined benefit scheme expenses		**108**	**-**	**108**	(21)	-	(21)
Cash contributions to defined benefit scheme		**(63)**	**-**	**(63)**	(130)	-	(130)
Operating cash flows before changes in working capital		**1,201**	**103**	**1,304**	1,063	124	1,187
Changes in working capital							
(Increase)/decrease in working capital		**(45)**	**(510)**	**(555)**	196	143	339
Cash generated from/(used in) operations		**1,156**	**(407)**	**749**	1,259	267	1,526
Interest paid	a	**(63)**	**-**	**(63)**	(89)	-	(89)
Corporation tax paid		**(61)**	**(7)**	**(68)**	(72)	-	(72)
Net cash generated from/(used in) operating activities		**1,032**	**(414)**	**618**	1,098	267	1,365
Cash flows from investing activities							
Purchase of property, plant and equipment excluding strategic capital expenditure		**(434)**	**(8)**	**(442)**	(473)	(8)	(481)
Strategic capital expenditure	b	**(36)**	**-**	**(36)**	(80)	-	(80)
Purchase of property, plant and equipment		**(470)**	**(8)**	**(478)**	(553)	(8)	(561)
Purchase of intangible assets		**(78)**	**(38)**	**(116)**	(69)	(71)	(140)
Proceeds from disposal of property, plant and equipment		**64**	**-**	**64**	54	-	54
Proceeds from financial assets at fair value through other comprehensive income	d	**39**	**-**	**39**	-	-	-
Acquisition of subsidiaries	c	**-**	**-**	**-**	(33)	-	(33)
Cash acquired upon acquisition of subsidiaries	c	**-**	**-**	**-**	168	-	168
Investment in joint ventures	f	**(5)**	**-**	**(5)**	(9)	-	(9)
Interest received	a	**4**	**-**	**4**	14	-	14
Dividends and distributions received[3]	f	**18**	**-**	**18**	37	-	37
Net cash used in investing activities		**(428)**	**(46)**	**(474)**	(391)	(79)	(470)
Cash flows from financing activities							
Proceeds from issuance of ordinary shares	e	**22**	**-**	**22**	12	-	12
Repayment of borrowings	d	**(593)**	**-**	**(593)**	(148)	-	(148)
Proceeds from borrowings	d	**135**	**-**	**135**	-	174	174
Purchase of own shares	e	**(30)**	**-**	**(30)**	(14)	-	(14)
Repayment of capital element of obligations under finance lease payments	d	**(32)**	**-**	**(32)**	(26)	-	(26)
Interest elements of obligations under finance lease payments	a	**(7)**	**-**	**(7)**	(7)	-	(7)
Dividends paid on ordinary shares		**(224)**	**-**	**(224)**	(212)	-	(212)
Dividends paid on perpetual securities	a	**(23)**	**-**	**(23)**	(23)	-	(23)
Net cash (used in)/generated from financing activities		**(752)**	**-**	**(752)**	(418)	174	(244)
Intra group funding							
Bank capital injections		**(110)**	**110**	**-**	(190)	190	-
Net cash generated from/(used in) intra group funding		**(110)**	**110**	**-**	(190)	190	-
Net (decrease)/increase in cash and cash equivalents		**(258)**	**(350)**	**(608)**	99	552	651

1 Includes £4 million (2018: £8 million) relating to the Property Investment segment.
2 The total Group balance excludes a £(55) million acquisition adjustment unwind expense (2018: £(1) million expense) already included in depreciation and amortisation in this note.
3 Included within dividends and distributions received is £18 million (2018: £30 million) of dividends received from property investment joint ventures.

5 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 four key types are as follows:

— Discounts and supplier incentives – these represent the majority of all supplier arrangements and are linked to individual unit sales. The incentive is typically based on an agreed sum per item sold on promotion for a period and therefore is considered part of the purchase price of that product.

— Fixed amounts – these are agreed with suppliers primarily to support in-store activity including promotions, such as utilising specific space. These involve a degree of judgement and estimation in ensuring the appropriate cut-off of arrangements for fixed amounts which span period-end. These require judgement to determine when the terms of the arrangement are satisfied and that amounts are recognised in the correct period.

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

— Marketing and advertising income – relates to income which is directly linked to the cost of producing the Argos catalogue as well as advertising income from suppliers through the Group's subsidiary Insight 2 Communication (I2C). Income relating to the Argos catalogue is recognised once agreed with the supplier and when the catalogue is made available to the Group, which is the point at which the catalogue costs are recognised. Advertising income within I2C involves a level of judgement to ensure amounts are recognised in the correct period.

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

	2019 **£m**	2018 £m
Fixed amounts	**281**	261
Supplier rebates	**69**	97
Marketing and advertising income	**107**	92
Total supplier arrangements	**457**	450

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

	2019 **£m**	2018 £m
Within inventory	**(7)**	(7)
Within current trade receivables		
Supplier arrangements due	**39**	23
Accrued supplier arrangements	**39**	-
Within current trade payables		
Supplier arrangements due	**22**	23
Accrued supplier arrangements	**-**	14
Deferred income due	**(1)**	-
Total supplier arrangements	**92**	53

6 Finance income and finance costs

	2019			2018		
	Underlying	**Non-underlying**	**Total**	Underlying	Non-underlying	Total
	£m	**£m**	**£m**	£m	£m	£m
Interest on bank deposits and other financial assets	**3**	**-**	**3**	14	-	14
Finance fair value movements	**-**	**19**	**19**	-	5	5
Finance income	**3**	**19**	**22**	14	5	19
Borrowing costs:						
Secured borrowings	**(55)**	**-**	**(55)**	(79)	-	(79)
Unsecured borrowings	**(19)**	**-**	**(19)**	(30)	-	(30)
Obligations under finance leases	**(7)**	**-**	**(7)**	(7)	-	(7)
Provisions - amortisation of discount	**(1)**	**(6)**	**(7)**	(1)	(4)	(5)
	(82)	**(6)**	**(88)**	(117)	(4)	(121)
Other finance costs:						
Interest capitalised - qualifying assets	**6**	**-**	**6**	7	-	7
IAS 19 pension financing charge (note 12)	**-**	**(8)**	**(8)**	-	(26)	(26)
Transaction financing costs	**-**	**(9)**	**(9)**	-	-	-
Perpetual securities coupon	**(23)**	**23**	**-**	(23)	23	-
	(17)	**6**	**(11)**	(16)	(3)	(19)
Finance costs	**(99)**	**-**	**(99)**	(133)	(7)	(140)

Finance fair value movements relate to net fair value movements on derivative financial instruments not designated in a hedging relationship. In addition, £10 million of fair value gains recognised in other comprehensive income were recycled to the income statement on disposal of the related debt-securities.

Transaction financing costs relate to the fees associated with the financing arrangements which would have been available to the Group if the proposed merger with Asda had completed. These have been written off to the income statement in full.

7 Income tax expense

	2019	2018
	£m	£m
Current tax expense	**81**	107
Deferred tax credit	**(61)**	(7)
Total income tax expense in income statement	**20**	100
Analysed as:		
Underlying tax	**151**	142
Non-underlying tax	**(131)**	(42)
Total income tax expense in income statement	**20**	100
Underlying tax rate	**23.8%**	24.1%
Effective tax rate	**8.4%**	24.4%

8 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 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.

	2019 million	2018 million
Weighted average number of shares in issue	**2,197.6**	2,186.2
Weighted average number of dilutive share options	**42.1**	21.8
Weighted average number of dilutive senior convertible bonds	**148.1**	143.5
Weighted average number of dilutive subordinated perpetual convertible bonds	**80.8**	78.3
Total number of shares for calculating diluted earnings per share	**2,468.6**	2,429.8

	£m	£m
Profit for the financial year (net of tax)	**219**	309
Less profit attributable to:		
Holders of perpetual capital securities	**(12)**	(12)
Holders of perpetual convertible bonds	**(6)**	(6)
Profit for the financial year attributable to ordinary shareholders	**201**	291

	£m	£m
Profit for the financial year attributable to ordinary shareholders	**201**	291
Add interest on senior convertible bonds (net of tax)	**12**	12
Add coupon on subordinated perpetual convertible bonds (net of tax)	**6**	6
Diluted earnings for calculating diluted earnings per share	**219**	309

	£m	£m
Profit for the financial year attributable to ordinary shareholders of the parent	**201**	291
Adjusted for non-underlying items (note 3)	**396**	180
Tax on non-underlying items	**(131)**	(42)
Add back coupons on perpetual securities (net of tax)[1]	**18**	18
Underlying profit after tax attributable to ordinary shareholders of the parent	**484**	447
Add interest on convertible bonds (net of tax)	**12**	12
Add coupon on subordinated perpetual convertible bonds (net of tax)	**6**	6
Diluted underlying profit after tax attributable to ordinary shareholders of the parent	**502**	465

	Pence per share	Pence per share
Basic earnings	**9.1**	13.3
Diluted earnings	**8.9**	12.7
Underlying basic earnings	**22.0**	20.4
Underlying diluted earnings	**20.3**	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.

9 Dividends

	2019	2018	**2019**	2018
	Pence per share	Pence per share	**£m**	£m
Amounts recognised as distributions to ordinary shareholders in the year:				
Final dividend of prior financial year	**7.1**	6.6	**156**	144
Interim dividend of current financial year	**3.1**	3.1	**68**	68
	10.2	9.7	**224**	212

After the balance sheet date on 30 April 2019 a final dividend of 7.9 pence per share (2018: 7.1 pence per share) was proposed by the Directors in respect of the 52 weeks to 9 March 2019. This results in a total final proposed dividend of £174 million (2018: £156 million), an increase of 11.5 per cent on the previous year. Subject to shareholders' approval at the Annual General Meeting, the dividend will be paid on 12 July 2019 to the shareholders on the register at 7 June 2019. The proposed final dividend has not been included as a liability at 9 March 2019.

10 Cash and cash equivalents

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

	2019	2018
	£m	£m
Cash in hand and bank balances	**609**	585
Money market funds and deposits	**204**	462
Deposits at central banks	**308**	683
Cash and bank balances	**1,121**	1,730
Bank overdrafts	**(1)**	(2)
Net cash and cash equivalents	**1,120**	1,728

Of the above balance, £49 million (2018: £38 million) was restricted as at year-end.

11 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 changes		Non-cash changes		
	11 March 2018 £m	Cash flows excluding interest £m	Net interest (received) / paid £m	Other non-cash movements £m	Changes in fair value £m	9 March 2019 £m
Retail						
Financial assets at fair value through other comprehensive income[1]	40	(39)	-	-	-	1
Derivative assets	9	-	(4)	2	13	20
Derivative liabilities	(72)	-	3	(1)	47	(23)
Cash and cash equivalents	725	(259)	-	-	-	466
Bank overdrafts	(2)	1	-	-	-	(1)
Borrowings[2]	(1,937)	458	60	(64)	-	(1,483)
Finance leases	(127)	32	7	(34)	-	(122)
Retail net debt	(1,364)	193	66	(97)	60	(1,142)
Financial Services						
Financial assets at fair value through other comprehensive income[1]	526	97	-	-	(1)	622
Derivative assets	18	-	-	-	(8)	10
Derivative liabilities	(7)	-	-	(1)	(3)	(11)
Cash and cash equivalents	1,005	(350)	-	-	-	655
Borrowings	(174)	-	-	-	(2)	(176)
Financial Services net debt	1,368	(253)	-	(1)	(14)	1,100
Group						
Financial assets at fair value through other comprehensive income[1]	566	58	-	-	(1)	623
Derivative assets	27	-	(4)	2	5	30
Derivative liabilities	(79)	-	3	(2)	44	(34)
Cash and cash equivalents	1,730	(609)	-	-	-	1,121
Bank overdrafts	(2)	1	-	-	-	(1)
Borrowings[2]	(2,111)	458	60	(64)	(2)	(1,659)
Finance leases	(127)	32	7	(34)	-	(122)
Group net debt	4	(60)	66	(98)	46	(42)

Other non-cash movements relate to interest accruals and new finance leases.

11 Analysis of net debt (continued)

		Cash changes		Non-cash changes			
	12 March 2017 £m	Cash flows excluding interest £m	Net interest (received) / paid £m	Acquisition movements £m	Other non-cash movements £m	Changes in fair value £m	10 March 2018 £m
Retail							
Financial assets at fair value through other comprehensive income[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 at fair value through other comprehensive income[1]	333	192	-	-	-	1	526
Derivative assets	1	-	-	-	-	17	18
Derivative liabilities	(22)	-	-	-	-	15	(7)
Cash and cash equivalents	453	552	-	-	-	-	1,005
Borrowings	-	(174)	-	-	-	-	(174)
Financial Services net debt	765	570	-	-	-	33	1,368
Group							
Financial assets at fair value through other comprehensive income[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 at fair value through other comprehensive income exclude equity related financial assets 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.

12 Retirement benefit obligations

At 9 March 2019, all retirement benefit obligations related to the Sainsbury's Pension Scheme plus two unfunded pension liabilities relating to former senior employees of Sainsbury's and Home Retail Group.

On 20 March 2018, the Home Retail Group Pension Scheme was merged into the Sainsbury's Pension Scheme. The Sainsbury's Pension Scheme now has two sections, the Sainsbury's Section which holds all the Scheme assets and liabilities prior to the merger, and the Argos Section which holds all the assets and liabilities transferred into the Scheme from the Home Retail Group Pension Scheme. There have been no changes to members' benefits and each section's assets have been segregated by deed and ring fenced for the benefit of the members of each section. The Scheme has eleven Trustee directors (including three from the Home Retail Group Pension Scheme). No further liabilities or assets remained in the Home Retail Group Pension Scheme and it was then wound up on 31 August 2018.

The retirement benefit obligations at the year-end have been calculated by KPMG, the actuarial advisers to the Group, using the projected unit credit method and based on adjusting the position at the date of the previous triennial valuations (see below) for known events and changes in market conditions as allowed under IAS 19 'Employee Benefits'. Assets are valued at bid price and are held separately from the Group's assets.

Contributions to Scheme
Under the Recovery Plans agreed as part of the 2015 triennial valuation process Group are contracted to make contributions totalling £124 million in 2019/20 which includes the £19 million coupon from Sainsbury's Property Scottish Partnership. The 2018 triennial valuation is currently being agreed with the Trustee.

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

IFRIC 14
IFRIC 14 is the interpretation that details when a company can recognise any pension surplus that exists. Furthermore, if the company has a funding commitment in excess of the IAS 19 deficit, then IFRIC 14 requires recognition of this excess in those circumstances when the surplus that would result on fulfilling that commitment cannot be recognised. A surplus may be recognised either because of an unconditional right to a refund to the company, or on grounds of a future contribution reduction where schemes are still open to future accrual.

For the Sainsbury's Section, management is of the view that it has an unconditional right to a refund of surplus under IFRIC 14. As such no adjustment has been made for potential additional liabilities.

Based on the net deficit of the Argos section as at 9 March 2019 and the committed payments under the Schedule of Contributions signed on 2 September 2016, there is a notional surplus of £134 million.

Management is of the view that, based on the scheme rules, it does not have an unconditional right to a refund of surplus under IFRIC 14, and therefore an additional balance sheet liability in respect of a 'minimum funding requirement' of £134 million has been recognised.

12 Retirement benefit obligations (continued)

The amounts recognised in the balance sheet are as follows:

	Sainsbury's 2019 £m	**Argos 2019 £m**	**Group 2019 £m**	Sainsbury's 2018 £m	Argos 2018 £m	Group 2018 £m
Present value of funded obligations	**(7,654)**	**(1,202)**	**(8,856)**	(8,744)	(1,284)	(10,028)
Fair value of plan assets	**8,759**	**1,224**	**9,983**	8,669	1,215	9,884
	1,105	**22**	**1,127**	(75)	(69)	(144)
Additional liability due to minimum funding requirements (IFRIC 14)	**-**	**(134)**	**(134)**	-	(78)	(78)
Retirement benefit surplus/(deficit)	**1,105**	**(112)**	**993**	(75)	(147)	(222)
Present value of unfunded obligations	**(20)**	**(14)**	**(34)**	(21)	(14)	(35)
Retirement benefit surplus/(deficit)	**1,085**	**(126)**	**959**	(96)	(161)	(257)
Deferred income tax (liability)/asset	**(241)**	**25**	**(216)**	(38)	34	(4)
Net retirement benefit surplus/(deficit)	**844**	**(101)**	**743**	(134)	(127)	(261)

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

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

	2019 £m	2018 £m
As at the beginning of the year	**(257)**	(974)
Interest cost	**(8)**	(26)
Remeasurement gains	**1,269**	592
Pension scheme expenses	**(10)**	(10)
Contributions by employer	**63**	130
Past service (charge)/credit	**(98)**	31
As at the end of the year	**959**	(257)

As noted, the Group is currently in the process of agreeing the 2018 triennial valuation with the Trustee. As part of this, the membership data underlying the IAS 19 calculations has been updated from that used in the 2015 triennial valuation to be consistent with that used in the 2018 triennial valuation. This has resulted in experience gains of £644 million in the financial year included within remeasurement gains above.

Actuarial gains of £547 million have also been recognised as a result of updating mortality tables to reflect the latest experience in the scheme, as well as updating to the most up to date (as at the year-end) mortality improvement tables. These are also included within remeasurement gains above.

Past service amounts

On 26 October 2018, the High Court ruled in the landmark Lloyds Banking Group case on Guaranteed Minimum Pensions (GMPs). The judgement requires equalisation between men and women for the effect of unequal GMPs. The Group has worked with the Trustee of the Scheme and independent actuaries and estimated the cost of equalising benefits at £98 million for the Sainsbury's section and £3 million for the Argos section.

This cost for the Sainsbury's section has been recognised in the consolidated income statement as a non-underlying item for the 52 weeks ended 9 March 2019 (2018: £nil). The cost for the Argos section has been recognised as an experience loss in other comprehensive income due to GMP equalisation in 1997. Any subsequent changes to these amounts in future periods will be treated as a change in actuarial assumption and as such will be recognised in other comprehensive income.

12 Retirement benefit obligations (continued)

In the prior year, the past service credit of £31 million was in relation to a Pension Increase Exchange (PIE) option introduced in the Sainsbury's section of the Scheme from 1 April 2018, following a deed of amendment signed during the prior financial year.

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

	2019	2018
	%	%
Discount rate	**2.80**	2.80
Inflation rate - RPI	**3.20**	3.15
Inflation rate - CPI	**2.20**	2.15
Future pension increases	**2.00 - 3.05**	1.90 - 3.00

The base mortality assumptions are based on the SAPS S2 tables, with adjustments to reflect the Scheme's population. Future mortality improvements have been updated from CMI 2017 projections at 2018 year-end to CMI 2018 projections with a long-term rate of improvement of 1.25 per cent p.a. at 9 March 2019.

13 Post balance sheet events

After the balance sheet date, in April 2019, Sainsbury's and joint venture partner The British Land Company PLC approved the sale of 12 properties to Realty Income Corporation for £429 million. The transaction is expected to complete during the first half of the financial year ending 7 March 2020, with Sainsbury's share of the net proceeds from the disposal expected to be £133 million. Sainsbury's interest in the properties is currently included within the Group's investment in joint ventures line item on the balance sheet. Sainsbury's will enter into deeds of variation and reversionary leases with Realty Income Corporation to operate from the stores.

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 the current period's results and comparative periods where provided.

<table>
<tr><th>APM</th><th>Closest equivalent IFRS measure</th><th>Definition/ Purpose</th><th>Reconciliation</th></tr>
<tr><td colspan="4">Income statement</td></tr>
<tr><td>Like-for-like sales</td><td>No direct equivalent</td><td>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 reallocation of Argos stores into Sainsbury's supermarkets are classified 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.</td><td>Retail like-for-like sales (excluding fuel) decreased by 0.2 per cent (2017/18: 1.3 per cent increase) mainly as a result of like-for-like sales declines in General Merchandise and Clothing.
<table>
<tr><th></th><th>2019</th><th>2018</th></tr>
<tr><td>Underlying retail like-for-like (exc. Fuel)</td><td>(0.2)%</td><td>1.3%</td></tr>
<tr><td>Underlying net new space impact</td><td>0.6%</td><td>0.3%</td></tr>
<tr><td>Underlying total retail sales growth (exc. fuel)</td><td>0.4%</td><td>1.6%</td></tr>
<tr><td>Argos consolidation impact</td><td>-</td><td>8.4%</td></tr>
<tr><td>Underlying total retail sales growth (exc. fuel)</td><td>0.4%</td><td>10.0%</td></tr>
<tr><td>Fuel impact</td><td>1.7%</td><td>(1.2)%</td></tr>
<tr><td>Underlying total retail sales growth (inc. fuel)</td><td>2.1%</td><td>8.8%</td></tr>
<tr><td>Bank impact</td><td>-</td><td>0.2%</td></tr>
<tr><td>Underlying Group sales inc. VAT</td><td>2.1%</td><td>9.0%</td></tr>
</table></td></tr>
<tr><td>Underlying Group sales</td><td>Revenue</td><td>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.</td><td>A reconciliation of the measure is provided in note 4 of the financial statements.</td></tr>
<tr><td>Underlying profit before tax</td><td>Profit before tax</td><td>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.</td><td>A reconciliation of underlying profit before tax is provided in note 3 of the financial statements.</td></tr>
<tr><td>Retail underlying operating profit</td><td>Profit before tax</td><td>Underlying earnings before interest, tax, Financial Services operating profit and Sainsbury's underlying share of post-tax profit from joint ventures and associates.</td><td>A reconciliation of the measure is provided in note 4 of the financial statements.</td></tr>
<tr><td>Underlying basic earnings per share</td><td>Basic earnings per share</td><td>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.</td><td>A reconciliation of the measure is provided in note 8 of the financial statements.</td></tr>
<tr><td>Retail underlying EBITDAR</td><td>No direct equivalent/Profit before tax</td><td>Retail underlying operating profit as above, before rent, depreciation and amortisation.</td><td>A reconciliation of the measure is provided on page 16 of the Financial Review.</td></tr>
</table>

Alternative performance measures (continued)

APM	Closest equivalent IFRS measure	Definition/ Purpose	Reconciliation
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	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 – reconciliation:

	Ref	2019 £m	2018 £m
Net interest paid	a	**(89)**	(105)
Strategic capital expenditure	b	**(36)**	(80)
Acquisition of subsidiaries	c	**-**	135
Repayment of borrowings	d	**(451)**	(174)
Other	e	**(8)**	(2)
Joint ventures	f	**13**	28

Retail free cash flow – reconciliation:

Reconciliation of retail free cash flow	2019 £m	2018 £m
Cash generated from retail operations	**1,156**	1,259
Net interest paid (ref (a) above)	**(89)**	(105)
Corporation tax	**(61)**	(72)
Retail purchase of property, plant and equipment	**(470)**	(553)
Retail purchase of intangible assets	**(78)**	(69)
Retail proceeds from disposal of property, plant and equipment	**64**	54
Add back: Strategic capital expenditure	**36**	80
Dividends and distributions received	**18**	37
Investment in joint ventures and associates	**(5)**	(9)
Bank capital injections	**(110)**	(190)
Retail free cash flow	**461**	432

Alternative performance measures (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></th><th>2019
£m</th><th>2018
£m</th></tr>
<tr><td>Purchase of property, plant and equipment</td><td>(434)</td><td>(473)</td></tr>
<tr><td>Purchase of intangibles</td><td>(78)</td><td>(69)</td></tr>
<tr><td>Cash capital expenditure before strategic capital expenditure (note 4)</td><td>(512)</td><td>(542)</td></tr>
<tr><td>Strategic capital expenditure (ref (b) above)</td><td>(36)</td><td>(80)</td></tr>
<tr><td>Proceeds on disposal</td><td>64</td><td>54</td></tr>
<tr><td>Cash capital expenditure including strategic capital expenditure</td><td>(484)</td><td>(568)</td></tr>
<tr><td>Capitalised interest</td><td>(6)</td><td>(7)</td></tr>
<tr><td>Other (including strategic capital expenditure)</td><td>36</td><td>80</td></tr>
<tr><td>Total net retail core capital expenditure</td><td>(454)</td><td>(495)</td></tr>
</table>
</td></tr>
<tr><td>Retail Net Debt</td><td>Borrowings, cash, derivatives, financial assets at fair value through other comprehensive income 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: financial assets at fair value through other comprehensive income (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 11 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>Other</td><td></td><td></td><td></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 23.</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 23.</td></tr>
</table>

Alternative performance measures (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 6 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 23. Underlying net finance costs as per note 6 of the financial statements.