

Interim Results for the 28 weeks to 21 September 2019
Increased grocery momentum as we create one multi brand, multi-channel business

Operational Highlights

- Positive momentum in Grocery market share¹ and sales performance, driven by a strong customer response to lower prices and our new value brands. We launched 123 new value brand products, with 200 due by the end of the financial year
- We continue to improve Sainsbury's service and availability and customer satisfaction scores increased by more than three percentage points year on year². We are investing in technology to make shopping easier and SmartShop handheld self-scanning technology is now in over 350 supermarkets
- We are investing in our store estate and have improved 172 supermarkets and 158 convenience stores this half. We will improve 450 supermarkets and 200 convenience stores this financial year
- Clothing and General Merchandise performance improved quarter on quarter as comparatives normalised. We are bringing Sainsbury's and Argos closer together to give customers easier access to all our products and services
- Argos sales grew ahead of the market³ and *Fast Track* delivery and collection continue to grow
- We have converted 176 Argos stores to our digital format this half and we will convert the majority of the remaining stores by the end of the year. Pay@Browse is now available in 362 Argos stores
- Following a strategic review of Financial Services, we no longer sell mortgages, are reducing costs and are focusing on digitally-led products and services for Sainsbury's and Argos customers
- We successfully launched digital Nectar nationwide, creating a platform for greater personalisation and reward. 2.1 million customers are now using the Nectar app
- We became the first retailer to remove single use plastic produce and bakery bags and have committed to reducing our plastic packaging by 50% by 2025
- Over 30,000 colleagues pledged to volunteer locally as part of our 150th birthday celebrations

Financial Highlights

- Group sales of £16,856 million, down 0.2 per cent
- Retail sales (excluding fuel) down 0.6 per cent
- Like-for-like sales (excluding fuel) down 1.0 per cent
- In line with guidance, underlying profit reduced by £41 million to £238 million due to the combined impact of the phasing of cost savings, higher marketing costs and tough weather comparatives
- As set out at the Capital Markets Day, we have reviewed our store estate, leading to £203 million of largely non cash one-off costs recognised in this half. Total one-off costs in the first half are £229 million, resulting in statutory profit before tax of £9 million. We continue to expect the total cost of the property strategy programme to be in the range of £230 million to £270 million
- Underlying earnings per share down 16 per cent to 7.9 pence
- Retail free cash flow of £698 million, up £81 million year-on-year, reflecting continued strong cash generation plus distributions from the British Land joint venture
- Net debt reduced by £568 million to £6,778 million, reflecting the above cash generation. As in previous years, net debt at half year benefited from working capital phasing which will reverse in the second half. We have committed to reduce non-lease net debt by at least £750 million in the next three years from £1,522 million⁴ and expect a reduction of at least £300 million in 2019/20
- New longer-term asset-backed pension plan agreed, providing greater security to the Scheme. 2018 triennial valuation deficit is down to £538 million, from £1,055 million in 2015 resulting in cash contributions reducing immediately by approximately £50 million per annum on average
- Unique opportunity to structurally reduce costs by c.£500 million over five years as we integrate Sainsbury's and Argos, in addition to ongoing cost savings to cover the impact of cost inflation
- Interim dividend of 3.3 pence per share, up 6 per cent, in line with our policy of paying 30 per cent of prior full year dividend. Full year dividend policy will change to 1.9x cover by underlying earnings (versus 2.0x previously) to offset the dilutive non cash impact of IFRS 16 on underlying earnings

1 Kantar World Panel 12 w/e 06 October 2019

2 Supermarket customer satisfaction 4 weeks to 21 September 2019 vs 4 weeks to 20 Oct 2018

3 Argos v BRC non-food non-clothing market, 28 weeks to 21 September 2019

4 FY 2018/19 net debt including perpetual securities £1,636 million as previously announced, less £122 million finance leases (including hire purchase arrangements), plus £8 million other (predominantly derivatives no longer reported within net debt). See notes 2.3 and 16 to the interim financial statements for additional detail

	28 weeks to 21 September 2019	28 weeks to 22 September 2018 ⁵	Variance
Business Performance			
Underlying group sales (inc. VAT)	£16,856m	£16,884m	(0.2)%
Like-for-like sales (inc. VAT, exc. fuel)			(1.0)%
Underlying profit before tax	£238m	£279m	(15)%
Underlying basic earnings per share	7.9p	9.4p	(16)%
Net debt	£(6,778)m	£(7,145)m	£367m
Non-lease net debt	£(1,008)m	£(1,272)m ⁶	£264m
Return on capital employed	7.1%	7.4% ⁷	
Interim dividend	3.3p	3.1p	6%

	28 weeks to 21 September 2019	28 weeks to 22 September 2018 ⁵
Statutory Reporting		
Group sales (exc. VAT, inc. fuel)	£15,097m	£15,128m
Items excluded from underlying results	£(229)m	£(172)m
Profit before tax	£9m	£107m
(Loss)/profit for the financial period	£(38)m	£123m
Basic earnings per share	(2.2)p	5.1p

5 Restated where appropriate in accordance with IFRS 16 and other changes - see note 3 to the financial statements for additional detail

6 Net debt including perpetual securities £1,328m as previously announced, less £107m finance leases (including hire purchase arrangements), plus £51 million other (predominantly derivatives no longer reported within net debt). See notes 2.3 and 16 to the financial statements for additional detail

7 ROCE is calculated on a 52 week rolling basis. 52 weeks to 22nd September 2018 is not available due to the implementation of IFRS 16. Comparatives therefore reflect the 52 weeks to 9th March 2019

Commenting on the Interim Results 2019, Mike Coupe, Chief Executive, said:

“We have created positive momentum across the business through strategic investments in our customer offer. We have lowered prices on every day food and groceries, launched a range of value brands and are more competitive on price than we have ever been. We are investing in hundreds of Sainsbury’s and Argos stores, introducing new products and services and continually improving service and availability. As a result, customer satisfaction has increased significantly year on year.

“We have set out our plan to create one multi brand, multi-channel business. This will make the combined Sainsbury’s and Argos offer much more accessible for customers and gives us the opportunity to make our business more efficient. We offer great quality at affordable prices with convenient ways to shop. I would like to thank colleagues for all their hard work at this busy time of year. We are very much looking forward to delighting our customers throughout the upcoming festive period.”

Outlook

Retail markets remain highly competitive and the consumer outlook remains uncertain. However, as guided in September, we expect profits in the second half to benefit from the annualisation of last year’s colleague wage increase and a normalisation of marketing costs and weather comparatives.

Dividend

Interim dividend of 3.3 pence per share, up 6 per cent, in line with our policy of paying 30 per cent of prior full year dividend. This will be paid on 20 December 2019 to shareholders on the Register of Members at the close of business on 15 November 2019. Full year dividend policy will change to 1.9x cover by underlying earnings (versus 2.0x previously) to offset the dilutive non cash impact of IFRS 16 on underlying earnings.

Like-for-like sales performance	2018/19				2019/20		
	Q1	Q2	Q3	Q4	Q1	Q2	H1
Like-for-like sales (excl. fuel)	0.2%	1.0%	(1.1)%	(0.9)%	(1.6)%	(0.2)%	(1.0)%
Like-for-like sales (inc. fuel)	2.6%	3.4%	0.3%	(0.5)%	(1.0)%	(0.4)%	(0.7)%

Total sales performance	2018/19				2019/20		
	Q1	Q2	Q3	Q4	Q1	Q2	H1
Grocery	0.5%	2.0%	0.4%	(0.6)%	(0.5)%	0.6%	(0.1)%
General Merchandise	1.7%	1.2%	(2.3)%	1.5%	(3.1)%	(2.0)%	(2.5)%
Clothing	0.8%	(3.4)%	(0.2)%	(1.6)%	(4.5)%	3.3%	(1.2)%
Total Retail (excl. fuel)	0.8%	1.7%	(0.4)%	(0.2)%	(1.2)%	0.1%	(0.6)%
Total Retail (inc. fuel)	3.2%	3.9%	0.8%	0.0%	(0.6)%	0.1%	(0.3)%

Notes

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

Certain statements made in this announcement are forward-looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results referred to in these forward-looking statements. They appear in a number of places throughout this announcement and include statements regarding our intentions, beliefs or current expectations and those of our officers, directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the business we operate. Unless otherwise required by applicable law, regulation or accounting standard, we do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

A results presentation for analysts and investors will be held at 09:30 on 7 November 2019.

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/investors/results-reports-and-presentations 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 674 848. 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/investors/results-reports-and-presentations

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Strategic priorities

Our strategy is designed to help our customers live well for less. Our priorities are:

1. Be competitive on price

We are focused on offering customers quality products at affordable prices. To do this, we have:

- Lowered prices on over 1,000 high volume lines since February, which has significantly improved Grocery market share trends
- Begun phasing out the Basics range and launched 12 new value brands in key categories including meat, fish, poultry and bakery. Brands include J James, Mary Ann's, Greengrocer and Frank's. 123 entry price point products are now in stores, with 200 planned by the end of the financial year
- Launched a new 'Work It' campaign for Tu clothing to promote high quality, value-led work wear. Clothing Online sales grew by over 50 per cent and eight per cent of Clothing sales are now online

2. Offer distinctive products and new categories

We can serve more of our customers' needs by selling more distinctive and exclusive ranges. To do this, we have:

- Relaunched over 350 products across a number of categories in our £1 billion *Taste the Difference* range which has the biggest premium volume market share of our major competitors. Our premium ready meal growth is outperforming the market
- Continued to grow incremental sales from over 160 distinctive, exclusive and owned brands. We have partnered with fast food retailer Leon to launch 14 exclusive grocery products in over 600 Sainsbury's stores. These include vegan and non-vegan sauces, mayonnaises, vinegars, olive oils, a balsamic vinegar and fresh bread
- Continued to maximise our supermarket space by introducing new categories such as wellness, expanding categories such as beauty and integrating our General Merchandise and Clothing sections
- Rolled out our new Beauty Hall proposition to more than 60 stores, with a bigger range, popular high value brands and enhanced merchandising and service. Beauty sales have increased by over 40 per cent in these stores and we have a clear opportunity to grow our share in this highly attractive market. We plan to roll Beauty Halls out to 100 stores by Christmas and 150 by June 2020
- Continued to gain market share in Clothing helped by strong online growth on Tu.co.uk and Tu@Argos
- Gained market share in key General Merchandise categories including furniture, tech and mobile. Sales were boosted by consumer electronics such as the Apple watch and the launch of the new iPhone 11
- Announced that all eggs will be sourced from free range UK farms from April 2020

3. Make shopping convenient, supported by great service

Great service and availability and faster ways to pay mean customers can save time as well as money by shopping with us. To make it easy for customers to shop with us across all our channels, we have:

- Rolled out SmartShop, handheld self-scanning technology, to over 350 supermarkets
- Introduced Pay@Browse in 200 more Argos stores in the half, bringing the total to 362
- Invested in self-checkout technology to drive efficiency across our supermarket and convenience estate, which has led to year on year improvements in customer satisfaction for ease of checkout of 4.8 per cent in supermarkets and 6.8 per cent in convenience stores
- Continued to benefit from Lettuce Know, our real-time store feedback channel
- Increased customer satisfaction by more than three percentage points year-on-year⁸ in Sainsbury's stores
- Introduced Smart Store technology which has helped us to remove around one thousand in-store tasks, saving one million hours of management time and enabling store management to spend more time helping customers and improving availability
- Grown Groceries Online sales by seven per cent, which now contributes eight per cent of grocery sales
- Tailored our convenience store offer to each local market, driving strong underlying sales growth. Convenience has industry leading trading intensity and outperforms the market in value and volume

8 Supermarket customer satisfaction 4 weeks to 21 September 2019 vs 4 weeks to 20 Oct 2018

- Focused on optimising the inventory of Argos products in Sainsbury's, improving availability in key lines
- Grown Argos Fast Track collection by 14 per cent and Fast Track delivery by five per cent year on year

4. Drive efficiency to invest in the customer offer

We aim to deliver cost savings to cover the impact of cost inflation. We also have the opportunity to structurally reduce our costs by c. £500 million over five years by bringing Sainsbury's and Argos together. This means we can run our business more efficiently and continue to invest in the areas that customers value: choice, quality, low prices, convenience and great service. We are doing this by:

- Delivering cost savings that offset the impact of operating cost inflation
- Making good early progress on structural cost reduction. Sainsbury's and Argos teams are now working together across key functions including marketing, commercial operations, digital and technology and offer an integrated service to customers across our brands and channels, helping us simplify the business
- Delivering improvements to 450 supermarkets and 200 convenience stores by the end of the year
- Opening five convenience stores, one replacement store, one standalone Argos store and seven Argos stores in Sainsbury's supermarkets. This brings the total to 288 Argos stores in Sainsbury's. We closed one supermarket, seven standalone Argos stores and two convenience stores
- Creating savings through "buying better for less", our value chain analysis programme which works to eliminate cost through our own brand supply chain

5. Grow connected services

Financial Services and Nectar allow us to help our customers live well for less when they shop with us, providing affordable ways to manage their finances and rewarding them for their loyalty. We have:

- Completed a strategic review of Financial Services, we no longer sell mortgages, are reducing costs and are focusing on digitally-led products and services for Sainsbury's and Argos customers. We expect to double financial services UPBT, deliver double digit ROCE and return cash to the Group within five years
- Stopped new mortgage sales from 25 September 2019
- Signed up 1.4 million customers to our Argos Financial Services app, with just under half of active customers using this as their sole mechanic for payment
- Established Nectar as the biggest loyalty programme in the UK, with over 18 million collectors. We launched our new digital Nectar App in October and there are now 2.1 million app users
- Added Esso to our list of Nectar partners. Esso has more than 1,200 Esso-branded filling stations serving around 800,000 customers each day
- Made it possible for Argos customers to spend their Nectar points across all Sainsbury's channels

6. Provide a seamless customer experience

Customers are increasingly shopping online and we are investing in our digital offer to serve them as efficiently as possible. In order to deliver an increasingly joined up service across our multi brand, multi-channel business we are:

- Making good progress on integrating our products and services to serve customers whenever and wherever they want. Customers who shop digitally with us spend over three times the amount of in-store-only customers
- Integrating our full digital offer into a single application, which will make it easier for customers to shop across all our brands and services. 10 million customers are already able to access all our online products with a single sign-on
- Expanding SmartShop self-scan which accounts for 15 per cent of sales, year to date, in the stores where it is available
- Benefiting from significant investment in our base technology infrastructure, overall connectivity and hardware. We are predominantly Cloud based, bringing increased stability and the ability to bring functionality updates to our customers more frequently. Our grocery online page-load speeds are 50 per cent faster and our processing time is reduced by 75 per cent compared with two years ago

Financial Review of the half year results for the 28 weeks to 21 September 2019

This is Sainsbury's first set of results prepared under IFRS 16, the new financial reporting standard on lease accounting. As previously indicated, we have adopted the standard fully retrospectively. The new standard results in material changes to the financial statements. All affected comparative figures included within this announcement have accordingly been restated. Further detail on this can be found in Note 3 on page 24.

Summary income statement	28 weeks to 21 September 2019 £m	28 weeks to 22 September 2018 £m	Change %	52 weeks to 9 March 2019 £m
Underlying Group sales (including VAT)	16,856	16,884	(0.2)	32,412
Underlying Retail sales (including VAT)	16,567	16,612	(0.3)	31,871
Underlying Group sales (excluding VAT)	15,097	15,128	(0.2)	29,007
Underlying Retail sales (excluding VAT)	14,808	14,856	(0.3)	28,466
Underlying operating profit				
Retail	437	487	(10)	981
Financial services	20	16	25	31
Total underlying operating profit	457	503	(9)	1,012
Underlying net finance costs ¹	(219)	(228)	4	(419)
Underlying share of post-tax profit from JVs ²	-	4	(100)	8
Underlying profit before tax	238	279	(15)	601
Items excluded from underlying results	(229)	(172)	(33)	(399)
Profit before tax	9	107	(92)	202
Income tax expense	(47)	16	N/A	(16)
Profit/(Loss) for the financial period	(38)	123	N/A	186
Underlying basic earnings per share	7.9p	9.4p	(16)	20.7p
Basic earnings per share	(2.2)p	5.1p	N/A	7.6p
Dividend per share	3.3p	3.1p	6	11.0p

1 Net finance costs including perpetual securities coupons before non-underlying finance movements.

2 The underlying share of post-tax profit from joint ventures and associates ('JVs') is stated before investment property fair value movements, non-underlying finance movements and profit on disposal of properties.

Group sales

Underlying Group sales (including VAT, including fuel) decreased by 0.2 per cent year-on-year. Underlying Retail sales (including VAT, including fuel) decreased by 0.3 per cent. Underlying Retail sales (including VAT, excluding fuel) decreased by 0.6 per cent driven by General Merchandise and Clothing sales declines.

Grocery sales fell by 0.1%, reflecting tough comparatives, particularly during the first quarter, when sales declined against a period of very good weather in the prior year. Grocery sales grew in the second quarter as comparatives normalised and customers responded positively to price investment and our new entry price ranges. In non-food, although we outperformed the market, General Merchandise sales declined by 2.5 per cent and Clothing declined by 1.2 per cent, driven by the annualisation of last summer's hot weather and a subdued non-food market.

Fuel sales grew 1.6 per cent, driven by both retail price inflation and volumes.

Total sales performance by category	28 weeks to 21 September 2019 £m	28 weeks to 22 September 2018 £m	Change %
Grocery	10,335	10,340	(0.1)%
General Merchandise	3,033	3,110	(2.5)%
Clothing	488	494	(1.2)%
Retail (exc. fuel)	13,856	13,945	(0.6)%
Fuel sales	2,711	2,667	1.6%
Retail (inc. fuel)	16,567	16,612	(0.3)%

Convenience sales growth was two per cent driven by like-for-like growth despite tough comparatives. Groceries Online sales growth was seven per cent driven by order growth. Supermarket sales declined by 0.7 per cent.

Total sales performance by channel	28 weeks to 21 September 2019	28 weeks to 22 September 2018
Supermarkets (inc. Argos stores in Sainsbury's)	(0.7)%	1.6%
Convenience	2.0%	4.3%
Groceries Online	7.0%	6.9%

Retail like-for-like sales, excluding fuel, decreased by 1.0 per cent in the first half (2018/19: 0.6% increase).

Retail like-for-like sales performance	28 weeks to 21 September 2019	28 weeks to 22 September 2018
Like-for-like sales (exc. fuel)	(1.0)%	0.6%
Like-for-like sales (inc. fuel)	(0.7)%	3.0%

Space

In the first half of 2019/20, Sainsbury's opened no new supermarkets and closed one (2018/19: no new supermarkets opened and two closed). Five new Convenience stores were opened in the first half, one was closed and one was replaced (2018/19: three stores opened and four stores closed).

During the period Argos opened seven new stores in Sainsbury's and one new standalone and closed seven stand-alone Argos stores. The number of Argos collection points in Sainsbury's stores reduced from 317 to 282. As at 21 September 2019, Argos had 882 stores and 282 collection points. Habitat had 16 stores.

Store numbers and retailing space					
	As at 09 March 2019	New stores	Disposals / closures	Extensions / refurbishments / downsizes	As at 21 September 2019
Supermarkets	608	-	(1)	-	607
Supermarkets area '000 sq ft	21,210	-	(20)	(17)	21,173
Convenience	820	5	(2)	1	824
Convenience area '000 sq ft	1,934	12	(19)	2	1,929
Sainsbury's total store numbers	1,428	5	(3)	1	1,431
Argos stores	594	1	(7)		588
Argos stores in Sainsbury's	281	7	-		288
Argos in Homebase	8	-	(2)		6
Argos total store numbers	883	8	(9)		882
Argos collection points	317	1	(36)		282
Habitat	16	-	-		16

In 2019/20, Sainsbury's expects to open two new supermarkets, up to 15 new convenience stores and open around 25 Argos stores in supermarkets (of which 11 are relocations). This will result in around 305 Argos stores in supermarkets.

Retail underlying operating profit

Retail underlying operating profit decreased by 10.3 per cent to £437 million (2018/19: £487 million), due to the combined impacts of the phasing of cost savings, unseasonal weather against a strong comparative period last year and higher marketing costs.

Retail underlying operating margin reduced by 33 basis points year-on-year to 2.95 per cent (2018/19: 3.28 per cent), equivalent to a 32 basis point decrease at constant fuel prices.

Retail underlying operating profit

	28 weeks to 21 September 2019	28 weeks to 22 September 2018	Change	Change at constant fuel prices
Retail underlying operating profit (£m) ¹	437	487	(10.3)%	
Retail underlying operating margin (%) ²	2.95	3.28	(33)bps	(32)bps
Retail underlying EBITDAR (£m) ³	1,067	1,114	(4.2)%	
Retail underlying EBITDAR margin (%) ⁴	7.20	7.50	(30)bps	(28)bps

1 Retail underlying earnings before interest, tax and Sainsbury's underlying share of post-tax profit from joint ventures. Numbers are restated with the introduction of IFRS 16, this results in a material increase in Retail underlying operating profit, compared to previously reported numbers, due to the interest component being recognised below operating profit as a finance cost. Refer to note 2.3 for a reconciliation of Retail underlying operating profit pre and post IFRS 16.

2 Retail underlying operating profit divided by underlying retail sales excluding VAT.

3 Retail underlying operating profit before a net rental income of £6 million and underlying depreciation and amortisation of £636 million.

4 Retail underlying EBITDAR divided by underlying retail sales excluding VAT.

In 2019/20, Sainsbury's expects cost inflation of two to three per cent. We continue to expect to deliver cost savings to offset the impact of cost inflation. We are additionally committed to structurally reduce operating costs by c. £500 million over five years as we bring the Sainsbury's and Argos businesses together.

In 2019/20, Sainsbury's expects a depreciation and amortisation charge of around £1,200 million, including around £500 million right of use asset depreciation.

Financial Services

Financial Services results

6 months to 31 August 2019

	2019	2018	Change
Underlying revenue (£m)	289	272	6%
Interest and fees payable (£m)	(62)	(46)	35%
Total income (£m)	227	226	0%
Underlying operating profit (£m)	20	16	25%
Cost:income ratio (%)	70	71	100bps
Active customers (m) - Bank	2.10	1.95	8%
Active customers (m) - AFS	2.20	2.10	5%
Net interest margin (%) ¹	3.5	4.0	(50)bps
Bad debt as a percentage of lending (%) ²	1.3	1.6	30bps
Tier 1 capital ratio (%) ³	13.7	12.7	100bps
Total capital ratio (%) ⁴	16.7	15.7	100bps
Customer lending (£bn) ⁵	7.4	6.2	19%
Customer deposits (£bn)	(6.6)	(5.6)	18%

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 remained broadly flat year-on-year at £227 million, as higher interest and commission income was offset by increased interest payable, driven in part by the scale of lending growth and timing impact from Bank base rate rise in August 2018. Financial Services underlying operating profit increased by 25 per cent year-on-year to £20 million. The increase is driven by an increase in the contribution from Argos Financial Services as a result of changes to transfer pricing rules.

Financial Services cost:income ratio improved by 100bps to 70%. The cost of supporting the new operating platforms and product growth was offset by a reduction in royalties payments to Argos linked to changes in transfer pricing. The number of Bank active customers increased by eight per cent year-on-year to 2.1 million, with AFS customers up 5 per cent to 2.2 million.

Net interest margin decreased by 50 basis points year-on-year to 3.5 per cent (2018/19: 4.0 per cent) driven primarily by the growth of the mortgage book which attracts a lower yield and higher funding costs following the base rate rise. Bad debt expense as a percentage of lending improved by 30 basis points to 1.3 per cent, primarily driven by the mix impact of growth in mortgages. We stopped new mortgage lending on 25th September 2019. Excluding mortgages, the bad debt ratio saw a slight improvement reflecting book maturity.

The CET 1 capital ratio increased by 100 basis points year-on-year to 13.7 per cent, reflecting the effect of additional funds contributed from the Parent. Customer lending increased by 19 per cent to £7.4 billion, mainly due to growth across credit cards and mortgages. To support this lending, customer deposits grew a similar 18 per cent to £6.6 billion.

Financial Services underlying operating profit is expected to be around £45 million in 2019/20, in line with previous guidance.

Capital injections into the Bank in the first half were £35 million, with no further capital injections expected.

Underlying net finance costs

Underlying net finance costs reduced by 4 per cent to £219 million (2018/19: £228 million). These costs include £45 million of non-lease interest (2018/19: £50 million). The reduction of non-lease interest is driven by the £568 million repayment of a secured loan in April 2018 and reduced interest on inflation-linked loans. The interest costs on lease liabilities have reduced to £174 million (2018/19: £179 million) as a result of the decreasing lease liability as the Group's lease portfolio matures, with more repayments than new leases and extensions.

Sainsbury's expects underlying net finance costs of around £405 million, including £320 million lease interest in 2019/20, following the introduction of IFRS 16.

This represents a c.£4m effective reduction in pre IFRS 16 guidance (implicitly £96m) as finance lease interest of £7m included in pre IFRS 16 underlying net finance costs is now included in the £320 million lease interest guidance. The reduction in underlying guidance is driven by the repayment of the 2019 convertible bond and its partial refinancing through a new five year bilateral loan.

Items excluded from underlying results

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

Items excluded from underlying results	28 weeks to 21 September 2019 £m	28 weeks to 22 September 2018 £m
Property strategy programme	(203)	-
Retail restructuring programme	(25)	(69)
Financial Services transition and other	(15)	(40)
Argos integration costs	-	(25)
Asda transaction costs	-	(17)
Other	14	(21)
Items excluded from underlying results	(229)	(172)

- Property strategy programme costs of £203 million (2018/19: nil) within property, plant and equipment and right of use assets, relate to store closures and asset write downs as announced on 25th September 2019. We continue to expect the total cost of this programme to be in the range of £230 million to £270 million of which the cash costs are £30 million to £40 million
- Retail restructuring costs of £25 million (2018/19: £69 million) relate to changes to store management structures and closure of one Argos depot.
- Financial Services transition and other costs of £15 million (2018/19: £40 million) were predominantly the previously announced costs incurred in transitioning to a new, more flexible banking platform.
- Other movements of £14 million (2018/19: cost of £21 million) relate to property profits, IAS 19 pension expense and acquisition adjustments.

Taxation

The income tax charge was £47 million (2018/19 interim tax credit: £16 million), with an underlying tax rate of 26.5 per cent (2018/19 interim: 25.7 per cent).

The effective tax rate of 522.2 per cent (2018/19 Interim: 15.0 per cent) is higher than prior year interim (as restated). In 2019/20 the ETR is increased significantly by the impact of non-tax deductible exceptional costs, including the impairment of fixed assets. To a lesser extent the ETR is also increased by a prior year deferred tax charge of c.£7 million relating to the implementation of the Group's new asset backed contribution arrangement. In 2018/19 the ETR was reduced by prior year adjustments, including a £50 million deferred tax credit which arose on the recognition of a UK capital loss which crystallised as part of transactions undertaken by the group in 2015/16, and by the tax impact of property disposals.

The underlying tax rate (UTR) for the interim period was higher year-on-year, largely as a result of the impact of an underlying prior year deferred tax charge identified in the first half and reflected in full in the interim UTR. As in prior years the most significant factor in the UTR being higher than the statutory rate (19.0%) relates to non-qualifying depreciation (an impact of 4.5%).

In 2019/20, Sainsbury's expects the full-year underlying tax rate to be between 25 and 26 per cent.

Earnings per share

Underlying basic earnings per share fell to 7.9 pence (2018/19: 9.4 pence) driven by the decrease in underlying earnings year-on-year and a higher underlying tax rate. Basic earnings per share decreased to negative 2.2 pence (2018/19: 5.1 pence), mainly as a result of the £229 million charge for items excluded from underlying results (2018/19: £172 million charge) and a higher effective tax rate.

Dividends

The Board has recommended an interim dividend of 3.3 pence per share, up 6%, in line with our policy of paying 30 per cent of prior full year dividend. This will be paid on 20 December 2019 to shareholders on the Register of Members at the close of business on 15 November 2019.

Sainsbury's plans to change the full year dividend policy to 1.9x cover by underlying earnings (versus 2.0x previously) to offset the dilutive (non cash) impact of IFRS 16 on underlying earnings.

Net debt and retail cash flows

As at 21 September 2019, net debt was £6,778 million (22 September 2018: £7,145 million), a decrease of £367 million.

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.

Net debt now includes the lease liabilities under IFRS 16 of £5,770 million (2018/19: £5,873 million) and the perpetual securities of £496 million (2018/19: £496 million restated).

Summary cash flow statement ¹	Retail	Retail	Retail
	28 weeks to 21 September 2019 £m	28 weeks to 22 September 2018 £m	52 weeks to 9 March 2019 £m
Operating cash flow before changes in working capital²	1,034	1,029	2,022
(Increase)/decrease in working capital	289	296	(38)
Net interest paid ³	(226)	(235)	(423)
Pension cash contributions	(48)	(29)	(63)
Corporation tax paid	(8)	(15)	(61)
Net cash generated from operating activities	1,041	1,046	1,437
Cash capital expenditure before strategic capital ⁴	(248)	(243)	(508)
Repayments of obligations under leases	(230)	(225)	(429)
Initial direct costs on right-of-use assets	(2)	(6)	(11)
Proceeds from disposal of property, plant and equipment	54	34	64
Bank capital injections	(35)	-	(110)
JV capital injections	-	(5)	(5)
Dividends and distributions received	118	16	18
Retail free cash flow	698	617	456

Summary cash flow statement¹	Retail	Retail	Retail
	28 weeks to	28 weeks to	52 weeks to
	21 September	22 September	9 March
	2019	2018	2019
	£m	£m	£m
Strategic capital expenditure - Argos integration ³	-	(31)	(36)
Dividends paid on ordinary shares	(174)	(156)	(224)
Repayment of borrowings ³	(160)	(565)	(446)
Other ³	1	(1)	(8)
Net increase/(decrease) in cash and cash equivalents	365	(136)	(258)
Decrease in debt	390	790	875
Other non-cash and net interest movements ⁵	(187)	(224)	(388)
Movement in net debt	568	430	229
Opening net debt	(7,346)	(7,575)	(7,575)
Closing net debt	(6,778)	(7,145)	(7,346)
of which:			
Lease Liabilities	(5,770)	(5,873)	(5,824)
Net Debt excluding Lease Liabilities	(1,008)	(1,272)	(1,522)

1 See note 5 for a reconciliation between the Retail and Group cash flows.

2 Excludes working capital and pension contributions.

3 Refer to the Alternative Performance Measures on page 56 for reconciliation.

4 Excludes Argos integration capital expenditure in 2018/19

5 Other non-cash includes new leases and lease modifications and fair value movements on derivatives used for hedging long term borrowings.

Adjusted retail operating cash flow before changes in working capital increased by £249 million year-on-year to £1,034 million (2018/19: £1,029 million) and working capital decreased by £289 million since the year end. As in previous years, the working capital decrease is principally driven by the difference in phasing of payables at half year and year end. Cash capital expenditure before strategic capital was £248 million (2018/19: £243 million).

Retail free cash flow increased by £81 million year-on-year to £698 million (2018/19: £617 million). Free cash flow was used to fund dividends and reduce borrowings. Capital injections into the Bank were £35 million (2018/19: £nil). Dividends of £174 million were paid, being the final dividend in respect of 2018/19. Strategic capital expenditure incurred in the prior year of £31 million related to Argos integration capital expenditure.

The increase in dividends and distributions received to £118 million (2018/19: £16 million) was due to the sale of 12 British Land joint venture properties.

Net debt reduced by £568 million in the first half (2018/19: £430 million reduction).

As at 21 September 2019, Sainsbury's had drawn debt facilities of £1.82 billion including the perpetual securities (2018/19: £1.96 billion) and undrawn committed credit facilities of £1.45 billion. In July 2019, the Group entered into a new secured £250 million Bilateral Loan facility due July 2024 to part refinance the £450 million Convertible Bond that matures in November 2019. The Bilateral Loan Facility was undrawn as at 21 September 2019.

Compared to the 2018/19 year end net debt excluding lease liabilities of £1,522 million, Sainsbury's expects a reduction of at least £300 million within 2019/20 and £750 million over a three year period.

The increase to year end from the half year net debt position is principally driven by the unwind of the difference in phasing of payables at half year compared to year end.

Capital expenditure

Retail cash capital expenditure (including Argos integration capital expenditure) was £248 million (2018/19: £274 million).

In 2019/20, Sainsbury's expects core retail capital expenditure (excluding Financial Services) to be around £550 million. Core retail capital expenditure is expected to be between £550 million and £600 million per annum over the medium term.

Financial ratios

<i>Key financial ratios</i>	52 weeks to 21 September 2019	52 weeks to 9 March 2019 ⁴
Return on capital employed (%) ¹	7.1	7.4
Net debt to EBITDAR ^{2,3}	3.1 times	3.3 times
Fixed charge cover ²	2.6 times	2.6 times

1 ROCE: Return is defined as a 52 week rolling underlying profit before interest and tax. Capital employed is defined as group net assets excluding the pension deficit/surplus and excluding net debt. The average is calculated on a 14 point basis.

2 Net debt of £6,778 million includes lease obligations under IFRS 16 and perpetual securities treated as debt, divided by Group underlying EBITDAR of £2,171 million, calculated for a 52-week period to 21 September 2019.

3 Group underlying EBITDAR divided by rent (both capital and interest) and net finance costs, where interest on perpetual securities is treated as an underlying finance costs.

4 52 weeks to 22nd September 2018 is not available due to the implementation of IFRS 16. Comparatives therefore reflect the 52 weeks to 9th March 2019.

Property value

As at 21 September 2019, Sainsbury's estimated market value of properties, including our 50 per cent share of properties held within property joint ventures, was £10.0 billion (9 March 2019: £10.4 billion), the reduction largely as a result of the sale of 12 British Land joint venture properties and the decline in rental value.

Defined benefit pensions

At 21 September 2019, the net defined benefit surplus for the Group was £1,382 million (excluding deferred tax). The £423 million movement from 9 March 2019 was primarily driven by asset gains in both sections of the Scheme on matching and hedging assets due to the fall in gilt yields, reflected in the discount rate moving from 2.80 per cent to 2.15 per cent, along with most asset classes having positive returns over the period. In the Argos section, there was a gain from no longer having to make an adjustment for IFRIC 14 as a result of a revision to the Scheme rules as part of the 2018 triennial valuation agreement.

The Scheme was subject to a triennial actuarial valuation, as at 30 September 2018, which was completed during the first half. The actuarial deficit reduced to £538 million, from £1,055 million in 2015.

Under the revised funding plan, Sainsbury's established a new asset backed contribution (ABC) structure with the Scheme on 17 July 2019. This replaces the existing property partnership.

Under the new ABC, properties with a value of £1.35 billion were transferred into a newly formed property holding company, a wholly owned subsidiary of the Group, and leased to other Group entities. Rental receipts facilitate payments of interest and capital on loan notes issued to a Scottish Limited Partnership, in which the Scheme holds an interest.

The Scheme's interest in the Partnership entitles it to annual distributions over up to 20 years. These are approximately £58 million per year until 2030, and subsequently approximately £15 million a year for the remaining period. The distributions will be made through three payment streams:

- 1) Payments to the Sainsbury's section
- 2) Payments to the Argos section
- 3) Switching payment stream, paid to either the Sainsbury's section or Argos section

The payments to the Sainsbury's and Argos sections (streams 1 and 2) stop in 2030, or when the relevant section reaches its funding target, if earlier.

The third stream is initially paid to the Sainsbury's section. Once that funding target is achieved, payments switch to the Argos section. Payments continue until 2038 or until both sections have reached their funding targets, if earlier.

The level of property in the ABC reduces as the Scheme reaches funding targets. Additional cash contributions £40 million were also agreed for FY2019/20, and £10 million in FY2020/21.

Retirement benefit obligations

	Sainsbury's as at 21 September 2019 £m	Argos as at 21 September 2019 £m	Group as at 21 September 2019 £m	Group as at 9 March 2019 £m
Present value of funded obligations	(8,521)	(1,356)	(9,877)	(8,856)
Fair value of plan assets	9,856	1,441	11,297	9,983
Additional liability due to minimum funding requirements (IFRIC 14)	-	-	-	(134)
Pension surplus	1,335	85	1,420	993
Present value of unfunded obligations	(23)	(15)	(38)	(34)
Retirement benefit obligations	1,312	70	1,382	959
Deferred income tax (liability)	(235)	(22)	(257)	(216)
Net retirement benefit obligations	1,077	48	1,125	743

Group income statement (unaudited)
for the 28 weeks to 21 September 2019

	28 weeks to 21 September 2019			28 weeks to 22 September 2018 (restated)			
	Note	Before non-underlying items £m	Non-underlying items £m	Total £m	Before non-underlying items £m	Non-underlying items £m	Total £m
Revenue	5a	15,097	-	15,097	15,128	(1)	15,127
Cost of sales		(13,970)	(177)	(14,147)	(13,944)	(10)	(13,954)
Gross profit		1,127	(177)	950	1,184	(11)	1,173
Administrative expenses		(694)	(86)	(780)	(709)	(177)	(886)
Other income		24	44	68	28	(12)	16
Operating profit		457	(219)	238	503	(200)	303
Finance income	7	2	16	18	4	25	29
Finance costs	7	(221)	4	(217)	(232)	6	(226)
Share of post-tax (loss)/profit from joint ventures and associates		-	(30)	(30)	4	(3)	1
Profit before taxation		238	(229)	9	279	(172)	107
Income tax (expense)/credit	8	(63)	16	(47)	(72)	88	16
Profit/(loss) for the financial period		175	(213)	(38)	207	(84)	123
Earnings per share	9			pence			pence
Basic (loss)/earnings				(2.2)			5.1
Diluted (loss)/earnings				(2.2)			5.0

	Note	52 weeks to 9 March 2019 (restated)		
		Before non-underlying items £m	Non-underlying items £m	Total £m
Revenue	5a	29,007	-	29,007
Cost of sales		(26,708)	(11)	(26,719)
Gross profit		2,299	(11)	2,288
Administrative expenses		(1,342)	(383)	(1,725)
Other income		55	(17)	38
Operating profit		1,012	(411)	601
Finance income	7	5	19	24
Finance costs	7	(424)	(3)	(427)
Share of post-tax profit/(loss) from joint ventures and associates		8	(4)	4
Profit before taxation		601	(399)	202
Income tax (expense)/credit	8	(147)	131	(16)
Profit/(loss) for the financial period		454	(268)	186
Earnings per share	9			pence
Basic earnings				7.6
Diluted earnings				7.5

The notes on pages 21 to 60 form an integral part of these Condensed Consolidated Interim Financial Statements.

Restatements relate to the adoption of IFRS 16 as explained in note 3.

Group statement of comprehensive income (unaudited)
for the 28 weeks to 21 September 2019

	Note	28 weeks to 21 September 2019	28 weeks to 22 September 2018 (restated)	52 weeks to 9 March 2019 (restated)
		£m	£m	£m
(Loss)/profit for the financial period		(38)	123	186
Items that will not be reclassified subsequently to the income statement:				
Remeasurement gains on defined benefit pension schemes	18	364	501	1,269
Deferred tax relating to items not reclassified		(62)	(85)	(216)
		302	416	1,053
Items that may be reclassified subsequently to the income statement:				
Currency translation differences		3	3	1
Movements on financial assets at fair value through other comprehensive income		(12)	7	55
Items reclassified from financial assets at fair value through other comprehensive income reserve		-	(10)	(10)
Cash flow hedges effective portion of fair value movements		58	74	71
Items reclassified from cash flow hedge reserve		(30)	(7)	(45)
Current tax on items that may be reclassified		-	1	2
Deferred tax relating to items that may be reclassified		(2)	(13)	(15)
		17	55	59
Total other comprehensive income for the period (net of tax)		319	471	1,112
Total comprehensive income for the period		281	594	1,298

The notes on pages 21 to 60 form an integral part of these Condensed Consolidated Interim Financial Statements.

Restatements relate to the adoption of IFRS 16 as explained in note 3.

**Group balance sheet (unaudited)
at 21 September 2019**

		21 September 2019	22 September 2018 (restated)	9 March 2019 (restated)
	Note	£m	£m	£m
Non-current assets				
Property, plant and equipment	11	8,943	9,284	9,193
Right-of-use assets	12	4,878	5,055	4,993
Intangible assets	13	1,008	1,051	1,043
Investments in joint ventures and associates	14	56	209	205
Financial assets at fair value through other comprehensive income	15b	838	541	645
Other receivables		50	58	57
Amounts due from Financial Services customers	15a	3,593	2,752	3,349
Derivative financial instruments	15b	8	18	9
Net retirement benefit surplus	18	1,382	266	959
		20,756	19,234	20,453
Current assets				
Inventories		1,953	1,879	1,929
Trade and other receivables		693	653	630
Amounts due from Financial Services customers	15a	3,808	3,482	3,638
Financial assets at fair value through other comprehensive income	15b	182	353	211
Derivative financial instruments	15b	41	47	21
Cash and cash equivalents	17	1,468	1,463	1,121
		8,145	7,877	7,550
Assets held-for-sale		5	8	8
		8,150	7,885	7,558
Total assets		28,906	27,119	28,011
Current liabilities				
Trade and other payables		(4,710)	(4,782)	(4,373)
Amounts due to Financial Services customers and other deposits	15a	(6,573)	(5,336)	(5,797)
Borrowings	16	(495)	(237)	(816)
Lease liabilities	16	(536)	(528)	(533)
Derivative financial instruments	15b	(12)	(6)	(17)
Taxes payable		(185)	(123)	(204)
Provisions		(127)	(111)	(109)
		(12,638)	(11,123)	(11,849)
Net current liabilities		(4,488)	(3,238)	(4,291)
Non-current liabilities				
Other payables		(69)	(83)	(87)
Amounts due to Financial Services customers and other deposits	15a	(1,594)	(1,850)	(1,804)
Borrowings	16	(1,023)	(1,299)	(844)
Lease liabilities	16	(5,240)	(5,352)	(5,298)
Derivative financial instruments	15b	(41)	(9)	(17)
Deferred income tax liability		(291)	(125)	(235)
Provisions		(104)	(104)	(95)
		(8,362)	(8,822)	(8,380)
Net assets		7,906	7,174	7,782
Equity				
Called up share capital		632	629	630
Share premium account		1,151	1,140	1,147
Merger reserve		568	568	568
Capital redemption reserve		680	680	680
Other reserves		184	170	172
Retained earnings		4,195	3,491	4,089
Total equity before perpetual securities		7,410	6,678	7,286
Perpetual capital securities		248	248	248
Perpetual convertible bonds		248	248	248
Total equity		7,906	7,174	7,782

The notes on pages 21 to 60 form an integral part of these Condensed Consolidated Interim Financial Statements.

Restatements relate to the adoption of IFRS 16 as explained in note 3.

Group cash flow statement (unaudited)
for the 28 weeks to 21 September 2019

		28 weeks to 21 September 2019	28 weeks to 22 September 2018 (restated)	52 weeks to 9 March 2019 (restated)
	Note	£m	£m	£m
Cash flows from operating activities				
Profit before tax		9	107	202
Net finance costs		199	197	403
Share of post-tax loss/(profit) from joint ventures		30	(1)	(4)
Operating profit		238	303	601
Adjustments for:				
Depreciation expense	11, 12	597	606	1,119
Amortisation expense	13	70	75	143
Net impairment loss on property, plant and equipment, right of use assets, intangible assets	11, 12, 13	177	-	3
Non-cash adjustments arising from acquisitions		(1)	-	(2)
Financial Services impairment losses on loans and advances		47	49	98
(Profit)/loss on sale of properties and early termination of leases	4	(44)	12	17
Loss on disposal of intangibles		-	1	-
Share-based payments expense		19	19	39
Non-cash defined benefit scheme expenses	18	4	4	108
Cash contributions to benefit schemes	18	(48)	(29)	(63)
Operating cash flows before changes in working capital		1,059	1,040	2,063
Changes in working capital:				
Increase in inventories		(24)	(69)	(118)
Increase in financial assets at fair value through other comprehensive income	16	(176)	(180)	(97)
(Increase)/decrease in trade and other receivables		(69)	54	92
Increase in amounts due from Financial Services customers and other deposits		(461)	(672)	(1,480)
Increase in trade and other payables		316	424	71
Increase in amounts due to Financial Services customers and other deposits		566	662	1,077
Increase/(decrease) in provisions and other liabilities		27	(66)	(93)
Cash generated from operations		1,238	1,193	1,515
Interest paid	16	(208)	(217)	(404)
Corporation tax paid		(6)	(22)	(68)
Net cash generated from operating activities		1,024	954	1,043
Cash flows from investing activities				
Purchase of property, plant and equipment		(213)	(235)	(474)
Initial direct costs on new leases		(2)	(6)	(11)
Purchase of intangible assets		(52)	(58)	(116)
Proceeds from disposal of property, plant and equipment		54	34	64
Proceeds from financial assets at fair value through other comprehensive income	16	-	39	39
Investment in joint ventures	14	-	(5)	(5)
Interest received	16	2	2	4
Dividends and distributions received	14	118	16	18
Net cash used in investing activities		(93)	(213)	(481)
Cash flows from financing activities				
Proceeds from issuance of ordinary shares		5	11	22
Proceeds from borrowings	16	80	-	135
Repayment of borrowings	16	(230)	(581)	(593)
Purchase of own shares		(4)	(12)	(30)
Repayment of capital element of lease obligations	16	(231)	(226)	(430)
Repayment of capital element of obligations under hire purchase arrangements	16	(10)	(23)	(27)
Dividends paid on ordinary shares	10	(174)	(156)	(224)
Dividends paid on perpetual securities		(20)	(20)	(23)
Net cash used in financing activities		(584)	(1,007)	(1,170)
Net increase/(decrease) in cash and cash equivalents		347	(266)	(608)
Opening cash and cash equivalents		1,120	1,728	1,728
Closing cash and cash equivalents	17	1,467	1,462	1,120

The notes on pages 21 to 60 form an integral part of these Condensed Consolidated Interim Financial Statements. Restatements relate to the adoption of IFRS 16 as explained in note 3.

Group statement of changes in equity (unaudited)
for the 28 weeks to 21 September 2019

	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 10 March 2019 (as previously reported)	630	1,147	568	852	4,763	7,960	248	248	8,456
Cumulative adjustment to opening balance on adoption of IFRS 16	-	-	-	-	(674)	(674)	-	-	(674)
At 10 March 2019 (restated)	630	1,147	568	852	4,089	7,286	248	248	7,782
Loss for the period	-	-	-	-	(40)	(40)	-	2	(38)
Other comprehensive income	-	-	-	19	364	383	-	-	383
Tax relating to other comprehensive income	-	-	-	(2)	(62)	(64)	-	-	(64)
Total comprehensive income for the period ended 21 September 2019	-	-	-	17	262	279	-	2	281
Transactions with owners:									
Dividends paid	-	-	-	-	(174)	(174)	-	-	(174)
Distribution to holders of perpetual convertible bonds	-	-	-	-	-	-	-	(4)	(4)
Amortisation of convertible bond equity component	-	-	-	(5)	5	-	-	-	-
Share-based payment	-	-	-	-	19	19	-	-	19
Purchase of own shares	-	-	-	-	(4)	(4)	-	-	(4)
Allotted in respect of share option schemes	2	4	-	-	(1)	5	-	-	5
Tax on items charged to equity	-	-	-	-	(1)	(1)	-	2	1
At 21 September 2019	632	1,151	568	864	4,195	7,410	248	248	7,906
At 11 March 2018 (as previously reported)	627	1,130	568	801	3,789	6,915	248	248	7,411
Cumulative adjustment to opening balance on adoption of IFRS 16	-	-	-	-	(641)	(641)	-	-	(641)
At 11 March 2018 (restated)	627	1,130	568	801	3,148	6,274	248	248	6,770
Day 1 accounting adjustments (net of tax) ¹	-	-	-	-	(56)	(56)	-	-	(56)
Profit for the period	-	-	-	-	121	121	-	2	123
Other comprehensive income	-	-	-	67	501	568	-	-	568
Tax relating to other comprehensive income	-	-	-	(12)	(85)	(97)	-	-	(97)
Total comprehensive income for the period ended 22 September 2018	-	-	-	55	481	536	-	2	538
Transactions with owners:									
Dividends paid	-	-	-	-	(156)	(156)	-	-	(156)
Distribution to holders of perpetual convertible bonds	-	-	-	-	-	-	-	(4)	(4)
Amortisation of convertible bond equity component	-	-	-	(6)	6	-	-	-	-
Share-based payment	-	-	-	-	18	18	-	-	18
Purchase of own shares	-	-	-	-	(12)	(12)	-	-	(12)
Allotted in respect of share option schemes	2	10	-	-	(1)	11	-	-	11
Tax on items charged to equity	-	-	-	-	7	7	-	2	9
At 22 September 2018 (restated)	629	1,140	568	850	3,491	6,678	248	248	7,174

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

The notes on pages 21 to 60 form an integral part of these Condensed Consolidated Interim Financial Statements.

Restatements relate to the adoption of IFRS 16 as explained in note 3.

Group statement of changes in equity continued (unaudited)

	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 (as previously reported)	627	1,130	568	801	3,789	6,915	248	248	7,411
Cumulative adjustment to opening balance on adoption of IFRS 16	-	-	-	-	(641)	(641)	-	-	(641)
At 11 March 2018 (restated)	627	1,130	568	801	3,148	6,274	248	248	6,770
Day 1 accounting adjustments (net of tax) ¹	-	-	-	-	(74)	(74)	-	-	(74)
Profit for the period	-	-	-	-	168	168	12	6	186
Other comprehensive income	-	-	-	72	1,269	1,341	-	-	1,341
Tax relating to other comprehensive income	-	-	-	(13)	(216)	(229)	-	-	(229)
Total comprehensive income for the period ended 10 March 2018	-	-	-	59	1,147	1,206	12	6	1,224
Transactions with owners:									
Dividends paid	-	-	-	-	(224)	(224)	-	-	(224)
Distributions to holders of perpetual convertible bonds	-	-	-	-	-	-	(16)	(7)	(23)
Amortisation of convertible bond equity component	-	-	-	(8)	8	-	-	-	-
Share-based payment	-	-	-	-	37	37	-	-	37
Purchase of own shares	-	-	-	-	(30)	(30)	-	-	(30)
Allotted in respect of share option schemes	3	17	-	-	2	22	-	-	22
Tax on items charged to equity	-	-	-	-	1	1	4	1	6
At 9 March 2019 (restated)	630	1,147	568	852	4,089	7,286	248	248	7,782

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

The notes on pages 21 to 60 form an integral part of these Condensed Consolidated Interim Financial Statements.

Restatements relate to the adoption of IFRS 16 as explained in note 3.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

1. General information

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

The Condensed Consolidated Interim Financial Statements are unaudited but have been reviewed by the auditors whose report is set out on page 55. The financial information presented herein does not amount to statutory accounts within the meaning of Section 434 of the Companies Act 2006. The Annual Report and Financial Statements 2019 have been filed with the Registrar of Companies. The Independent Auditors' report on the Annual Report and Financial Statements 2019 was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

The financial period represents the 28 weeks to 21 September 2019 (comparative financial period 28 weeks to 22 September 2018; prior financial year 52 weeks to 9 March 2019). The financial information comprises the results of the Company and its subsidiaries (the 'Group') and the Group's interests in joint ventures and associates.

The Group's principal activities are Food, General Merchandise & Clothing Retailing and Financial Services.

2. Basis of preparation and changes to the Group's accounting policies

2.1 Basis of preparation

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

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

The financial information contained in the Condensed Consolidated Interim Financial Statements should be read in conjunction with the Annual Report and Financial Statements 2019, which were prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

The Group has adopted IFRS 16 'Leases' effective for the period ending 21 September 2019. IFRS 16 has been applied fully retrospectively and therefore comparatives for prior periods have been restated. Further details regarding the impact of IFRS 16 are included in note 3.

Sainsbury's Bank plc and its subsidiaries have been consolidated for the six months to 31 August 2019 (22 September 2018: six months to 31 August 2018; 9 March 2019: twelve months to 28 February 2019). Adjustments have been made for the effects of significant transactions or events that occurred between this date and the Group's balance sheet date.

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

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

In preparing these Condensed Consolidated Interim Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements for the year ended 9 March 2019, other than those in relation to leases, which are highlighted below.

2. Basis of preparation and changes to the Group's accounting policies continued

2.2 New standards, interpretations and amendments adopted by the Group

The Group has considered the following amendments to published standards that are effective for the Group for the financial year beginning 10 March 2019 and concluded that, with the exception of IFRS 16, they are either not relevant to the Group or that 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.

- 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)

Information regarding the adoption of IFRS 16 is included in note 3.

The accounting policies have remained unchanged from those disclosed in the Annual Report for the year ended 9 March 2019 except for the adoption of IFRS 16 set out in note 3.

2.3 Alternative performance measures (APMs)

In the reporting of financial information, the Directors use various APMs. 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.

Purpose of APMs

The Directors believe that these APMs assist in providing additional useful information for understanding the financial performance and health of the Group. They are also used to enhance the comparability of information between reporting periods (such as like-for-like sales and underlying profit) by adjusting for non-recurring or uncontrollable factors which affect IFRS measures, to aid users in understanding the Group's performance.

Consequently, APMs are used by the Directors and management for performance analysis, planning, reporting and incentive setting purposes.

The APMs that the Group has focused on in the period are detailed on page 56. All of the APMs relate to the current period's results and comparative periods where provided.

Changes to APMs

The following APMs have been updated during the period:

2. Basis of preparation and changes to the Group's accounting policies continued

2.3 Alternative performance measures (APMs) continued

APM	Prior definition	Updated definition	Explanation																																				
Retail free cash flow	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.	Net cash generated from retail operations, after perpetual security coupons and cash capital expenditure but before strategic capital expenditure, and including payments of lease obligations, cash flows from joint ventures and associates and Sainsbury's Bank capital injections.	IFRS 16 replaces rental payments presented within operating profit with interest payments and capital repayments of the lease liability, with no overall change in total cash flow for the Group. Redefining Retail free cash flow to include payments of lease obligations ensures that the Group's reported free cash flow measures are consistent with those previously reported.																																				
Net debt	<p>Net debt includes the capital injections into Sainsbury's Bank, but excludes the net debt of Sainsbury's Bank and its subsidiaries.</p> <p>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.</p>	<p>Net debt includes the capital injections into Sainsbury's Bank, but excludes the net debt of Sainsbury's Bank and its subsidiaries.</p> <p>It is calculated as: financial assets at fair value through other comprehensive income (excluding equity investments) + net derivatives to hedge borrowings + net cash and cash equivalents + loans + lease obligations + perpetual securities.</p>	<p>Following the adoption of IFRS 16, the definition of net debt has been updated to include lease obligations.</p> <p>Whilst not impacted by IFRS 16, perpetual securities are now included within net debt. Although accounted for as equity in the financial statements, they have similarities to debt instruments due to the coupons, and are included by management when assessing Group borrowing.</p> <p>As net debt is a measure of Group indebtedness, the derivatives included have been amended to only include derivatives used to hedge borrowings. All other derivatives are used as part of operating activities rather than financing activities, and have therefore now been excluded from net debt.</p> <p>A reconciliation of net debt as previously reported to restated net debt for all comparative periods is shown below:</p> <table border="1"> <thead> <tr> <th></th> <th>11 March 2018 £m</th> <th>22 September 2018 £m</th> <th>9 March 2019 £m</th> </tr> </thead> <tbody> <tr> <td>Net debt as previously reported</td> <td>(1,364)</td> <td>(834)</td> <td>(1,142)</td> </tr> <tr> <td>Remove previously reported finance leases (including hire purchase arrangements)</td> <td>127</td> <td>107</td> <td>122</td> </tr> <tr> <td>Add perpetual securities</td> <td>(496)</td> <td>(496)</td> <td>(496)</td> </tr> <tr> <td>Remove derivatives not linked to borrowings</td> <td>55</td> <td>(49)</td> <td>(6)</td> </tr> <tr> <td>Lease liabilities and hire purchase arrangements (Retail)</td> <td>(5,897)</td> <td>(5,873)</td> <td>(5,824)</td> </tr> <tr> <td>Restated net debt</td> <td>(7,575)</td> <td>(7,145)</td> <td>(7,346)</td> </tr> </tbody> </table> <p>Hire purchase arrangements included in the above lease liabilities are as follows:</p> <table border="1"> <thead> <tr> <th></th> <th>11 March 2018 £m</th> <th>22 September 2018 £m</th> <th>9 March 2019 £m</th> </tr> </thead> <tbody> <tr> <td>Hire purchase arrangements</td> <td>(37)</td> <td>(14)</td> <td>(10)</td> </tr> </tbody> </table> <p>These are £nil at 21 September 2019.</p>		11 March 2018 £m	22 September 2018 £m	9 March 2019 £m	Net debt as previously reported	(1,364)	(834)	(1,142)	Remove previously reported finance leases (including hire purchase arrangements)	127	107	122	Add perpetual securities	(496)	(496)	(496)	Remove derivatives not linked to borrowings	55	(49)	(6)	Lease liabilities and hire purchase arrangements (Retail)	(5,897)	(5,873)	(5,824)	Restated net debt	(7,575)	(7,145)	(7,346)		11 March 2018 £m	22 September 2018 £m	9 March 2019 £m	Hire purchase arrangements	(37)	(14)	(10)
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	11 March 2018 £m	22 September 2018 £m	9 March 2019 £m																																				
Hire purchase arrangements	(37)	(14)	(10)																																				
Adjusted net debt to EBITDAR	Net debt plus capitalised lease obligations divided by Group underlying EBITDAR.	Net debt divided by Group underlying EBITDAR.	Due to updates to net debt (see above), lease liabilities are now already included within net debt.																																				
Return on capital employed (ROCE)	<p>Return on capital employed is calculated as return divided by average capital employed.</p> <p>Return is defined as underlying profit before interest and tax.</p> <p>Capital employed is defined as net assets excluding net debt. The average is calculated on a 14 point basis.</p>	<p>Return on capital employed is calculated as return divided by average capital employed.</p> <p>Return is defined as 52 week rolling underlying profit before interest and tax.</p> <p>Capital employed is defined as Group net assets excluding pension deficit/surplus, less net debt (excluding perpetual securities). The average is calculated on a 14 point basis.</p>	Perpetual securities are now included within net debt (see above). They are excluded for ROCE as they are accounted for as equity in the financial statements and therefore not included within net assets.																																				

2. Basis of preparation and changes to the Group's accounting policies continued

2.3 Alternative performance measures (APMs) continued

Interest cover	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.	N/A	Interest cover is no longer included as an APM used by management.																					
Gearing	Retail net debt divided by Group net assets.	N/A	Gearing is no longer included as an APM used by management.																					
Retail underlying operating profit	Underlying earnings before interest, tax, Financial Services operating profit and Sainsbury's underlying share of post-tax profit from joint ventures and associates.	<p>Whilst the definition of Retail underlying operating profit has not changed, the prior period comparatives have been restated as a result of adopting IFRS 16. A reconciliation between the previously disclosed amounts and restated balances is included below:</p> <table border="1"> <thead> <tr> <th></th> <th style="text-align: right;">28 weeks to 22 September 2018</th> <th style="text-align: right;">52 weeks to 9 March 2019</th> </tr> <tr> <th></th> <th style="text-align: right;">£m</th> <th style="text-align: right;">£m</th> </tr> </thead> <tbody> <tr> <td>Underlying operating profit pre IFRS 16</td> <td style="text-align: right;">335</td> <td style="text-align: right;">692</td> </tr> <tr> <td>Add back rent</td> <td style="text-align: right;">396</td> <td style="text-align: right;">747</td> </tr> <tr> <td>Depreciation on right-of-use assets</td> <td style="text-align: right;">(251)</td> <td style="text-align: right;">(470)</td> </tr> <tr> <td>Other</td> <td style="text-align: right;">7</td> <td style="text-align: right;">12</td> </tr> <tr> <td>Underlying operating profit post IFRS 16</td> <td style="text-align: right;">487</td> <td style="text-align: right;">981</td> </tr> </tbody> </table>			28 weeks to 22 September 2018	52 weeks to 9 March 2019		£m	£m	Underlying operating profit pre IFRS 16	335	692	Add back rent	396	747	Depreciation on right-of-use assets	(251)	(470)	Other	7	12	Underlying operating profit post IFRS 16	487	981
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Depreciation on right-of-use assets	(251)	(470)																						
Other	7	12																						
Underlying operating profit post IFRS 16	487	981																						
Fixed charge cover	Group underlying EBITDAR divided by net rent and underlying net finance costs, where interest on perpetual securities is included in underlying finance costs.	Group underlying EBITDAR divided by rent (representing capital and underlying interest repayments on leases) and net underlying finance costs, where interest on perpetual securities is treated as an underlying finance cost. All items are calculated on a 52 week rolling basis.	Redefining fixed charge cover to include payments of lease obligations ensures that the Group's reported fixed charge cover measures are consistent with those previously reported.																					

3 Adoption of IFRS 16 'Leases'

IFRS 16 'Leases' supersedes IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Group has adopted IFRS 16 with a date of initial application of 10 March 2019. The Group adopted IFRS 16 using the full retrospective method of adoption as if it had already been effective at the commencement date of existing lease contracts. Accordingly, the comparative information in these condensed consolidated interim financial statements has been restated. The Group has elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

3. Adoption of IFRS 16 ‘Leases’ continued

a. Effect of adoption of IFRS 16

The Group’s lease portfolio consists of properties including retail, distribution and office properties, as well as vehicles and other equipment. Before the adoption of IFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Assets funded through finance leases were capitalised as property, plant and equipment and depreciated over the shorter of their estimated useful lives or the lease term. The amount capitalised was the lower of the fair value of the asset or the present value of the minimum lease payments during the lease term. The resulting lease obligations were included in liabilities net of finance charges. Lease payments were apportioned between interest (recognised as finance costs) and reduction of the lease liability. For operating leases under IAS 17, the lease payments were recognised as rental expense in the income statement on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised within “Other receivables” and “Trade and other payables”, respectively.

Upon adoption of IFRS 16, the Group now applies a single recognition and measurement approach for all leases for which it is the lessee, except for short-term leases and leases of low-value assets. The Group recognises a right-of-use asset and a lease liability at the lease commencement date, and the rental charge is replaced with depreciation on the right-of-use asset and interest on the lease liability. The new accounting policies for leases are detailed in note 3b.

The impact of adopting IFRS 16 on the comparative information in this interim condensed consolidated financial statements is outlined below.

The effect of adoption of IFRS 16 on the consolidated balance sheet as at 10 March 2018 is as follows:

	10 March 2018 £m
Assets	
Property, plant and equipment	(500)
Right-of-use asset	5,091
Intangible assets	(1)
Other receivables	33
Non-current assets	4,623
Trade and other receivables	(25)
Current assets	(25)
Liabilities	
Trade and other payables	50
Lease liabilities	(503)
Provisions	15
Current liabilities	(438)
Other payables	245
Lease liabilities	(5,275)
Deferred income tax liability	158
Provisions	71
Non-current liabilities	(4,801)
Net assets	(641)
Equity	
Retained earnings	(641)
Total equity	(641)

Reconciliation from previously reported operating lease commitments

	£m
Disclosed operating lease commitment at 10 March 2018	(10,019)
Operating lease commitment (discounted) at 10 March 2018 ¹	(5,939)
Application of lease specific discount rates	178
Effect of extension / break periods and other adjustments	(107)
Total IFRS 16 lease liability	(5,868)
Removal of finance leases already recognised	90
Net IFRS 16 lease liability impact	(5,778)

1 Comprises of £5,931m retail discounted operating lease commitments and £8m relating to financial services.

3. Adoption of IFRS 16 'Leases' continued

A full reconciliation of the impact of IFRS 16 on the Group income statement and balance sheet as at 22 September 2018 and 9 March 2019 is set out below:

Group income statement

	28 weeks to 22 September 2018 (reported) £m	IFRS 16 Impact £m	28 weeks to 22 September 2018 (restated) £m	52 weeks 9 March 2019 (reported) £m	IFRS 16 Impact £m	52 weeks 9 March 2019 (restated) £m
Revenue	15,127	-	15,127	29,007	-	29,007
Cost of sales	(14,100)	146	(13,954)	(27,000)	281	(26,719)
Gross profit	1,027	146	1,173	2,007	281	2,288
Administrative expenses	(891)	5	(886)	(1,733)	8	(1,725)
Other income	16	-	16	38	-	38
Operating profit	152	151	303	312	289	601
Finance income	28	1	29	22	2	24
Finance costs	(49)	(177)	(226)	(99)	(328)	(427)
Share of post-tax profit from joint ventures and associates	1	-	1	4	-	4
Profit before tax	132	(25)	107	239	(37)	202
Analysed as:						
Underlying profit before tax	302	(23)	279	635	(34)	601
Non-underlying items	(170)	(2)	(172)	(396)	(3)	(399)
	132	(25)	107	239	(37)	202
Income tax credit/(expense)	12	4	16	(20)	4	(16)
Profit for the financial period	144	(21)	123	219	(33)	186
Earnings per share	pence		pence	pence		pence
Basic earnings	6.1	(1.0)	5.1	9.1	(1.5)	7.6
Diluted earnings	5.8	(0.8)	5.0	8.9	(1.4)	7.5
Underlying basic earnings	10.3	(0.9)	9.4	22.0	(1.3)	20.7
Underlying diluted earnings	9.5	(0.7)	8.8	20.3	(1.2)	19.1

There is no material impact on other comprehensive income.

3. Adoption of IFRS 16 'Leases' continued

Group balance sheet

	28 weeks to 22 September 2018 (reported) £m	IFRS 16 Impact £m	28 weeks to 22 September 2018 (restated) £m	52 weeks to 9 March 2019 (reported) £m	IFRS 16 Impact £m	52 weeks to 9 March 2019 (restated) £m
Non-current assets						
Property, plant and equipment	9,782	(498)	9,284	9,708	(515)	9,193
Right-of-use asset	-	5,055	5,055	-	4,993	4,993
Intangible assets	1,052	(1)	1,051	1,044	(1)	1,043
Investments in joint ventures and associates	209	-	209	205	-	205
Financial assets at fair value through other comprehensive income	541	-	541	645	-	645
Other receivables	30	28	58	33	24	57
Amounts due from Financial Services customers	2,752	-	2,752	3,349	-	3,349
Derivative financial instruments	18	-	18	9	-	9
Net retirement benefit surplus	266	-	266	959	-	959
	14,650	4,584	19,234	15,952	4,501	20,453
Current assets						
Inventories	1,879	-	1,879	1,929	-	1,929
Trade and other receivables	659	(6)	653	661	(31)	630
Amounts due from Financial Services customers	3,482	-	3,482	3,638	-	3,638
Financial assets at fair value through other comprehensive income	353	-	353	211	-	211
Derivative financial instruments	47	-	47	21	-	21
Cash and cash equivalents	1,463	-	1,463	1,121	-	1,121
	7,883	(6)	7,877	7,581	(31)	7,550
Assets held-for-sale	8	-	8	8	-	8
	7,891	(6)	7,885	7,589	(31)	7,558
Total assets	22,541	4,578	27,119	23,541	4,470	28,011
Current liabilities						
Trade and other payables	(4,824)	42	(4,782)	(4,444)	71	(4,373)
Amounts due to Financial Services customers and other deposits	(5,336)	-	(5,336)	(5,797)	-	(5,797)
Borrowings (including lease liabilities)	(255)	(510)	(765)	(832)	(517)	(1,349)
Derivative financial instruments	(6)	-	(6)	(17)	-	(17)
Taxes payable	(123)	-	(123)	(204)	-	(204)
Provisions	(133)	22	(111)	(123)	14	(109)
	(10,677)	(446)	(11,123)	(11,417)	(432)	(11,849)
Net current liabilities	(2,786)	(452)	(3,238)	(3,828)	(463)	(4,291)
Non-current liabilities						
Other payables	(333)	250	(83)	(340)	253	(87)
Amounts due to Financial Services customers and other deposits	(1,850)	-	(1,850)	(1,804)	-	(1,804)
Borrowings (including lease liabilities)	(1,388)	(5,263)	(6,651)	(950)	(5,192)	(6,142)
Derivative financial instruments	(9)	-	(9)	(17)	-	(17)
Deferred income tax liability	(287)	162	(125)	(397)	162	(235)
Provisions	(161)	57	(104)	(160)	65	(95)
	(4,028)	(4,794)	(8,822)	(3,668)	(4,712)	(8,380)
Net assets	7,836	(662)	7,174	8,456	(674)	7,782
Equity						
Called up share capital	629	-	629	630	-	630
Share premium account	1,140	-	1,140	1,147	-	1,147
Merger reserve	568	-	568	568	-	568
Capital redemption reserve	680	-	680	680	-	680
Other reserves	170	-	170	172	-	172
Retained earnings	4,153	(662)	3,491	4,763	(674)	4,089
Total equity before perpetual securities	7,340	(662)	6,678	7,960	(674)	7,286
Perpetual capital securities	248	-	248	248	-	248
Perpetual convertible bonds	248	-	248	248	-	248
Total equity	7,836	(662)	7,174	8,456	(674)	7,782

3. Adoption of IFRS 16 'Leases' continued

Impact on Group cash flow statement

Prior to the adoption of IFRS 16, the repayment of interest on obligations under finance leases was presented within cash flows from financing activities. This was to be consistent with the presentation of payments of capital elements of finance leases. The repayment of interest on all lease obligations is now presented within cash flows from operating activities, as lease arrangements are part of the operating activities of the business.

Impact on the Group consolidated cash flow statement as at 22 September 2018 and 9 March 2019:

Group cash flow statement

	28 weeks to 22 September 2018 (reported) £m	IFRS 16 Impact £m	28 weeks to 22 September 2018 (restated) £m	52 weeks to 9 March 2019 (reported) £m	IFRS 16 Impact £m	52 weeks to 9 March 2019 (restated) £m
Cash flows from operating activities						
Profit before tax	132	(25)	107	239	(37)	202
Net finance costs	21	176	197	77	326	403
Share of post-tax-profit from joint ventures and associates	(1)	-	(1)	(4)	-	(4)
Operating profit	152	151	303	312	289	601
Adjustments for:						
Depreciation expense	354	252	606	649	470	1,119
Amortisation expense	75	-	75	143	-	143
Non-cash adjustments arising from acquisitions	-	-	-	(2)	-	(2)
Financial Services impairment losses on loans and advances	49	-	49	98	-	98
Loss on sale of properties	12	-	12	17	-	17
Loss on disposal of intangibles	1	-	1	-	-	-
Impairment charge of property, plant and equipment	-	-	-	3	-	3
Share-based payments expense	19	-	19	39	-	39
Non-cash defined benefit scheme expenses	4	-	4	108	-	108
Cash contributions to benefit schemes	(29)	-	(29)	(63)	-	(63)
Operating cash flows before changes in working capital	637	403	1,040	1,304	759	2,063
Changes in working capital:						
Increase in inventories	(69)	-	(69)	(118)	-	(118)
Increase in current financial assets	(180)	-	(180)	(97)	-	(97)
Decrease in trade and other receivables	67	(13)	54	74	18	92
Increase in amounts due from Financial Services customers and other deposits	(672)	-	(672)	(1,480)	-	(1,480)
Increase in trade and other payables	415	9	424	94	(23)	71
Increase in amounts due to Financial Services customers and other deposits	662	-	662	1,077	-	1,077
Decrease in provisions and other liabilities	(75)	9	(66)	(105)	12	(93)
Cash generated from operations	785	408	1,193	749	766	1,515
Interest paid	(33)	(184)	(217)	(63)	(341)	(404)
Corporation tax paid	(22)	-	(22)	(68)	-	(68)
Net cash generated from operating activities	730	224	954	618	425	1,043
Cash flows from investing activities						
Purchase of property, plant and equipment	(237)	2	(235)	(478)	4	(474)
Initial direct costs on right-of-use assets	-	(6)	(6)	-	(11)	(11)
Purchase of intangible assets	(58)	-	(58)	(116)	-	(116)
Proceeds from disposal of property, plant and equipment	34	-	34	64	-	64
Proceeds from financial assets at fair value through other comprehensive income	39	-	39	39	-	39
Investment in joint ventures	(5)	-	(5)	(5)	-	(5)
Interest received	2	-	2	4	-	4
Dividends and distributions received	16	-	16	18	-	18
Net cash used in investing activities	(209)	(4)	(213)	(474)	(7)	(481)
Cash flows from financing activities						
Proceeds from issuance of ordinary shares	11	-	11	22	-	22
Proceeds from borrowings	-	-	-	135	-	135
Repayment of borrowings	(581)	-	(581)	(593)	-	(593)
Purchase of own shares	(12)	-	(12)	(30)	-	(30)
Repayment of capital element of lease obligations	(2)	(224)	(226)	(5)	(425)	(430)
Repayment of capital element of obligations under hire purchase arrangements	(23)	-	(23)	(27)	-	(27)
Interest elements of lease obligations	(4)	4	-	(7)	7	-
Dividends paid on ordinary shares	(156)	-	(156)	(224)	-	(224)
Dividends paid on perpetual securities	(20)	-	(20)	(23)	-	(23)
Net cash used in financing activities	(787)	(220)	(1,007)	(752)	(418)	(1,170)
Net decrease in cash and cash equivalents	(266)	-	(266)	(608)	-	(608)
Opening cash and cash equivalents	1,728	-	1,728	1,728	-	1,728
Closing cash and cash equivalents	1,462	-	1,462	1,120	-	1,120

3. Adoption of IFRS 16 continued

b. Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of IFRS 16:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any subsequent remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

The recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease and are measured at the present value of lease payments to be made over the lease term, discounted using the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily available.

The lease payments include fixed payments, including in-substance fixed payments, variable lease payments that depend on an index or a rate, less any lease incentives receivable. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period in which the event or condition that triggers the payment occurs.

After the commencement date of the lease, the lease liability is subsequently measured at amortised cost using the effective interest rate method. The carrying amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured when there is a change in the future lease payments due to a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the low-value asset recognition exemption to groups of underlying leases that are considered uniformly low value (i.e. below £5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expensed to the income statement, as well as costs relating to variable lease payments dependent on performance of usage and 'out of contract' payments.

Lessor accounting

Where the Group subleases assets, the sublease classification is assessed with reference to the head lease right-of-use asset. Amounts due from lessees under finance leases are recorded as a receivable at an amount equal to the net investment in the lease.

The Group recognises finance income over the lease term, reflecting a constant periodic rate of return on the Group's net investment in the lease. Operating lease income is recognised as earned on a straight-line basis over the lease term.

Updates to judgements and estimates

Judgements

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

3. Adoption of IFRS 16 continued

b. Summary of new accounting policies continued

The Group has the option, under some of its leases to either lease the assets for additional terms, or terminate the lease early (a break option). The Group applies judgement in evaluating whether it is reasonably certain to exercise these options. That is, it considers all relevant factors that create an economic incentive for it to exercise them.

After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the options to renew (e.g. a change in business strategy).

Estimates

The discount rate used to calculate the lease liability is the rate implicit in the lease, if it can be readily determined and practically applied, or the lessee's incremental borrowing rate (IBR) if not.

The IBRs depend on the start date and term of the lease, and is determined using a reference (risk free) rate and an adjustment to reflect the Group's credit risk. The reference rates are based on UK overnight swap rates and the credit risk adjustments are based on the prices of instruments issued by the group and quoted credit default swaps ("CDS").

4. 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.

In addition, although the perpetual securities are accounted for as equity in line with IAS 32 'Financial Instruments: Presentation', coupons are accrued on a straight-line basis and included as an expense within underlying profit before tax.

Further information on the adjusted items is included within Alternative Performance Measures on page 56.

These adjusted items are as follows:

28 weeks to 21 September 2019

	Revenue £m	Cost of sales £m	Admin expenses £m	Other income £m	Net finance income/ (costs) £m	Share of loss from JVs £m	Total adjustments before tax £m	Tax £m	Total adjustments £m
Property strategy programme	-	(176)	(27)	-	-	-	(203)	14	(189)
Retail restructuring programme	-	-	(25)	-	-	-	(25)	5	(20)
Financial Services transition and other	-	-	(15)	-	-	-	(15)	-	(15)
Total strategic programmes	-	(176)	(67)	-	-	-	(243)	19	(224)
Property, finance, pension and acquisition adjustments									
Profit/(loss) on disposal of properties	-	-	-	44	-	(21)	23	(1)	22
Investment property fair value movements	-	-	-	-	-	(4)	(4)	-	(4)
Perpetual securities coupons	-	-	-	-	13	-	13	(2)	11
Non-underlying finance movements	-	-	-	-	(8)	(5)	(13)	-	(13)
IAS 19 pension expenses	-	-	(4)	-	15	-	11	1	12
Acquisition adjustments	-	(1)	(15)	-	-	-	(16)	3	(13)
Total property, finance, pension and acquisition adjustments	-	(1)	(19)	44	20	(30)	14	1	15
Tax adjustments									
Under provision in prior years	-	-	-	-	-	-	-	(7)	(7)
Revaluation of deferred tax balances	-	-	-	-	-	-	-	3	3
Total adjustments	-	(177)	(86)	44	20	(30)	(229)	16	(213)

4. Non-GAAP performance measures continued

(a) Property strategy programme

- At the Capital Markets Day on 25 September 2019, a programme of store closures was announced. This triggered a full impairment review by management on the Group's property portfolio. An impairment charge of £(177) million has been recognised on property, plant and equipment, right-of-use assets and goodwill allocated to stores. £(80) million of the charge is in relation to properties identified for closure. The remaining £(97) million relates to unprofitable and marginally profitable trading stores for which the cash flows no longer support the carrying amount.
- In addition, store closure costs have been recognised in the period of £(26) million. They comprise £(23) million onerous contract charges, and £(3) million of other provisions, including redundancy.

(b) Retail restructuring programme

- Restructuring costs of £(25) million in the year comprise redundancy payments following changes to the Group's store management structure, responding to changing customer shopping habits and reducing costs throughout the store estate, as well as the closure of one Argos distribution centre, prior to the wider store closure programme announced at the Capital Markets Day.

(c) Financial Services transition and other

- These predominantly comprise Financial Services transition costs of £(12) million and were incurred in transitioning to a new, more flexible banking platform as part of the previously announced New Bank Programme. These 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.

(d) Property, finance, pension and acquisition adjustments

- Profit on disposal of properties for the financial period comprised £44 million for the Group and £(21) million for the joint ventures.
- 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 £(8) million for the Group and £(5) million for the joint ventures. These are presented separately in note 7.
- Defined benefit pension expenses comprise pension finance income of £15 million and scheme expenses of £(4) million (see note 18). Included in the prior year-end were £(98) million non-cash past service costs relating to Guaranteed Minimum Pension (GMP) equalisation and £(2) million of pension related expenses incurred directly by the Group.
- Acquisition adjustments of £(16) 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 recognised as follows:

	28 weeks to 21 September 2019				28 weeks to 22 September 2018				52 weeks to 9 March 2019			
	Financial Services £m	Argos £m	Nectar £m	Total Group £m	Financial Services £m	Argos £m	Nectar £m	Total Group £m	Financial Services £m	Argos £m	Nectar £m	Total Group £m
Revenue	-	-	-	-	(1)	-	-	(1)	-	-	-	-
Cost of sales	-	1	-	1	-	1	-	1	-	2	-	2
Depreciation	-	(2)	-	(2)	-	(11)	-	(11)	-	(13)	-	(13)
Amortisation	-	(10)	(5)	(15)	-	(9)	(13)	(22)	(1)	(16)	(25)	(42)
	-	(11)	(5)	(16)	(1)	(19)	(13)	(33)	(1)	(27)	(25)	(53)

4. Non-GAAP performance measures continued

28 weeks to 22 September 2018 (restated)

	Revenue £m	Cost of sales £m	Admin expenses £m	Other income £m	Net finance income / (costs) £m	Share of profit/(loss) from JVs £m	Total adjustments before tax £m	Tax £m	Total adjustments £m
Retail restructuring programme	-	-	(69)	-	-	-	(69)	11	(58)
Financial Services transition and other	-	-	(40)	-	-	-	(40)	8	(32)
Argos integration costs	-	-	(25)	-	-	-	(25)	3	(22)
Asda transaction costs	-	-	(17)	-	-	-	(17)	-	(17)
Total strategic programmes	-	-	(151)	-	-	-	(151)	22	(129)
Property, finance, pension and acquisition adjustments									
(Loss)/profit on disposal of properties	-	-	-	(12)	-	1	(11)	2	(9)
Impairments and investment property fair value movements	-	-	-	-	-	(3)	(3)	-	(3)
Perpetual securities coupons	-	-	-	-	13	-	13	(3)	10
Non-underlying finance movements	-	-	-	-	21	(1)	20	1	21
IAS 19 pension expenses	-	-	(4)	-	(3)	-	(7)	2	(5)
Acquisition adjustments	(1)	(10)	(22)	-	-	-	(33)	7	(26)
Total property, finance, pension and acquisition adjustments	(1)	(10)	(26)	(12)	31	(3)	(21)	9	(12)
Tax adjustments									
Over provision in prior years	-	-	-	-	-	-	-	55	55
Revaluation of deferred tax balances	-	-	-	-	-	-	-	2	2
Total adjustments	(1)	(10)	(177)	(12)	31	(3)	(172)	88	(84)

52 weeks to 9 March 2019 (restated)

	Revenue £m	Cost of sales £m	Admin expenses £m	Other income £m	Net finance (costs) / income £m	Share of loss from JVs £m	Total adjustments before tax £m	Tax £m	Total adjustments £m
Retail restructuring programme	-	-	(81)	-	-	-	(81)	15	(66)
Financial Services transition and other	-	-	(70)	-	-	-	(70)	13	(57)
Argos integration costs	-	-	(40)	-	-	-	(40)	8	(32)
Asda transaction costs	-	-	(37)	-	(9)	-	(46)	2	(44)
Total strategic programmes	-	-	(228)	-	(9)	-	(237)	38	(199)
Property, finance, pension and acquisition adjustments									
Loss on disposal of properties	-	-	-	(17)	-	-	(17)	9	(8)
Impairments and investment property fair value movements	-	-	(3)	-	-	(2)	(5)	-	(5)
Perpetual securities coupons	-	-	-	-	23	-	23	(5)	18
Non-underlying finance movements	-	-	-	-	10	(2)	8	(3)	5
IAS 19 pension expenses	-	-	(110)	-	(8)	-	(118)	23	(95)
Acquisition adjustments	-	(11)	(42)	-	-	-	(53)	10	(43)
Total property, finance, pension and acquisition adjustments	-	(11)	(155)	(17)	25	(4)	(162)	34	(128)
Tax adjustments									
Over provision in prior years	-	-	-	-	-	-	-	61	61
Revaluation of deferred tax balances	-	-	-	-	-	-	-	(2)	(2)
Total adjustments	-	(11)	(383)	(17)	16	(4)	(399)	131	(268)

Cash flow statement

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

	28 weeks to 21 September 2019 £m	28 weeks to 22 September 2018 £m	52 weeks to 9 March 2019 £m
Cash flows from operating activities			
IAS 19 pension expenses	(4)	(4)	(10)
Sainsbury's Bank transition	(13)	(40)	(66)
Argos integration costs	(3)	(32)	(52)
Restructuring costs	(4)	(123)	(152)
Transaction costs relating to the proposed merger with Asda	(11)	(7)	(39)
Cash used in operating activities	(35)	(206)	(319)
Cash flows from investing activities			
Proceeds from property disposals	54	34	64
Cash generated from investing activities	54	34	64
Net cash flows	19	(172)	(255)

5. Segment reporting

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

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

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

The Operating Board assesses the performance of all segments on the basis of underlying profit before tax. All material operations and assets are in the UK.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

a. Income statement and balance sheet

	Retail £m	Financial Services £m	Property investment £m	Group £m
28 weeks to 21 September 2019				
Segment revenue				
Retail sales to external customers	14,808	-	-	14,808
Financial Services to external customers ¹	-	289	-	289
Underlying revenue	14,808	289	-	15,097
Revenue	14,808	289	-	15,097
Underlying operating profit	437	20	-	457
Underlying finance income	2	-	-	2
Underlying finance costs	(221)	-	-	(221)
Underlying share of post-tax profit from joint ventures and associates	-	-	-	-
Underlying profit before tax	218	20	-	238
Non-underlying expense				(229)
Profit before tax				9
Income tax expense				(47)
Loss for the financial period				(38)
Assets	19,308	9,542	-	28,850
Investment in joint ventures and associates	-	-	56	56
Segment assets	19,308	9,542	56	28,906
Segment liabilities	(12,478)	(8,522)	-	(21,000)

1 Financial Services income includes £204 million recognised using the effective interest rate method.

5. Segment reporting continued

a. Income statement and balance sheet continued

	Retail (restated) £m	Financial Services (restated) £m	Property investment £m	Group (restated) £m
28 weeks to 22 September 2018				
Segment revenue				
Retail sales to external customers	14,856	-	-	14,856
Financial Services to external customers ¹	-	272	-	272
Underlying revenue	14,856	272	-	15,128
Acquisition adjustment fair value unwind ²	-	(1)	-	(1)
Revenue	14,856	271	-	15,127
Underlying operating profit				
Underlying finance income	487	16	-	503
Underlying finance costs	4	-	-	4
Underlying share of post-tax profit from joint ventures and associates	(232)	-	-	(232)
Underlying share of post-tax profit from joint ventures and associates	-	-	4	4
Underlying profit before tax	259	16	4	279
Non-underlying expense	-	-	-	(172)
Profit before tax	-	-	-	107
Income tax credit	-	-	-	16
Profit for the financial period	-	-	-	123
Assets				
Assets	18,486	8,424	-	26,910
Investment in joint ventures and associates	-	-	209	209
Segment assets	18,486	8,424	209	27,119
Segment liabilities	(12,405)	(7,540)	-	(19,945)

1 Financial Services income includes £192 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.

	Retail (restated) £m	Financial Services (restated) £m	Property investment £m	Group (restated) £m
52 weeks to 9 March 2019				
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				
Underlying finance income	981	31	-	1,012
Underlying finance costs	5	-	-	5
Underlying share of post-tax profit from joint ventures and associates	(424)	-	-	(424)
Underlying share of post-tax profit from joint ventures and associates	-	-	8	8
Underlying profit before tax	562	31	8	601
Non-underlying expense	-	-	-	(399)
Profit before tax	-	-	-	202
Income tax expense	-	-	-	(16)
Profit for the financial period	-	-	-	186
Assets				
Assets	18,885	8,921	-	27,806
Investment in joint ventures and associates	-	-	205	205
Segment assets	18,885	8,921	205	28,011
Segment liabilities	(12,284)	(7,945)	-	(20,229)

1 Financial Services income includes £385 million recognised using the effective interest rate method.

5. Segment reporting continued

b. Segmented cash flow statement

	APM reference	28 weeks to 21 September 2019			28 weeks to 22 September 2018		
		Retail	Financial Services	Group	Retail (restated)	Financial Services (restated)	Group (restated)
		£m	£m	£m	£m	£m	£m
Profit/(loss) before tax		2	7	9	131	(24)	107
Net finance costs		196	3	199	197	-	197
Share of post-tax loss/(profit) from joint ventures and associates ¹		30	-	30	(1)	-	(1)
Operating profit		228	10	238	327	(24)	303
Adjustments for:							
Depreciation and amortisation expense		653	14	667	669	12	681
Net impairment charge on property, plant and equipment, right-of-use asset, investment property and intangible assets		177	-	177	-	-	-
Non-cash adjustments arising from acquisitions		(1)	-	(1)	(1)	1	-
Financial Services impairment losses on loans and advances		-	47	47	-	49	49
(Profit)/loss on sale of properties and early termination of leases		(44)	-	(44)	12	-	12
Loss on disposal of intangibles		-	-	-	1	-	1
Share-based payments expense		17	2	19	17	2	19
Non-cash defined benefit scheme expenses		4	-	4	4	-	4
Cash contributions to defined benefit scheme		(48)	-	(48)	(29)	-	(29)
Operating cash flows before changes in working capital		986	73	1,059	1,000	40	1,040
Changes in working capital							
Decrease/(increase) in working capital		289	(110)	179	296	(143)	153
Cash generated from operations		1,275	(37)	1,238	1,296	(103)	1,193
Interest paid	a	(208)	-	(208)	(217)	-	(217)
Corporation tax paid		(8)	2	(6)	(15)	(7)	(22)
Net cash generated/(used) from operating activities		1,059	(35)	1,024	1,064	(110)	954
Cash flows from investing activities							
Purchase of property, plant and equipment excluding strategic capital expenditure		(213)	-	(213)	(201)	(3)	(204)
Strategic capital expenditure	b	-	-	-	(31)	-	(31)
Purchase of property, plant and equipment		(213)	-	(213)	(232)	(3)	(235)
Initial direct costs on new leases		(2)	-	(2)	(6)	-	(6)
Purchase of intangible assets		(35)	(17)	(52)	(42)	(16)	(58)
Proceeds from disposal of property, plant and equipment		54	-	54	34	-	34
Proceeds from financial assets at fair value through other comprehensive income	d	-	-	-	39	-	39
Investment in joint ventures	f	-	-	-	(5)	-	(5)
Interest received	a	2	-	2	2	-	2
Dividends and distributions received ²	f	118	-	118	16	-	16
Net cash used in investing activities		(76)	(17)	(93)	(194)	(19)	(213)
Cash flows from financing activities							
Proceeds from issuance of ordinary shares	e	5	-	5	11	-	11
Proceeds from borrowings	d	80	-	80	-	-	-
Repayment of borrowings	d	(230)	-	(230)	(581)	-	(581)
Purchase of own shares	e	(4)	-	(4)	(12)	-	(12)
Repayment of capital element of obligations under lease liabilities	c	(230)	(1)	(231)	(225)	(1)	(226)
Repayment of capital element of obligations under hire purchase agreements	d	(10)	-	(10)	(23)	-	(23)
Dividends paid on ordinary shares		(174)	-	(174)	(156)	-	(156)
Dividends paid on perpetual securities	a	(20)	-	(20)	(20)	-	(20)
Net cash used in financing activities		(583)	(1)	(584)	(1,006)	(1)	(1,007)
Intra group funding							
Bank capital injections		(35)	35	-	-	-	-
Net cash (used in)/generated from intra group funding		(35)	35	-	-	-	-
Net increase/(decrease) in cash and cash equivalents		365	(18)	347	(136)	(130)	(266)

1 The £30 million is wholly derived from the Property Investment Segment (22 September 2018: £(1) million).

2 Dividends and distributions received of £118 million (22 September 2018: £16 million) have been received from the property investment joint ventures.

5. Segment reporting continued

b. Segmented cash flow statement continued

	APM reference	52 weeks to 9 March 2019		
		Retail	Financial	Group
		(restated) £m	(restated) £m	(restated) £m
Profit before tax		223	(21)	202
Net finance costs		403	-	403
Share of post-tax profit from joint ventures and associates ¹		(4)	-	(4)
Operating profit		622	(21)	601
Adjustments for:				
Depreciation/amortisation		1,238	24	1,262
Net impairment charge on property, plant and equipment, right-of-use asset, investment property and intangible assets		3	-	3
Non-cash adjustments arising from acquisitions		(2)	-	(2)
Financial Services impairment losses on loans and advances		-	98	98
Profit on sale of properties and early termination of leases		17	-	17
Share-based payments expense		36	3	39
Non-cash defined benefit scheme expenses		108	-	108
Cash contributions to defined benefit scheme		(63)	-	(63)
Operating cash flows before changes in working capital		1,959	104	2,063
Changes in working capital				
Increase in working capital		(38)	(510)	(548)
Cash generated from operations		1,921	(406)	1,515
Interest paid	a	(404)	-	(404)
Corporation tax paid		(61)	(7)	(68)
Net cash generated from operating activities		1,456	(413)	1,043
Cash flows from investing activities				
Purchase of property, plant and equipment excluding strategic capital expenditure		(430)	(8)	(438)
Strategic capital expenditure	b	(36)	-	(36)
Purchase of property, plant and equipment		(466)	(8)	(474)
Initial direct costs on new leases		(11)	-	(11)
Purchase of intangible assets		(78)	(38)	(116)
Proceeds from disposal of property, plant and equipment		64	-	64
Proceeds from financial assets at fair value through other comprehensive income	d	39	-	39
Investment in joint ventures	f	(5)	-	(5)
Interest received	a	4	-	4
Dividends and distributions received ²	f	18	-	18
Net cash used from in investing activities		(435)	(46)	(481)
Cash flows from financing activities				
Proceeds from issuance of ordinary shares	e	22	-	22
Proceeds from borrowings	d	135	-	135
Repayment of borrowings	d	(593)	-	(593)
Purchase of own shares	e	(30)	-	(30)
Repayment of capital element of obligations under lease liabilities	c	(429)	(1)	(430)
Repayment of capital element of obligations under hire purchase agreements	d	(27)	-	(27)
Dividends paid on ordinary shares		(224)	-	(224)
Dividends paid on perpetual securities	a	(23)	-	(23)
Net cash used in financing activities		(1,169)	(1)	(1,170)
Intra group funding				
Bank capital injections		(110)	110	-
Net cash (used in)/generated from intra group funding		(110)	110	-
Net decrease in cash and cash equivalents		(258)	(350)	(608)

1 Includes £4 million relating to the property investment segment.

2 Included within dividends and distributions received is £18 million of dividends received from property investment joint ventures.

6. Supplier arrangements

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

The types that involve a level of judgement and estimation are as follows:

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

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

	28 weeks to 21 September 2019 £m	28 weeks to 22 September 2018 £m	52 weeks to 9 March 2019 £m
Fixed amounts	108	90	281
Supplier rebates	34	34	69
Marketing and advertising income	58	78	107
Total supplier arrangements	200	202	457

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

	28 weeks to 21 September 2019 £m	28 weeks to 22 September 2018 £m	52 weeks to 9 March 2019 £m
Within inventory	(7)	(7)	(7)
Within current trade receivables			
Supplier arrangements due	31	58	39
Accrued supplier arrangements	53	49	39
Within current trade payables			
Supplier arrangements due	12	10	22
Accrued supplier arrangements	2	13	-
Deferred income due	(4)	-	(1)
Total supplier arrangements	87	123	92

The above disclosure now includes accrued supplier arrangements within receivables in line with reporting at year end.

7. Finance income and finance costs

	28 weeks to 21 September 2019			28 weeks to 22 September 2018 (restated)			52 weeks to 9 March 2019 (restated)		
	Underlying £m	Non- underlying £m	Total £m	Underlying £m	Non- underlying £m	Total £m	Underlying £m	Non- underlying £m	Total £m
Interest on bank deposits and other financial assets	1	-	1	3	-	3	3	-	3
Fair value remeasurements	-	1	1	-	25	25	-	19	19
IAS 19 pension finance income	-	15	15	-	-	-	-	-	-
Finance income receivable on net investment in leases	1	-	1	1	-	1	2	-	2
Finance income	2	16	18	4	25	29	5	19	24
Borrowing costs:									
Secured borrowings	(26)	-	(26)	(31)	-	(31)	(55)	-	(55)
Unsecured borrowings	(9)	-	(9)	(11)	-	(11)	(19)	-	(19)
Lease liabilities	(175)	(5)	(180)	(180)	(4)	(184)	(333)	(9)	(342)
	(210)	(5)	(215)	(222)	(4)	(226)	(407)	(9)	(416)
Other finance costs:									
Interest capitalised - qualifying assets	2	-	2	3	-	3	6	-	6
Fair value remeasurements	-	(4)	(4)	-	-	-	-	-	-
IAS 19 pension financing charge	-	-	-	-	(3)	(3)	-	(8)	(8)
Transaction financing costs	-	-	-	-	-	-	-	(9)	(9)
Perpetual securities coupon	(13)	13	-	(13)	13	-	(23)	23	-
	(11)	9	(2)	(10)	10	-	(17)	6	(11)
Finance costs	(221)	4	(217)	(232)	6	(226)	(424)	(3)	(427)

Fair value remeasurements relate to net fair value movements on derivative financial instruments not designated in a hedging relationship. The prior year includes a £10 million fair value gain on financial assets through other comprehensive income that was reclassified to the income statement on settlement of the related financial asset.

8. Income tax expense

	28 weeks to 21 September 2019 £m	28 weeks to 22 September 2018 (restated) £m	52 weeks to 9 March 2019 (restated) £m
Current tax expense	55	20	81
Deferred tax credit	(8)	(36)	(65)
Total income tax expense/(credit) in income statement	47	(16)	16
Underlying tax rate	26.5%	25.8%	24.5%
Effective tax rate	522.2%	(15.0)%	7.9%

The interim tax charge is calculated in accordance with IAS 34. The annual effective tax rate (excluding discrete items) is calculated and applied to the interim profit before tax. The tax effect of discrete items in the reporting period is then included to calculate the reported tax expense. Discrete items include non-underlying items (see note 4) and prior year deferred tax adjustments.

The effective tax rate of 522.2 per cent (28 weeks to 22 September 2018: (15.0) per cent) (as restated) is higher than (28 weeks to 22 September 2018: lower than) the standard rate of corporation tax in the UK of 19 per cent. This is largely a result of the amount of non-deductible expenses relative to profit before tax, particularly in respect of non-underlying discrete items.

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

9. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held by the Employee Share Ownership Plan trusts, which are treated as cancelled.

For diluted earnings per share, the earnings attributable to the ordinary shareholders are adjusted by the interest on the senior convertible bonds (net of tax) and by the coupons on the perpetual subordinated convertible bonds (net of tax). The weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year and the number of shares that would be issued if all senior convertible bonds and perpetual subordinated convertible bonds are assumed to be converted.

Underlying earnings per share is provided by excluding the effect of any non-underlying items as defined in note 4. This alternative measure of earnings per share is presented to reflect the Group's underlying trading performance. All operations are continuing for the periods presented.

	28 weeks to 21 September 2019	28 weeks to 22 September 2018 (restated)	52 weeks to 9 March 2019 (restated)
	million	million	million
Weighted average number of shares in issue ¹	2,207.4	2,195.9	2,197.6
Weighted average number of dilutive share options ¹	16.5	40.6	42.1
Weighted average number of dilutive senior convertible bonds ¹	153.6	147.6	148.1
Weighted average number of dilutive subordinated perpetual convertible bonds	83.8	80.5	80.8
Total number of shares for calculating diluted earnings per share	2,461.3	2,464.6	2,468.6
	£m	£m	£m
(Loss)/profit for the financial year (net of tax)	(38)	123	186
Less profit attributable to:			
Holders of perpetual capital securities	(8)	(7)	(12)
Holders of perpetual convertible bonds	(3)	(3)	(6)
(Loss)/profit for the financial year attributable to ordinary shareholders	(49)	113	168
	£m	£m	£m
(Loss)/profit for the financial year attributable to ordinary shareholders	(49)	113	168
Add interest on senior convertible bonds (net of tax) ¹	-	6	12
Add coupon on subordinated perpetual convertible bonds (net of tax) ¹	-	3	6
Diluted (loss)/earnings for calculating diluted earnings per share	(49)	122	186
(Loss)/profit for the financial year attributable to ordinary shareholders of the parent	(49)	113	168
Adjusted for non-underlying items (note 4)	229	172	399
Tax on non-underlying items	(16)	(88)	(131)
Add back coupons on perpetual securities (net of tax) ²	11	10	18
Underlying profit after tax attributable to ordinary shareholders of the parent	175	207	454
Add interest on convertible bonds (net of tax)	6	6	12
Add coupon on subordinated perpetual convertible bonds, net of tax	3	3	6
Diluted underlying profit after tax attributable to ordinary shareholders of the parent	184	216	472
	Pence per share	Pence per share	Pence per share
Basic (loss)/earnings	(2.2)	5.1	7.6
Diluted (loss)/earnings ¹	(2.2)	5.0	7.5
Underlying basic earnings	7.9	9.4	20.7
Underlying diluted earnings	7.5	8.8	19.1

1 In accordance with IAS 33, 'Earnings per share', dilutive share options and their respective earnings adjustments are excluded from the calculation of diluted earnings per share when the impact is anti-dilutive.

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

10. Dividends

	28 weeks to 21 September 2019	28 weeks to 22 September 2018	52 weeks to 9 March 2019
Amounts recognised as distributions to equity holders in the period:			
Dividend per share (pence)	7.9	7.1	10.2
Total dividend charge (£m)	174	156	224

Post the half-year, an interim dividend of 3.3 pence per share (22 September 2018: 3.1 pence per share) has been approved by the Board of Directors for the financial year ending 7 March 2020, resulting in a total interim dividend of £73 million (22 September 2018: £68 million). The interim dividend was approved by the Board on 6 November 2019 and as such has not been included as a liability at 21 September 2019.

11. Property, plant and equipment

	28 weeks to 21 September 2019	28 weeks to 22 September 2018 (restated)	52 weeks to 9 March 2019 (restated)
	£m	£m	£m
Net book value			
At the beginning of the period	9,193	9,399	9,399
Additions	210	247	481
Disposals	(6)	(17)	(51)
Transfer to assets held for sale	-	1	-
Depreciation charge	(334)	(346)	(633)
Impairment charge	(120)	-	(3)
At the end of the period	8,943	9,284	9,193

At 21 September 2019, capital commitments contracted, but not provided for by the Group, amounted to £174 million (22 September 2018: £123 million; 9 March 2019: £90 million), and £2 million for the property joint ventures (22 September 2018: £24 million; 9 March 2019: £7 million).

12. Right-of-use assets

	28 weeks to 21 September 2019	28 weeks to 22 September 2018 (restated)	52 weeks to 9 March 2019 (restated)
	£m	£m	£m
Net book value			
At the beginning of the period	4,993	5,091	5,091
Additions	187	224	388
Depreciation charge	(263)	(260)	(486)
Impairment charge	(39)	-	-
At the end of the period	4,878	5,055	4,993

Included within the above are land and buildings with a net book value of £4,650 million (22 September 2018: £4,838 million; 9 March 2019: £4,747 million), and equipment with a net book value of £228 million (22 September 2018: £217 million; 9 March 2019: £246 million).

The costs relating to leases for which the Group applied the practical expedients described in note 3b (low value leases and leases with contract terms of less than 12 months) and costs relating to variable lease payments dependent on performance of usage and 'out of contract' payments amounted to £19 million for the 28 weeks ending 21 September 2019 (22 September 2018: £21 million; 9 March 2019: £39 million).

There were no leases with residual value guarantees nor leases not yet commenced to which the Group is committed. The Group assumes contractual terms unless it is reasonably certain that an extension or break option will be applied. There have been no sale or leaseback transactions during the period.

The Group does not hold any leases as investment properties under IAS 40. All right-of-use assets are recognised on a historical cost convention.

13. Intangible assets

	28 weeks to 21 September 2019 £m	28 weeks to 22 September 2018 (restated) £m	52 weeks to 9 March 2019 (restated) £m
Net book value			
At the beginning of the period	1,043	1,071	1,071
Additions	54	58	116
Disposals	(1)	(3)	(1)
Amortisation charge	(70)	(75)	(143)
Impairment charge	(18)	-	-
At the end of the period	1,008	1,051	1,043

The net book value of goodwill and intangible assets predominantly comprises goodwill of £378 million (22 September 2018: £396 million; 9 March 2019: £396 million), software assets of £494 million (22 September 2018: £485 million; 9 March 2019: £497 million) and acquired brands of £130 million (22 September 2018: £152 million; 9 March 2019: £141 million).

14. Investments in joint ventures and associates

	British Land £m	Other joint ventures £m	Total £m
At 9 March 2019	173	32	205
Disposals	-	(21)	(21)
Dividends and distributions received	(92)	(5)	(97)
Share of retained loss:			
Underlying profit/(loss) after tax	1	(1)	-
Investment property fair value movements	(4)	-	(4)
Finance fair value movements	(5)	-	(5)
Share of loss on disposal of properties	(20)	(1)	(21)
Share of joint venture loss after tax	(28)	(2)	(30)
Disposals from the Group	(1)	-	(1)
At 21 September 2019	52	4	56

The disposal in the current year relates to a capital repayment and is included within dividends and distributions in the cash flow statement.

	British Land £m	Other joint ventures £m	Total £m
At 11 March 2018	187	45	232
Additions	-	5	5
Dividends and distributions received	(16)	-	(16)
Share of retained profit:			
Underlying profit after tax	4	-	4
Investment property fair value movements	-	(3)	(3)
Finance fair value movements	(1)	-	(1)
Share of profit on disposal of properties	-	1	1
Share of joint venture profit/(loss) after tax	3	(2)	1
Disposals from the Group	-	(13)	(13)
At 22 September 2018	174	35	209

At 11 March 2018	187	45	232
Additions	-	5	5
Disposals	-	(5)	(5)
Dividends and distributions received	(18)	-	(18)
Share of retained profit:			
Underlying profit/(loss) after tax	9	(1)	8
Investment property fair value movements	-	(2)	(2)
Finance fair value movements	(2)	-	(2)
Share of (loss)/profit on disposal of properties	(3)	3	-
Share of joint venture profit after tax	4	-	4
Disposals from the Group	-	(13)	(13)
At 9 March 2019	173	32	205

15. Financial instruments

a. Carrying amount versus fair value

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

	Carrying amount £m	Fair value £m
At 21 September 2019		
Financial assets		
Amounts due from Financial Services customers ¹	7,401	7,440
Financial liabilities		
Loans due 2031	(687)	(872)
Bank overdrafts	(1)	(1)
Bank loans due 2021	(200)	(200)
Convertible bond due 2019	(450)	(451)
Tier 2 Capital due 2023	(180)	(181)
Lease liabilities and hire purchase leases (restated)	(5,776)	(5,776)
Amounts due to Financial Services customers and banks	(8,167)	(8,176)

1 Includes £4,145 million of interest rate swaps in a portfolio fair value hedging relationship.

	Carrying amount £m	Fair value £m
At 22 September 2018		
Financial assets		
Amounts due from Financial Services customers ¹	6,234	6,286
Financial liabilities		
Loans due 2031	(717)	(930)
Bank overdrafts	(1)	(1)
Bank loans due 2019	(199)	(200)
Convertible bond due 2019	(442)	(499)
Tier 2 Capital due 2023	(177)	(180)
Lease liabilities and hire purchase leases (restated)	(5,880)	(5,880)
Amounts due to Financial Services customers and banks	(7,186)	(7,191)

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

	Carrying amount £m	Fair value £m
At 9 March 2019		
Financial assets		
Amounts due from Financial Services customers ¹	6,987	7,006
Financial liabilities		
Loans due 2031	(704)	(894)
Short-term borrowings	(135)	(135)
Bank overdrafts	(1)	(1)
Bank loans due 2019	(199)	(199)
Convertible bond due 2019	(445)	(452)
Tier 2 Capital due 2023	(176)	(177)
Lease liabilities and hire purchase leases (restated)	(5,831)	(5,831)
Amounts due to Financial Services customers and banks	(7,601)	(7,577)

1 Includes £4,734 million of interest rate swaps in a portfolio fair value hedging relationship.

15. Financial instruments continued

b. Fair value measurements recognised in the balance sheet

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

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

At 21 September 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Cash & cash equivalents	172	-	-	172
Trade & other receivables	182	-	-	182
Financial instruments at fair value through other comprehensive income				
Interest bearing financial assets	-	1	-	1
Other financial assets	-	14	206	220
Investment securities	799	-	-	799
Derivative financial assets	-	47	2	49
Derivative financial liabilities	-	(53)	-	(53)

At 22 September 2018	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Cash & cash equivalents	207	-	-	207
Trade & other receivables	130	-	-	130
Financial instruments at fair value through other comprehensive income				
Interest bearing financial assets	-	1	-	1
Other financial assets	14	-	170	184
Investment Securities	709	-	-	709
Derivative financial assets	-	56	9	65
Derivative financial liabilities	-	(15)	-	(15)

At 9 March 2019	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Cash & cash equivalents	192	-	-	192
Trade & other receivables	144	-	-	144
Financial instruments at fair value through other comprehensive income				
Interest bearing financial assets	-	1	-	1
Other financial assets	-	13	220	233
Investment securities	622	-	-	622
Derivative financial assets	-	29	1	30
Derivative financial liabilities	-	(34)	-	(34)

15. Financial instruments continued

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

	Financial instruments at FVOCI £m	Commodity derivatives £m	Total £m
28 weeks to 21 September 2019			
Opening balance	220	1	221
Included in finance income in the income statement	-	1	1
Included in other comprehensive income	(14)	-	(14)
Total Level 3 financial assets and liabilities	206	2	208

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

	Financial instruments at FVOCI £m	Commodity derivatives £m	Total £m
52 weeks to 9 March 2019			
Opening balance	164	(9)	155
Included in finance income in the income statement	-	10	10
Included in other comprehensive income	56	-	56
Total Level 3 financial assets and liabilities	220	1	221

Level 3 Financial assets

Other financial assets relate to the Group's beneficial interest in a property investment pool. The net present value of the Group's interest in the various freehold reversions owned by the property investment pool has been derived by assuming a property growth rate of 0.6 per cent per annum (22 September 2018: 0.6 per cent; 9 March 2019: 0.6 per cent) and a discount rate of nine per cent (22 September 2018: nine per cent; 9 March 2019: nine per cent). The sensitivity of this balance to changes of one per cent in the assumed rate of property rental growth and one per cent in the discount rate holding other assumptions constant is shown below:

	21 September 2019		22 September 2018	
	Change in discount rate +/- 1.0%	Change in growth rate +/- 1.0%	Change in discount rate +/- 1.0%	Change in growth rate +/- 1.0%
	£m	£m	£m	£m
Financial assets	(7)/7	11/(10)	(7)/8	12/(11)

	9 March 2019	
	Change in discount rate +/- 1.0%	Change in growth rate +/- 1.0%
	£m	£m
Financial assets	(9)/9	13/(12)

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

Level 3 derivative financial liabilities – power purchase agreement

The Group has entered into several long-term fixed-price power purchase agreements with independent producers. Included within derivative financial instruments is a net asset of £2 million relating to these agreements at 21 September 2019 (at 22 September 2018: £8 million; at 9 March 2019: £1 million). The Group values its power purchase agreements as the net present value of the estimated future usage at the contracted fixed price less the market implied forward energy price discounted back at the prevailing swap rate. The Group also makes an assumption regarding expected energy output based on the historical performance and the producer's estimate of expected electricity output. The sensitivity of this balance to changes of 20 per cent in the assumed rate of energy output and 20 per cent in the implied forward energy prices holding other assumptions constant is shown below:

15. Financial instruments continued

	21 September 2019		22 September 2018	
	Change in	Change in	Change in	Change in
	volume	electricity forward	volume	electricity forward
	+/- 20.0%	price	+/- 20.0%	price
	£m	£m	£m	£m
Derivative financial instruments	0/(0)	9/(9)	2/(2)	12/(13)

	9 March 2019	
	Change in	Change in
	volume	electricity forward
	+/- 20.0%	price
	£m	£m
Derivative financial instruments	(0)/0	9/(10)

16. 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. The Group's definition of net debt has been updated and now includes lease liabilities as recognised under IFRS 16 and perpetual securities. In addition, net debt now excludes derivatives that are not used to hedge borrowings. Refer to note 2 for further information. All comparative periods have been restated.

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. Liabilities arising from hire purchase arrangements are included within lease liabilities on the balance sheet – further information on these is included within note 2.

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. Derivatives exclude those not used to hedge borrowings, and borrowings exclude bank overdrafts as they are disclosed separately.

16. Analysis of net debt continued

	Cash movements			Non-cash movements			21 September 2019 £m
	9 March 2019 £m	Cash flows excluding interest £m	Net interest paid £m	Interest charge £m	Other non-cash movements £m	Changes in fair value £m	
Retail							
Financial assets at fair value through other comprehensive income	1	-	-	-	-	-	1
Net derivative financial instruments (restated)	(9)	-	1	(3)	-	5	(6)
Cash and cash equivalents	466	365	-	-	-	-	831
Bank overdrafts	(1)	-	-	-	-	-	(1)
Borrowings	(1,483)	150	25	(29)	-	-	(1,337)
Lease liabilities and hire purchase arrangements (restated)	(5,824)	240	180	(180)	(186)	-	(5,770)
Retail net debt (excluding perpetual securities) (restated)	(6,850)	755	206	(212)	(186)	5	(6,282)
Financial Services							
Financial assets at fair value through other comprehensive income	622	176	-	-	-	1	799
Net derivative financial instruments (restated)	-	-	-	-	-	2	2
Cash and cash equivalents	655	(18)	-	-	-	-	637
Borrowings	(176)	-	-	-	-	(4)	(180)
Lease liabilities and hire purchase arrangements (restated)	(7)	1	-	-	-	-	(6)
Financial Services net debt (restated)	1,094	159	-	-	-	(1)	1,252
Group							
Financial assets at fair value through other comprehensive income	623	176	-	-	-	1	800
Net derivative financial instruments (restated)	(9)	-	1	(3)	-	7	(4)
Cash and cash equivalents	1,121	347	-	-	-	-	1,468
Bank overdrafts	(1)	-	-	-	-	-	(1)
Borrowings	(1,659)	150	25	(29)	-	(4)	(1,517)
Lease liabilities and hire purchase arrangements (restated)	(5,831)	241	180	(180)	(186)	-	(5,776)
Group net debt (excluding perpetual securities) (restated)	(5,756)	914	206	(212)	(186)	4	(5,030)
Retail net debt (excluding perpetual securities) (restated)	(6,850)	755	206	(212)	(186)	5	(6,282)
Perpetual capital securities	(248)	-	-	-	-	-	(248)
Perpetual convertible bonds	(248)	-	-	-	-	-	(248)
Retail net debt (including perpetual securities) (restated)	(7,346)	755	206	(212)	(186)	5	(6,778)
Of which:							
Leases	(5,824)	-	-	-	-	-	(5,770)
Net debt excluding lease liabilities	(1,522)	-	-	-	-	-	(1,008)

Other non-cash movements predominantly comprise new leases and lease modifications.

16. Analysis of net debt continued

	Cash movements			Non-cash movements			22 September 2018 £m
	11 March 2018 £m	Cash flows excluding interest £m	Net interest (received)/ paid £m	Interest income/ (charge) £m	Other non-cash movements £m	Changes in fair value £m	
Retail							
Financial assets at fair value through other comprehensive income	40	(39)	-	-	-	-	1
Net derivative financial instruments (restated)	(8)	-	(2)	1	-	3	(6)
Cash and cash equivalents	725	(137)	-	-	-	-	588
Bank overdrafts	(2)	1	-	-	-	-	(1)
Borrowings	(1,937)	581	33	(35)	-	-	(1,358)
Lease liabilities and hire purchase arrangements (restated)	(5,897)	248	184	(184)	(224)	-	(5,873)
Retail net debt (excluding perpetual securities) (restated)	(7,079)	654	215	(218)	(224)	3	(6,649)
Financial Services							
Financial assets at fair value through other comprehensive income	526	180	-	-	-	3	709
Net derivative financial instruments (restated)	(2)	-	-	-	-	(1)	(3)
Cash and cash equivalents	1,005	(130)	-	-	-	-	875
Borrowings	(174)	-	-	-	(2)	(1)	(177)
Lease liabilities and hire purchase arrangements (restated)	(8)	1	-	-	-	-	(7)
Financial Services net debt (restated)	1,347	51	-	-	(2)	1	1,397
Group							
Financial assets at fair value through other comprehensive income	566	141	-	-	-	3	710
Net derivative financial instruments (restated)	(10)	-	(2)	1	-	2	(9)
Cash and cash equivalents	1,730	(267)	-	-	-	-	1,463
Bank overdrafts	(2)	1	-	-	-	-	(1)
Borrowings	(2,111)	581	33	(35)	(2)	(1)	(1,535)
Lease liabilities and hire purchase arrangements (restated)	(5,905)	249	184	(184)	(224)	-	(5,880)
Group net debt (excluding perpetual securities) (restated)	(5,732)	705	215	(218)	(226)	4	(5,252)
Retail net debt (excluding perpetual securities) (restated)	(7,079)	654	215	(218)	(224)	3	(6,649)
Perpetual capital securities	(248)	-	-	-	-	-	(248)
Perpetual convertible bonds	(248)	-	-	-	-	-	(248)
Retail net debt (including perpetual securities) (restated)	(7,575)	654	215	(218)	(224)	3	(7,145)
Of which:							
Leases	(5,897)	-	-	-	-	-	(5,873)
Net debt excluding lease liabilities	(1,678)	-	-	-	-	-	(1,272)

	Cash movements			Non-cash movements			9 March 2019 £m
	11 March 2018 £m	Cash flows excluding interest £m	Net interest (received)/ paid £m	Interest income/ (charge) £m	Other non-cash movements £m	Changes in fair value £m	
Retail							
Financial assets at fair value through other comprehensive income	40	(39)	-	-	-	-	1
Net derivative financial instruments (restated)	(8)	-	(1)	1	-	(1)	(9)
Cash and cash equivalents	725	(259)	-	-	-	-	466
Bank overdrafts	(2)	1	-	-	-	-	(1)
Borrowings	(1,937)	458	60	(64)	-	-	(1,483)
Lease liabilities and hire purchase arrangements (restated)	(5,897)	456	341	(342)	(382)	-	(5,824)
Retail net debt (excluding perpetual securities) (restated)	(7,079)	617	400	(405)	(382)	(1)	(6,850)
Financial Services							
Financial assets at fair value through other comprehensive income	526	97	-	-	-	(1)	622
Net derivative financial instruments (restated)	(2)	-	-	-	-	2	-
Cash and cash equivalents	1,005	(350)	-	-	-	-	655
Borrowings	(174)	-	-	-	-	(2)	(176)
Lease liabilities and hire purchase arrangements (restated)	(8)	1	-	-	-	-	(7)
Financial Services net debt (restated)	1,347	(252)	-	-	-	(1)	1,094
Group							
Financial assets at fair value through other comprehensive income	566	58	-	-	-	(1)	623
Net derivative financial instruments (restated)	(10)	-	(1)	1	-	1	(9)
Cash and cash equivalents	1,730	(609)	-	-	-	-	1,121
Bank overdrafts	(2)	1	-	-	-	-	(1)
Borrowings	(2,111)	458	60	(64)	-	(2)	(1,659)
Lease liabilities and hire purchase arrangements (restated)	(5,905)	457	341	(342)	(382)	-	(5,831)
Group net debt (excluding perpetual securities) (restated)	(5,732)	365	400	(405)	(382)	(2)	(5,756)
Retail net debt (excluding perpetual securities) (restated)	(7,079)	617	400	(405)	(382)	(1)	(6,850)
Perpetual capital securities	(248)	-	-	-	-	-	(248)
Perpetual convertible bonds	(248)	-	-	-	-	-	(248)
Retail net debt (including perpetual securities) (restated)	(7,575)	617	400	(405)	(382)	(1)	(7,346)
Of which:							
Leases	(5,897)	-	-	-	-	-	(5,824)
Net debt excluding lease liabilities	(1,678)	-	-	-	-	-	(1,522)

16. Analysis of net debt continued

Reconciliation of net cash flow to movement in net debt

	28 weeks to 21 September 2019	28 weeks to 22 September 2018 (restated)	52 weeks to 9 March 2019 (restated)
	£m	£m	£m
Net increase/(decrease) in cash and cash equivalents	347	(267)	(609)
Elimination of Financial Services movement in cash and cash equivalents	18	130	350
Retail cash movement in net debt items:			
Decrease in financial assets at fair value through other comprehensive income	-	(39)	(39)
Decrease in borrowings and overdrafts	150	582	459
Decrease in lease obligations and hire purchase leases	240	248	456
Net interest paid on components of net debt	206	215	400
Changes in net debt resulting from cash flow	961	869	1,017
Retail net interest charge on components of net debt	(212)	(218)	(405)
Retail fair value and other non-cash movements	(181)	(221)	(383)
Decrease in net debt	568	430	229
Opening net debt	(7,346)	(7,575)	(7,575)
Closing net debt	(6,778)	(7,145)	(7,346)
Perpetual capital securities	(248)	(248)	(248)
Perpetual convertible bonds	(248)	(248)	(248)
Closing net debt (including perpetual securities)	(7,274)	(7,641)	(7,842)

Borrowings and lease liabilities

	28 weeks to 21 September 2019			28 weeks to 22 September 2018		
	Current £m	Non-current £m	Total £m	Current £m	Non-current £m	Total £m
Loan due 2031	44	643	687	37	680	717
Bank overdrafts	1	-	1	1	-	1
Bank loans due 2019	-	-	-	199	-	199
Bank loans due 2021	-	200	200	-	-	-
Convertible bond due 2019	450	-	450	-	442	442
Sainsbury's Bank Tier 2 Capital due 2023	-	180	180	-	177	177
Lease liabilities and hire purchase arrangements (restated)	536	5,240	5,776	528	5,352	5,880
Total borrowings (restated)	1,031	6,263	7,294	765	6,651	7,416

	52 weeks to 9 March 2019		Total £m
	Current £m	Non-current £m	
Loan due 2031	36	668	704
Short term borrowings	135	-	135
Bank overdrafts	1	-	1
Bank loans due 2019	199	-	199
Convertible bond due 2019	445	-	445
Sainsbury's Bank Tier 2 Capital due 2023	-	176	176
Lease liabilities and hire purchase arrangements (restated)	533	5,298	5,831
Total borrowings (restated)	1,349	6,142	7,491

17. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	28 weeks to 21 September 2019	28 weeks to 22 September 2018	52 weeks to 9 March 2019
	£m	£m	£m
Cash in hand and bank balances	467	357	609
Money market funds and deposits	639	541	204
Deposits at central banks	362	565	308
Cash and bank balances	1,468	1,463	1,121
Bank overdrafts	(1)	(1)	(1)
Net cash and cash equivalents	1,467	1,462	1,120

Of the above balance, £18 million (22 September 2018: £52 million; 9 March 2019: £49 million) was restricted at half-year.

18. Retirement benefit obligations

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.

The Sainsbury's Pension Scheme has two segregated sections: the Sainsbury's Section and the Argos Section.

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 retiring and choosing to take the provision as a one-off cash payment.

Triennial valuation

The Scheme was subject to a triennial actuarial valuation, carried out by Willis Towers Watson for the Trustee, as at 30 September 2018 on the projected unit basis and a recovery plan was agreed. On the basis of the assumptions agreed, the actuarial deficit at 30 September 2018 was £538 million.

Under the revised funding plan, Sainsbury's established a new Scottish Limited partnership - Sainsbury's Thistle Scottish Limited Partnership ("The Partnership") with the Scheme on 17 July 2019. This replaces the existing property partnership (Sainsbury's Property Scottish Partnership).

In respect of the establishment of the Partnership, properties with a valuation of £1,350 million were transferred into a newly formed property holding company - Sainsbury's Property Holdings Ltd ("Propco") from the Sainsbury's Property Scottish Partnership and other Sainsbury's Group Companies. The Propco is a wholly owned subsidiary of the Group, and leases the transferred properties to other Group companies. Rental receipts facilitate payments of interest and capital on loan notes issued to the Partnership, in which the Scheme holds an interest.

The Scheme's interest in the Partnership entitles it to annual distributions over up to 20 years. These are approximately £58 million per year until 2030, and subsequently approximately £15 million a year for the remaining period. The distributions will be made through three payment streams:

- 1) Payments to the Sainsbury's section
- 2) Payments to the Argos section
- 3) Switching payment stream, paid to either the Sainsbury's section or Argos section

The payments to the Sainsbury's and Argos sections (streams 1 and 2) stop in 2030, or when the relevant section reaches its funding target if earlier.

The third stream is initially paid to the Sainsbury's section. Once that funding target is achieved, payments switch to the Argos section. Payments continue until 2038 or until both sections have reached their funding targets if earlier.

The level of property in the Propco reduces as the Scheme reaches the funding targets.

Additional cash contributions £40 million were also agreed for FY2019/20, and £10 million in FY2020/21.

The Partnership is controlled by Sainsbury's and its results are consolidated by the Group. The Group's balance sheet, IAS 19 deficit and income statement are unchanged by the establishment of the Partnership. The investment held by the Scheme in the Partnership does not qualify as a plan asset for the purposes of the Group's consolidated financial statements and is therefore not included within the fair value of plan assets.

The value of the properties transferred to the Propco remains included within the Group's property, plant and equipment on the balance sheet. In addition, the Group retains full operational flexibility to extend, develop and substitute the properties within the Propco.

18. Retirement benefit obligations continued

IFRIC 14

IFRIC 14 is the interpretation that details when a company can recognise any pension surplus that exists. 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.

As part of the 2018 triennial valuation agreement, the Argos section rules were amended. As a result of the amendments, 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. In the prior year, additional balance sheet liabilities in respect of a 'minimum funding requirement' of £136 million as at 22 September 2018, and £134 million as at 9 March 2019 were recognised. The resulting movement in the liability is included within remeasurement gains in other comprehensive income.

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

	21 September 2019			22 September 2018		
	Sainsbury's £m	Argos £m	Group £m	Sainsbury's £m	Argos £m	Group £m
Present value of funded obligations	(8,521)	(1,356)	(9,877)	(8,166)	(1,194)	(9,360)
Fair value of plan assets	9,856	1,441	11,297	8,595	1,201	9,796
	1,335	85	1,420	429	7	436
Additional liability due to minimum funding requirements (IFRIC 14)	-	-	-	-	(136)	(136)
Retirement benefit surplus/(deficit)	1,335	85	1,420	429	(129)	300
Present value of unfunded obligations	(23)	(15)	(38)	(20)	(14)	(34)
Retirement benefit surplus/(deficit)	1,312	70	1,382	409	(143)	266

	9 March 2019		
	Sainsbury's £m	Argos £m	Group £m
Present value of funded obligations	(7,654)	(1,202)	(8,856)
Fair value of plan assets	8,759	1,224	9,983
	1,105	22	1,127
Additional liability due to minimum funding requirements (IFRIC 14)	-	(134)	(134)
Retirement benefit surplus/(deficit)	1,105	(112)	993
Present value of unfunded obligations	(20)	(14)	(34)
Retirement benefit surplus/(deficit)	1,085	(126)	959

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

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

	21 September 2019 %	22 September 2018 %	9 March 2019 %
Discount rate	2.15	3.10	2.80
Inflation rate - RPI	3.10	3.20	3.20
Inflation rate - CPI	2.10	2.20	2.20
Future pension increases	1.90 - 3.00	1.95 - 3.05	2.00 - 3.05

18. Retirement benefit obligations continued

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

	28 weeks to 21 September 2019 £m	28 weeks to 22 September 2018 £m	52 weeks to 9 March 2019 £m
Excluded from underlying profit before tax:			
Interest cost on pension liabilities	(134)	(149)	(279)
Interest income on plan assets	149	146	271
Total included in finance income/(costs)	15	(3)	(8)
Defined benefit pension scheme expenses	(4)	(4)	(10)
Past service credit	-	-	(98)
Total income statement credit/(expense)	11	(7)	(116)

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

	21 September 2019 £m	22 September 2018 £m	9 March 2019 £m
As at the beginning of the period	959	(257)	(257)
Interest cost	15	(3)	(8)
Remeasurement gains	364	501	1,269
Pension scheme expenses	(4)	(4)	(10)
Contributions by employer	48	29	63
Past service credit	-	-	(98)
As at the end of the period	1,382	266	959

Cash contributions

Cash contributions for the full-year are expected to be £57 million.

19. Related party transactions

The Group's related parties are its joint ventures as disclosed in its Annual Report and Financial Statements 2019.

Transactions with joint ventures and associates

For the 28 weeks to 21 September 2019, the Group entered into various transactions with joint ventures and associates as set out below:

	28 weeks to 21 September 2019 £m	28 weeks to 22 September 2018 £m	52 weeks to 9 March 2019 £m
Services and loans provided to joint ventures			
Dividends and distributions received	118	16	18
Proceeds from repayment of loan to joint ventures and associates	-	-	(5)
Rental expenses paid	(4)	(20)	(38)

Balances arising from transactions with joint ventures and associates

	21 September 2019 £m	22 September 2018 £m	9 March 2019 £m
Receivables			
Other receivables	-	5	-
Payables			
Other payables	(1)	-	(5)
Loans due to joint ventures	-	(6)	-

20. Contingent liabilities

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

Along with other retailers, the Group is currently subject to approximately 3,600 claims brought by current and ex-employees in the Employment Tribunal for equal pay under the Equality Act 2010 and/or the Equal Pay Act 1970. Typically, claims of this nature can take many years to be determined. Given that the claims against the Group are still at a relatively early stage and the outcome of such claims is highly uncertain at this stage, the Group considers the likelihood of a material pay-out to be remote.

Principal risks and uncertainties

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

- Brand perception
- Brexit
- Business continuity, operational resilience and major incidents response
- Business strategy and change
- Colleague engagement, attraction, retention and capability
- Data security
- Environment and sustainability
- Financial and treasury risk
- Health and safety – people and product
- Political and regulatory environment
- Financial Services risk (the title of this risk has changed; the underlying risk description and mitigations are set out under “Sainsbury’s Bank” on page 36 of the J Sainsbury plc Annual Report and Financial Statements 2019)
- Trading environment and competitive landscape

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

The above Principal Risks remain unchanged from those reported in the Group’s Annual Report and Financial Statements 2019. For more information on these risks, please refer to pages 30 to 36 of the J Sainsbury plc Annual Report and Financial Statements 2019, a copy of which is available on the Group’s corporate website www.j-sainsbury.co.uk.

Statement of Directors' responsibilities

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

The Directors of J Sainsbury plc are listed in the J Sainsbury plc Annual Report and Financial Statements 2019.

A list of current directors is maintained on the Group's website: www.j-sainsbury.co.uk.

By order of the Board

Mike Coupe
Chief Executive
6 November 2019

Kevin O'Byrne
Chief Financial Officer
6 November 2019

INDEPENDENT REVIEW REPORT TO J SAINSBURY PLC

Introduction

We have been engaged by J Sainsbury plc (the company) to review the condensed consolidated set of financial statements in the interim financial report for the 28 weeks ended 21 September 2019 which comprises the Group income statement, the Group statement of comprehensive income, the Group balance sheet, the Group cash flow statement and the Group statement of changes in equity and the related explanatory notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated set of interim financial statements.

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

Directors' Responsibilities

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

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

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the interim financial report for the 28 weeks ended 21 September 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London
6 November 2019

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.

APM	Closest equivalent IFRS measure	Definition/ Purpose	Reconciliation																		
Income statement - Revenue																					
<i>Underlying Group sales</i>	Revenue	<ul style="list-style-type: none"> Total sales less acquisition fair value unwinds on Argos Financial Services. This is the headline measure of revenue for the Group. It shows the annual rate of growth in the Group's sales and is considered a good indicator of how rapidly the Group's core business is growing. 	A reconciliation of the measure is provided in note 5 of the financial statements.																		
<i>Underlying Retail sales</i>	Revenue	<ul style="list-style-type: none"> Underlying Group sales as above, less underlying Financial Services revenue. Shows the annual rate of growth in the Group's Retail business sales. 	A reconciliation of the measure is provided in note 5 of the financial statements.																		
<i>Like-for-like sales</i>	No direct equivalent	<ul style="list-style-type: none"> Year-on-year growth in sales including VAT, excluding fuel, excluding Financial Services, for stores that have been open for more than one year. The relocation of Argos stores into Sainsbury's supermarkets 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. 	<p>The reported retail like-for-like sales growth of (1.0) per cent is based on a combination of Sainsbury's like-for-like sales and Argos like-for-like sales for the 28 weeks to 21 September 2019. See movements below:</p> <table border="1"> <thead> <tr> <th></th> <th>28 weeks to 21 September 2019</th> <th>28 weeks to 22 September 2018</th> </tr> </thead> <tbody> <tr> <td>Underlying retail like-for-like (exc. fuel)</td> <td>(1.0)%</td> <td>0.6%</td> </tr> <tr> <td>Underlying net new space impact</td> <td>0.4%</td> <td>0.6%</td> </tr> <tr> <td>Underlying total retail sales growth (exc. fuel)</td> <td>(0.6)%</td> <td>1.2%</td> </tr> <tr> <td>Fuel Impact</td> <td>0.3%</td> <td>2.3%</td> </tr> <tr> <td>Underlying total retail sales growth (inc. fuel)</td> <td>(0.3)%</td> <td>3.5%</td> </tr> </tbody> </table>		28 weeks to 21 September 2019	28 weeks to 22 September 2018	Underlying retail like-for-like (exc. fuel)	(1.0)%	0.6%	Underlying net new space impact	0.4%	0.6%	Underlying total retail sales growth (exc. fuel)	(0.6)%	1.2%	Fuel Impact	0.3%	2.3%	Underlying total retail sales growth (inc. fuel)	(0.3)%	3.5%
	28 weeks to 21 September 2019	28 weeks to 22 September 2018																			
Underlying retail like-for-like (exc. fuel)	(1.0)%	0.6%																			
Underlying net new space impact	0.4%	0.6%																			
Underlying total retail sales growth (exc. fuel)	(0.6)%	1.2%																			
Fuel Impact	0.3%	2.3%																			
Underlying total retail sales growth (inc. fuel)	(0.3)%	3.5%																			
Income statement - Profit																					
<i>Retail underlying operating profit</i>	Profit before tax	<ul style="list-style-type: none"> Underlying earnings before interest, tax, Financial Services operating profit and Sainsbury's underlying share of post-tax profit from joint ventures and associates. 	A reconciliation of the measure is provided in note 5 of the financial statements.																		

Alternative performance measures (APMs) continued

APM	Closest equivalent IFRS measure	Definition/ Purpose	Reconciliation
<i>Underlying profit before tax</i>	Profit before tax	<ul style="list-style-type: none"> 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. 	<p>Underlying profit before tax is bridged to statutory profit before tax in the income statement and note 4 of the financial statements.</p> <p>The adjusted items are as follows:</p> <ul style="list-style-type: none"> Financial Services transition – multi-year costs incurred in transitioning to a new, more flexible banking platform as part of the previously announced New Bank Programme. These 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. Profit on disposal of properties – such disposals are not part of the Group's underlying business Investment property fair value movements – these reflect the difference between the fair value of an investment property at the reporting date and its carrying amount at the previous reporting date and are held within the property JVs. The valuations are impacted by external market factors and can therefore vary significantly year-on-year. Perpetual securities coupons – these are accounted for as equity in line with IAS 32 'Financial instruments: Presentation', however are accrued on a straight-line basis and included as an expense within underlying profit as they are included by management when assessing Group borrowing. Non-underlying finance movements – these include fair value remeasurements on derivatives not in a hedging relationship. The fair value measurements are impacted by external market factors and can fluctuate significantly year-on-year. Lease interest on impaired non-trading sites, including site closures, is excluded from underlying profit as those sites do not contribute to the underlying business. IAS 19 pension expenses include the financing element and scheme expenses of the Group's defined benefit scheme. These are reported outside underlying profit as they no longer relate to the Group's on-going activities following closure of the scheme to future accrual. Acquisition adjustments – these reflect the adjustments arising from acquisitions including the fair value unwind and amortisation of acquired intangibles. Other – these are items which are material and infrequent in nature and do not relate to the Group's underlying performance and in the current year include the property strategy programme and retail restructuring programme.
<i>Underlying basic earnings per share</i>	Basic earnings per share	<ul style="list-style-type: none"> Earnings per share using underlying profit as described above. This is a key measure to evaluate the performance of the business and returns generated for investors 	A reconciliation of the measure is provided in note 9 of the financial statements.
<i>Retail underlying EBITDAR</i>	No direct equivalent	<ul style="list-style-type: none"> Retail underlying operating profit as above, before rent, depreciation and amortisation. 	A reconciliation of the measure is provided on page 8 of the Financial Review.
<i>Underlying net finance costs</i>	Finance income less finance costs	<ul style="list-style-type: none"> Net finance costs before any non-underlying items as defined above that are recognised within finance income / expenses 	<p>A reconciliation of this measure is included in note 7 of the financial statements.</p> <p>The adjusted items are as follows:</p> <ul style="list-style-type: none"> Fair value remeasurements on derivatives not in a hedging relationship. The fair value measurements are impacted by external market factors and can fluctuate significantly year-on-year. Lease interest on impaired non-trading sites, including site closures, is excluded from underlying profit as those sites do not contribute to the underlying business. The financing element of the Group's defined benefit scheme. These are reported outside underlying profit as they no longer relate to the Group's on-going activities following closure of the scheme to future accrual. Perpetual securities coupons – these are accounted for as equity in line with IAS 32 'Financial instruments: Presentation', however are accrued on a straight-line basis and included as an expense within underlying profit as they are included by management when assessing Group borrowing
<i>Underlying tax rate</i>	Effective tax rate	<ul style="list-style-type: none"> Tax on underlying items, divided by underlying profit before tax. Provides an indication of the tax rate across the Group before the impact of non-underlying items. 	The tax on non-underlying items is included in note 4 of the financial statements

Alternative performance measures (APMs) continued

APM	Closest equivalent IFRS measure	Definition/Purpose	Reconciliation			
Cash flows and net debt						
<i>Retail cash flow items in Financial Review</i>	No direct equivalent	<ul style="list-style-type: none"> 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 5 of the financial statements includes a reference to show what has been combined in these line items. 				
				28 weeks to 21 September 2019	28 weeks to 22 September 2018 (restated)	52 weeks to 9 March 2019 (restated)
				£m	£m	£m
			Ref			
			Net interest paid	(226)	(235)	(423)
			Strategic capital expenditure	-	(31)	(36)
			Repayment of lease liabilities	(230)	(225)	(429)
			Repayment/proceeds from borrowings	(160)	(565)	(446)
			Other	1	(1)	(8)
			Joint ventures	118	11	13
<i>Retail free cash flow</i>	Net cash generated from operating activities	<ul style="list-style-type: none"> Net cash generated from retail operations, after perpetual security coupons and cash capital expenditure but before strategic capital expenditure, and including payments of lease obligations, cash flows from joint ventures and associates and Sainsbury's Bank capital injections. This measures cash generation, working capital efficiency and capital expenditure of the retail business. 	Reconciliation of retail free cash flow	28 weeks to 21 September 2019	28 weeks to 22 September 2018 (restated)	52 weeks to 9 March 2019 (restated)
				£m	£m	£m
			Cash generated from retail operations	1,275	1,296	1,921
			Net interest paid (ref (a) above)	(226)	(235)	(423)
			Corporation tax	(8)	(15)	(61)
			Retail purchase of property, plant and equipment	(213)	(232)	(466)
			Retail purchase of intangible assets	(35)	(42)	(78)
			Retail proceeds from disposal of property, plant and equipment	54	34	64
			Initial direct costs on right-of-use assets	(2)	(6)	(11)
			Repayments of obligations under leases ¹	(230)	(225)	(429)
			Add back: Strategic capital expenditure	-	31	36
			Dividends and distributions received	118	16	18
			Investment in joint ventures and associates	-	(5)	(5)
			Bank capital injections	(35)	-	(110)
			Free cash flow	698	617	456

1 "Repayments of obligations under leases" excludes repayments of hire purchase arrangements.

Alternative performance measures (APMs) continued

APM	Closest equivalent IFRS measure	Definition/Purpose	Reconciliation																																
<i>Net cash generated from retail operations (per Financial Review)</i>	Cash generated from operations	<ul style="list-style-type: none"> This enables management to assess the cash generated from its core retail operations. A reconciliation between this and cash generated from operations per the accounts is shown here: 	<table border="1"> <thead> <tr> <th></th> <th>28 weeks to 21 September 2019</th> <th>28 weeks to 22 September 2018 (restated)</th> <th>52 weeks to 9 March 2019 (restated)</th> </tr> <tr> <th></th> <th>£m</th> <th>£m</th> <th>£m</th> </tr> </thead> <tbody> <tr> <td>Retail cash generated from operating activities (per note 5)</td> <td>1,059</td> <td>1,064</td> <td>1,456</td> </tr> <tr> <td>Perpetual security coupons</td> <td>(20)</td> <td>(20)</td> <td>(23)</td> </tr> <tr> <td>Interest received</td> <td>2</td> <td>2</td> <td>4</td> </tr> <tr> <td>Net retail cash generated from operations in Financial Review</td> <td>1,041</td> <td>1,046</td> <td>1,437</td> </tr> </tbody> </table>		28 weeks to 21 September 2019	28 weeks to 22 September 2018 (restated)	52 weeks to 9 March 2019 (restated)		£m	£m	£m	Retail cash generated from operating activities (per note 5)	1,059	1,064	1,456	Perpetual security coupons	(20)	(20)	(23)	Interest received	2	2	4	Net retail cash generated from operations in Financial Review	1,041	1,046	1,437								
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<i>Core retail capital expenditure</i>	No direct equivalent	<ul style="list-style-type: none"> 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. 	<table border="1"> <thead> <tr> <th></th> <th>28 weeks to 21 September 2019</th> <th>28 weeks to 22 September 2018 (restated)</th> </tr> <tr> <th></th> <th>£m</th> <th>£m</th> </tr> </thead> <tbody> <tr> <td>Purchase of property, plant and equipment</td> <td>(213)</td> <td>(201)</td> </tr> <tr> <td>Purchase of intangibles</td> <td>(35)</td> <td>(42)</td> </tr> <tr> <td>Cash capital expenditure before strategic capital expenditure (note 5)</td> <td>(248)</td> <td>(243)</td> </tr> </tbody> </table>		28 weeks to 21 September 2019	28 weeks to 22 September 2018 (restated)		£m	£m	Purchase of property, plant and equipment	(213)	(201)	Purchase of intangibles	(35)	(42)	Cash capital expenditure before strategic capital expenditure (note 5)	(248)	(243)																	
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<i>Net debt</i>	Borrowings, cash, derivatives, financial assets at FVTOCI, lease liabilities	<ul style="list-style-type: none"> Net debt includes the capital injections into Sainsbury's Bank, but excludes the net debt of Sainsbury's Bank and its subsidiaries. It is calculated as: financial assets at fair value through other comprehensive income (excluding equity investments) + net derivatives to hedge borrowings + net cash and cash equivalents + loans + lease obligations + perpetual securities. This shows the overall strength of the balance sheet alongside the liquidity and its indebtedness and whether the Group can cover its debt commitments. 	<p>A reconciliation of the measure is provided in note 16 of the financial statements. In addition, to aid comparison to the balance sheet, reconciliations between financial assets at FVTOCI and derivatives per the balance sheet and Group net debt (i.e. including Financial Services) is included below:</p> <table border="1"> <thead> <tr> <th></th> <th>21 September 2019</th> <th>22 September 2018 (restated)</th> <th>9 March 2019 (restated)</th> </tr> <tr> <th></th> <th>£m</th> <th>£m</th> <th>£m</th> </tr> </thead> <tbody> <tr> <td>Financial instruments at FVTOCI per balance sheet</td> <td>1,020</td> <td>894</td> <td>856</td> </tr> <tr> <td>Less equity-related securities</td> <td>(220)</td> <td>(184)</td> <td>(233)</td> </tr> <tr> <td>Financial instruments at FVTOCI included in Group net debt</td> <td>800</td> <td>710</td> <td>623</td> </tr> <tr> <td>Net derivatives per balance sheet</td> <td>(4)</td> <td>50</td> <td>(4)</td> </tr> <tr> <td>Less derivatives not used to hedge borrowings</td> <td>-</td> <td>(59)</td> <td>(5)</td> </tr> <tr> <td>Derivatives included in Group net debt</td> <td>(4)</td> <td>(9)</td> <td>(9)</td> </tr> </tbody> </table>		21 September 2019	22 September 2018 (restated)	9 March 2019 (restated)		£m	£m	£m	Financial instruments at FVTOCI per balance sheet	1,020	894	856	Less equity-related securities	(220)	(184)	(233)	Financial instruments at FVTOCI included in Group net debt	800	710	623	Net derivatives per balance sheet	(4)	50	(4)	Less derivatives not used to hedge borrowings	-	(59)	(5)	Derivatives included in Group net debt	(4)	(9)	(9)
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Alternative performance measures (APMs) continued

APM	Closest equivalent IFRS measure	Definition/ Purpose	Reconciliation
Other			
<i>Net debt/ underlying EBITDAR</i>	No direct equivalent	<ul style="list-style-type: none"> Net debt divided by Group underlying EBITDAR. This helps management measure the ratio of the business's debt to operational cash flow. 	A reconciliation of this is provided in the Financial Review on page 13.
<i>Return on capital employed</i>	No direct equivalent	<ul style="list-style-type: none"> Return on capital employed is calculated as return divided by average capital employed. Return is defined as 52 week rolling underlying profit before interest and tax. Capital employed is defined as Group net assets excluding pension deficit/surplus, less net debt (excluding perpetual securities). 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. 	An explanation of the calculation is provided in the Financial Review on page 13.
<i>Fixed charge cover</i>	No direct equivalent	<ul style="list-style-type: none"> Group underlying EBITDAR divided by rent (representing capital and interest repayments on leases) and underlying net finance costs, where interest on perpetual securities is treated as an underlying finance cost. All items are calculated on a 52 week rolling basis. This helps assess the Group's ability to satisfy fixed financing expenses from performance of the business. 	<p>EBITDAR is reconciled in the Financial Review on page 13.</p> <p>Underlying net finance costs as per note 7 of the financial statements.</p>