30 April 2020

J Sainsbury plc

THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION FOR THE PURPOSES OF ARTICLE 7 OF REGULATION (EU) NO 596/2014 (MAR)

Update on the impact of COVID-19 and Preliminary Results for the 52 weeks to 7 March 2020

Update on the impact of COVID-19

The COVID-19 pandemic has had a significant impact on our business since early March. We have had three clear priorities throughout: keeping our customers and colleagues safe; helping to feed the nation and supporting our communities and the most vulnerable in society. Our colleagues have played an incredible role and have really pulled together to serve our customers. In particular, our store colleagues, our distribution centre colleagues, our drivers and customer Careline teams are working on the frontline, ensuring that customers have good access to food and other essential items. Our central teams have supported them, working closely with suppliers to increase orders and to move products quickly through the supply chain and into stores. Where they are able, our central teams are supporting colleagues by working in our stores. We are incredibly proud of the role our colleagues have played and their unwavering dedication and effort in serving our customers and supporting our local communities during this unprecedented time.

At this very early point in our financial year it is impossible to predict the full nature, extent and duration of the financial impact of COVID-19 over the course of the year and there is a wide range of potential profit outcomes, both short and medium term.

We have modelled a broad range of scenarios. Our base case assumes that lockdown restrictions will have eased by the end of our first quarter (end June), but that the business will continue to be disrupted until the end of the first half (mid-September). We also assume that consumer demand, particularly for general merchandise and clothing, will be impacted by weaker economic conditions thereafter. Sales assumptions are provided later in this statement. Under this scenario we would expect Group underlying profit before tax for the year to March 2021 to be broadly unchanged year on year. This includes a profit impact of over £500 million due to significant costs associated with protecting customers and colleagues, weaker fuel, general merchandise and clothing sales and lower financial services profitability, broadly offset by stronger grocery sales and approximately £450 million business rates relief. We have decided not to take up the government's offer of furlough payments or delaying VAT payment.

There are many sensitivities that sit behind these assumptions, above and beyond the duration of different stages of lockdown and there is not necessarily a linear relationship between the duration of COVID-19 impact, costs incurred and sales impact. Hence we cannot be more certain of this base case scenario than any other. It is simply our best estimate on each of the assumptions at this stage. Sales, profit and cash flow could be additionally impacted in the event of further periods of lockdown; the cost of protecting colleagues could exceed current estimates; colleague absence and/or measures to protect colleagues and/or customers could reach levels that make it necessary to restrict the number of sites that we are able to keep open and/or services we are able to offer. Consumer spending across grocery, general merchandise and clothing and the profitability of our financial services business could additionally be more heavily impacted by the longer-term impact of COVID-19 on the UK economy than we have assumed.

We have used more negative scenarios in stress-testing for financial viability purposes. Even with additional stress, we are confident that we have sufficient cash and committed funding in place to meet our obligations for the foreseeable future.

However, given the wide range of potential profit and cash flow outcomes, the Board believes it is prudent to defer any dividend payment decisions until later in the financial year, when there will be improved visibility on the potential impact of COVID-19 on the business.

Mike Coupe, Chief Executive Officer, said:

"The last few weeks have been an extraordinary time for our business. First and foremost, I want to say thank you to all of our colleagues. They have shown outstanding commitment and resilience over the past few weeks and I am in awe of their adaptability and the efforts they have made to continue to serve our customers. Across every part of the business, colleagues have played their part as we have done everything possible to feed the nation and to prioritise those who are least able to access food and other essential services. This is an unsettling time for everyone, but I am incredibly proud of the way the business has responded, continually adapting and responding to customer feedback. We will continue to work hard to provide food and other essential products to households across the UK and Ireland who are adapting to a new way of living."

Keeping our customers and colleagues safe

Our highest priority throughout this period has been to keep our customers and colleagues safe. We have made changes to all aspects of our business to achieve this, which has added material costs. We have focused on feeding the nation and on ensuring that the most vulnerable in our communities can access food and other essential items. We have made significant donations and are working closely with Fareshare, Comic Relief and other charities and organisations to help people who have no other form of support. This includes:

- Providing full basic pay for up to 12 weeks for extremely vulnerable and vulnerable colleagues and those living with extremely vulnerable members of their household. Colleagues who need to self-isolate will receive full pay for up to 14 days
- Recruiting thousands of temporary colleagues to work in stores, as drivers and in distribution centres
- Giving a 10 per cent thank you payment to 157,000 colleagues and front line managers on hours worked from 8 March to 5 April
- Prioritising all online grocery slots for elderly, disabled and vulnerable people, significantly increasing our home delivery and click and collect operations. We have now increased the total number of slots available weekly by nearly 50 per cent and we have an ambition to deliver 600,000 slots per week
- Restricting the number of products customers can buy in a single shop so that essential items are available to a larger number of customers
- Limiting the number of customers allowed into shops at any one time
- Significantly increasing security and cleaning at all sites and introducing strict social distancing and hygiene measures
- Limiting product ranges to prioritise availability of essential items
- Closing fresh food counters and cafes in our supermarkets so that colleagues can focus on keeping essential food items on shelves
- Closing all 573 standalone Argos stores from 24 March, as per Government guidance. Argos is currently an online-only retailer and we are advising customers to order home delivery where possible or to collect items from Sainsbury's stores when shopping for food and other essential items
- Prioritising rapid changes to our operations over longer-term cost saving projects

Feeding the Nation - Sales update

Sales in recent weeks have reflected:

- Strong grocery demand since the start of March, with particularly high demand over week 52 of our 2019/20 financial year and weeks 1 to 2 of our current financial year and some normalisation over recent weeks
- Higher sales at Argos in the early days of lockdown, as customers equipped themselves for home working and spending more time in their homes. Growth has moderated in recent weeks following this early lockdown preparation activity and, since 24 March, has been impacted by the closure of all Argos standalone stores and reduced sales of items such as washing machines and furniture, due to colleagues no longer being able to enter customers' homes
- Materially reduced clothing and general merchandise sales in Sainsbury's stores, reflecting different customer priorities and reduced stocks of clothing in stores as we have prioritised grocery deliveries
- Materially reduced fuel sales

Current Trading

	Q4 2019/20	**Q1 2020/21 to date**
Total sales growth %	**9 wks to March 7th**	**7 weeks to April 25th**
Grocery	2.0%	12%
Total General Merchandise	(1.3%)	3%
GM (Argos)	0.4%	9%
GM (Sainsbury's supermarkets)	(8.1%)	(22%)
Clothing	2.5%	(53%)
Total Retail ex fuel	**1.3%**	**8%**
Fuel	4.9%	(52%)

Total sales growth %									
Financial year	**2019/20**		**2020/21**						
Week no.	**51**	**52**	**1**	**2**	**3**	**4**	**5**	**6**	**7**
Week to	**Feb 29th**	**March 7th**	**March 14th**	**March 21st**	**March 28th***	**April 4th****	**April 11th**	**April 18th*****	**April 25th******
Grocery	3%	12%	29%	48%	(4%)	5%	13%	(15%)	12%
Total General Merchandise	(4%)	(4%)	5%	53%	(10%)	(13%)	(1%)	(16%)	10%
GM (Argos)	(3%)	(2%)	9%	63%	(1%)	(10%)	3%	(10%)	14%
GM (Sainsbury's supermarkets)	(10%)	(13%)	(12%)	10%	(47%)	(28%)	(18%)	(41%)	(9%)
Clothing	12%	(9%)	(16%)	(44%)	(72%)	(67%)	(41%)	(71%)	(39%)
Total Retail ex fuel	**2%**	**8%**	**23%**	**47%**	**(8%)**	**(2%)**	**8%**	**(18%)**	**9%**
Fuel	0%	(0%)	(0%)	(3%)	(59%)	(74%)	(76%)	(78%)	(72%)

Sales trends in recent weeks, particularly grocery sales in the last three weeks, have additionally reflected seasonal variations:

*Includes Mother's Day in 2020/21 **Includes Mother's Day in 2019/20 ***Includes Easter Sunday (supermarkets closed) in 2020/21 ****Includes Easter Sunday (supermarkets closed) in 2019/20

Executive remuneration

Market conditions over the last financial year have been challenging and, despite the progress made by the business against its strategic priorities, overall remuneration levels for the Executive Directors are approximately 13 per cent lower for 2019/20 than the previous year.

When determining executive pay outcomes for the year, the Committee has discretion to apply judgement and to adjust incentive payouts and award levels. The Remuneration Committee has decided that no cash annual bonuses will be paid to Executive Directors and the wider senior executive population in respect of 2019/20. Once the Board is in a position to make a decision regarding dividend payments, the Committee will consider the impact on shareholders and if there should be any implications on executive pay for the year 2020/21.

Retail Outlook - sales

We do not know how long COVID-19 will continue to directly impact our business and consumer behaviour or the impact that a changed economy will have on consumers over the remainder of the year. We have modelled a number of different scenarios. Our base case assumes that lockdown restrictions will have eased gradually by the end of the first quarter of our financial year (end June), but that the business continues to be disrupted until the end of the first half (mid-September). We additionally assume that consumer demand, particularly for general merchandise and clothing, will be impacted by weaker economic conditions thereafter. Key assumptions on sales include:

Grocery

- High single digit percentage grocery sales growth through the lockdown period
- Low single digit percentage sales growth over the remainder of H1, reflecting a greater number of meals being eaten inside the home rather than in schools, workplaces, cafes and restaurants.
- A return to normal grocery market conditions in H2

General Merchandise

- Low teens percentage sales declines at Argos whilst in lockdown, in line with more recent trends and reflecting the closure of 573 standalone Argos stores
- Low teens percentage sales declines at Argos thereafter, reflecting anticipated subdued discretionary spending
- Continued significant double digit percentage sales declines for General Merchandise in Sainsbury's stores during lockdown and continuing through the remainder of H1, moderating to mid-single digit percentage sales declines through the remainder of the year

Clothing

- Significant continued sales declines while in lockdown, moderating through the remainder of the year towards low double digit percentage declines in H2

Fuel

- Significant fuel volume declines in line with current trends until the end of lockdown, easing through Q2
- A return to normal market conditions in H2

Retail outlook - costs

Operating expenses will be materially higher than budgeted, particularly in the areas of retail and logistics labour, absence and instore costs, where we assume disruption will continue for most of the first half of our financial year. In addition, we anticipate higher stock clearance in clothing and some key seasonal areas. Finally, many of our cost saving programmes will be delayed due to the disruption.

There are limited opportunities to mitigate these impacts. We have taken the decision not to take up the government's offer of furlough payments or delaying VAT payment. We are redeploying colleagues to different roles within the business wherever possible and colleagues in central roles are supporting in stores where they are able. There will be some offset from approximately £450 million of business rates relief on shops in England, Scotland and Northern Ireland.

Financial Services outlook

Financial Services profits for the year to March 2021 will be impacted by actions we have taken to date and the changed macroeconomic outlook.

- Our base case outlook includes an increase in bad debt provisions, reflecting an assumed increase in unemployment
- The business will incur additional costs and reduced revenue as a result of the actions necessary to protect colleagues and customers during the pandemic. There will be delays to restructuring activity
- Commission income will be significantly impacted for both Travel Money and ATMs. Travel money bureaux are currently closed and ATM usage is significantly below normal levels. We anticipate a slow recovery in both post lockdown

As a consequence we expect the financial services business to make a loss in the financial year to February 2021.

Whilst this represents a very challenging trading environment, our financial services business is well capitalised. We have capital resources of around £1 billion, over £100 million of surplus capital at year end, an additional £58 million benefit from the Bank of England's reduction in the counter cyclical buffer requirement and £145 million of additional stress buffers. Together these provide more than £300 million of loss absorption. The financial services business additionally has significant excess liquidity of around £200 million. We are confident that the financial services business will not require capital injections from the Group.

Liquidity

To date, the impact of higher sales has been positive from a working capital perspective. However, a number of factors have negatively impacted working capital in the short term, including:

- Accelerated supplier payments. We are working collaboratively with suppliers to support them with vital cash flow where needed, including immediate payment to at least 1,500 smaller suppliers
- Supporting our tenants and concession partners - through offering a one month rent free period and accepting monthly payments instead of quarterly payments in advance
- Reduced fuel volumes
- Lower Argos, general merchandise and clothing sales

Having modelled a wide range of scenarios for financial resilience purposes, we are confident that we have sufficient cash and committed funding in place to meet our obligations for the foreseeable future.

Preliminary Results for the 52 weeks to 7 March 2020[1]

Creating a leading multi brand, multi channel retailer

- Underlying profit before tax[2] down two per cent to £586 million; profit before tax up 26 per cent to £255 million
- Strong Free Cash Flow[3] and non-lease net debt[4] reduction of £343 million, in line with guidance
- Grocery sales improved through the year[5], following investment in the customer offer, resulting in outperformance of main peers
- Customer service scores consistently improving, reflecting store investments and digital innovations
- Limited impact of COVID-19 on these results due to year end timing

Strategic highlights

- Improving grocery sales, outperforming our main supermarket peers, driven by investment in low prices, entry price point ranges and new and improved products. We were named the UK's cheapest supermarket for branded groceries in 2019 by Which? consumer magazine
- Sainsbury's customer service scores consistently increasing as customers respond to improvements in 451 supermarkets and 362 convenience stores and rollout of technology including SmartShop
- Groceries Online sales grew 7.6 per cent, Convenience grew 1.3 per cent and supermarket sales declined 0.1 per cent, impacted particularly by general merchandise sales declines
- General Merchandise markets remain challenging, with weakness in toy and gaming categories. Clothing grew 1.2 per cent and performed well online, growing 47 per cent
- We are making progress against our five year Financial Services strategy. We stopped underwriting new mortgages, are simplifying our product portfolio and reducing costs
- We launched our ambitious plan to invest £1 billion over 20 years to become Net Zero for greenhouse gas emissions by 2040 across all our operations by 2040
- Following Mike Coupe's retirement, Simon Roberts will become Chief Executive Officer on 1 June

Financial highlights

- Underlying profit before tax[2] down two per cent to £586 million year on year. Underlying profit[2] was up eight per cent in the second half, following a 15 per cent decline in the first half due to phasing of cost savings, higher marketing costs and tough weather comparatives
- Statutory profit before tax of £255 million, up 26 per cent from £202 million and statutory profit after tax of £152 million, down from £186 million, due to a higher tax charge
- Strong cash generation with retail free cash flow[3] of £611 million, up 34 per cent year on year
- Retail underlying operating profit[2] down four per cent to £938 million
- Financial Services underlying profits[2] up by 55 per cent to £48 million
- Non-lease net debt[4] reduced by £343 million, in line with guidance to reduce non-lease net debt by at least £300 million in 19/20
- Underlying net finance costs[2] reduced by five per cent to £400 million
- Underlying basic earnings per share[2] decreased 4.3 per cent to 19.8 pence per share

Dividend

Given a wide range of potential profit and cash flow outcomes, the Board believes it is prudent to defer any dividend payment decisions until later in the financial year, when there will be improved visibility on the potential impact of COVID-19 on the business.

[1] The Group has defined and outlined the purpose of its alternative performance measures, including the measures used within the financial highlights, on pages 61 to 65.
[2] 'Underlying profit before tax', 'underlying earnings per share', and 'underlying net finance costs' measures exclude items which by virtue of their size or nature may obscure understanding of the Group's underlying performance.
[3] 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.
[4] Net debt includes the capital injections into Sainsbury's Bank, but excludes the net debt of Sainsbury's Bank and its subsidiaries. Non-lease net debt excludes lease liabilities following the adoption of IFRS 16.
[5] Kantar Total Grocers Till Roll 52 weeks to 23 February 2020

	2019/20	2018/19	Variance
Business Performance			
Group sales (inc. VAT)[6]	£32,394m	£32,412m	(0.1)%
Group like-for-like sales (inc. VAT, excl. fuel)			(0.6)%
Underlying profit before tax[2]	£586m	£601m	(2)%
Underlying basic earnings per share[2]	19.8p	20.7p	(4.3)%
Proposed final dividend	0	7.9p	-
Proposed full year dividend	3.3p	11.0p	(70)%
Net debt (including perpetual securities)[4]	£6,947m	£7,346m	£399m
Non-lease net debt[4]	£1,179m	£1,522m	£343m
Return on capital employed[7]	7.4%	7.4%	-

	2019/20	2018/19
Statutory Reporting		
Group revenue (excl. VAT, inc. fuel)	£28,993m	£29,007m
Profit before tax	£255m	£202m
Profit after tax	£152m	£186m
Basic earnings per share	5.8p	7.6p

[6]Group sales represents total sales less acquisition fair value unwinds on Argos Financial Services. Like-for-like sales represents the year-on-year growth in sales including VAT, excluding fuel, excluding Financial Services, for stores that have been open for more than one year.
[7] Calculated as return divided by average capital employed. See page 65 for further details.

Trading Statement data for the 52 weeks to 7 March 2020

Like-for-like sales growth[6]	**2018/19**		**2019/20**						
	Q3	**Q4**	**Q1**	**Q2**	**H1**	**Q3**	**Q4**	**H2**	**FY**
Like-for-like sales (excl. fuel)	(1.1)%	(0.9)%	(1.6)%	(0.2)%	(1.0)%	(0.7)%	1.3%	0.0%	(0.6)%
Like-for-like sales (inc. fuel)	0.3%	(0.5)%	(1.0)%	(0.4)%	(0.7)%	(1.1)%	1.3%	(0.3)%	(0.5)%

Total sales growth	2018/19		2019/20						
	Q3	**Q4**	**Q1**	**Q2**	**H1**	**Q3**	**Q4**	**H2**	**FY**
Grocery	0.4%	(0.6)%	(0.5)%	0.6%	(0.1)%	0.4%	2.0%	1.0%	0.4%
General Merchandise	(2.3)%	1.5%	(3.1)%	(2.0)%	(2.5)%	(3.9)%	(1.3)%	(3.2)%	(2.9)%
Clothing	(0.2)%	(1.6)%	(4.5)%	3.3%	(1.2)%	4.4%	2.5%	3.8%	1.2%
Total Retail (excl. fuel)	**(0.4)%**	**(0.2)%**	**(1.2)%**	**0.1%**	**(0.6)%**	**(0.7)%**	**1.3%**	**0.0%**	**(0.4)%**
Total Retail (inc. fuel)	**0.8%**	**0.0%**	**(0.6)%**	**0.1%**	**(0.3)%**	**(0.9)%**	**1.9%**	**0.0%**	**(0.1)%**

Notes
All sales figures contained in this trading statement are stated including VAT from 2019/20 and in accordance with IFRS 15

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

A webcast presentation will be available to view on our website at 8am. The webcast can be accessed at the following link: https://webcasts.j-sainsbury.co.uk/sainsbury153

Following the release of the webcast, a Q&A conference call will be held at 9:30am. This will be available to listen to on our website at the following link: https://webcasts.j-sainsbury.co.uk/sainsbury151

A recorded copy of the webcast and Q&A call, alongside slides and a transcript of the presentation will be available at www.about.sainsburys.co.uk/investors/results-reports-and-presentations following the event

Sainsbury's will issue its 2020/21 First Quarter Trading Statement at 07:00 (BST) on 1 July 2020.

Ends

Tim Fallowfield, Company Secretary and Corporate Services Director, was responsible for the disclosure of this announcement for the purposes of MAR.

Enquiries

Investor Relations

James Collins
+44 (0) 7801 813 074

Media

Rebecca Reilly
+44 (0) 20 7695 7295

Our strategy

Our purpose is to help our customers live well for less. To do this we will focus on seven priorities which are designed to ensure we continue to give our customers what they want in a rapidly changing retail marketplace, while also driving value for our shareholders.

These priorities are: to be competitive on price; to offer distinctive products and categories; to provide personalised and seamless physical and digital experiences; to be fast, friendly and convenient; to drive efficiency to reinvest; to be a place where we all love to work and to be Net Zero in our own operations by 2040.

Be competitive on price

To help customers live well for less we are focused on offering them quality products at affordable prices.

Through the year our food and grocery sales have been on an improving trend and we are outperforming our main supermarket peers. This is driven by strategic investments in our customer offer, reducing our prices and ensuring customers always get great value.

In January we lowered the price of some of our most popular produce lines – including apples, mangos and avocados – to 60 pence and we have now achieved our target to launch 200 entry price point products across 15 owned brand ranges such as Daily's, Farmhouse and J. James. We have moved away from short term promotions in favour of offering customers great every day value with regular Price Lockdown events, featuring hundreds of high-volume food lines across meat, fish, poultry, dairy, grocery and household products. This year around 2,300 products have been reduced or held at lower prices. We hold these prices for at least eight weeks, giving customers confidence that they will always get a great deal on food at Sainsbury's. We were named the UK's cheapest supermarket in 2019 for branded groceries by the consumer magazine, Which?.

The general merchandise market remains challenging and this year's performance was impacted by weakness in the toy and gaming markets. We are focusing on offering customers everyday low prices and have made choices to reduce our promotional activity, including our 3 for 2 toy stunts.

Tu clothing performed well during the year, growing by 1.2 per cent and gaining share in a highly competitive market. *Tu* clothing online grew by 47 per cent as more people choose to order clothing online for collection or home delivery. *Tu* clothing online, through both Sainsbury's and Argos's websites, has been very successful and we have seen strong and profitable sales growth through this channel. Our strategic decision to reduce the number of promotions and change their timing has led to better markdown management.

Offer distinctive products and new categories

Because of our distinctive offer, customers visit our stores to buy new and interesting products they cannot find elsewhere. We can also serve more of our customers' needs by selling distinctive and exclusive ranges.

Taste the Difference accounts for over £1 billion of sales and we relaunched our range this year, introducing nearly 700 new, reformulated or repackaged products in the financial year. This year Taste the Difference volumes grew by 0.3 per cent. We outperform the market in meat alternative, plant-based food ranges, catering for the increasing number of people who choose to limit their meat consumption for health or lifestyle reasons. We launched our Plant Pioneers brand in October, adding 26 new products across fresh, frozen and ambient categories to our existing range of over 200 meat alternative lines. These include banana blossom, a popular alternative to white fish, Smokey Vacon Rashers and meat-free Southern Fried Bites.

By bringing distinctive and innovative brands to the market we give our customers better choice and our stores benefit from incremental sales as a result. Our in-house Future Brands team gives these distinctive brands the opportunity to showcase their products exclusively in our stores and online. Since June 2018, we have introduced over 1,700 lines across 146 Future Brand ranges including Wasabi ready meals, Beavertown beer and Jude's ice cream. Future Brands delivered £146 million in sales this year, an increase of 77 per cent year on year. We also entered into a three year exclusive partnership with Leon to sell its fast and healthy food to go in over 600 of our stores.

We are creating dedicated hubs and aisles in growing categories where we can gain market share. For example, we now have 134 Beauty Halls which feature 19 new branded ranges. These Beauty Halls have been well received by customers, driving sales and frequency of visits to our stores. We have opened 48 Wellness Hubs in our stores, offering over 1,000 health-focused SKUs, from specialist food and drink to supplements and vitamins. This financial year we also invested in the pet market with new ranges and 20 in-store Pet Hubs.

This year we have made further progress to bring our Sainsbury's and Argos ranges and buying and merchandising teams together which enables us to buy better and offer customers a more integrated product offer in our stores and online.

The iconic Habitat brand is available in five stand-alone stores, 11 stores in Sainsburys supermarkets and online through habitat.co.uk, which accounts for over 68 per cent of its sales. We launched Habitat's first ever spa fragrance collection, sold exclusively in Sainsbury's stores and online in time for Christmas gifting, as well as a range of Habitat branded floral products. We see opportunities to further grow the Habitat brand and we will integrate Habitat into our home and furniture business and increase the accessibility and appeal of the brand.

Our *Tu* branded clothing continues to grow and gain market share in a highly competitive market. We launched new ranges in our *Tu* premium collection and we invested in building the brand through our branded above line and digital advertising campaigns.

Personalised and seamless physical and digital

Financial Services and Nectar provide our customers with affordable ways to manage their finances and reward them for their loyalty. Our Nectar loyalty programme is the biggest in the UK with over 18 million members and over 4.5 million people have now downloaded the new app. The app enhances customer engagement by offering personalised offers and access to promotions and rewards. We have 2.1 million active Sainsbury's Bank customers and 2.2 million Argos Financial Services customers. Over 75 per cent of Sainsbury's Bank customers are Nectar card holders and, by combining Sainsbury's and Argos's connected services into one digital ecosystem, we can reward customers in a meaningful and personalised way.

This year we extended our Nectar programme to Argos customers, making it possible for them to earn their Nectar points across all Argos channels. We also launched Nectar360, the business-to-business arm of the loyalty programme that enables brands to understand, reach and engage more effectively with their customers by giving them access to leading data, insights, digital and media capability. Over 500 brands have signed up to date.

In September, we unveiled a five year strategy for Sainsbury's Bank and Argos Financial Services to become an agile, capital and cost efficient provider of simple, mobile-led financial services to loyal Sainsbury's and Argos customers and we have made good progress. We have a leaner structure, greater digital uptake and we have stopped underwriting new mortgages. We will provide an update in November on the impact of COVID-19 on the financial services five year targets we announced in September 2019.

Fast, friendly and convenient

Great service and availability and faster ways to pay mean customers can save time as well as money by shopping with us. We are consistently improving our customer service scores, driven by investment in more than 450 supermarkets and 362 convenience stores. We now have 306 Argos stores in Sainsbury's supermarkets. We further maximise our supermarket space by introducing carefully selected concession partners that give our customers a range of essential services, as well as a broader choice of fantastic quality products, including 61 Specsavers and over 123 Sushi Gourmet counters.

Our convenience strategy is to deliver a relevant, flexible offer tailored to local customer needs. Over 184 convenience stores have Argos Click & Collect and this year we introduced more innovative new convenience formats. These include neighbourhood hub stores that offer local communities a convenient, one-stop shop for a broad range of groceries and general merchandise and two 'On the Go' city stores tailored to match the needs of busy city workers.

£6 billion of sales across the business are digital and we continue to invest to deliver easy, speedy and seamless shopping. At Argos, Black Friday broke records, with £60 million in online sales on the day. Argos Click & Collect grew by nearly eight per cent and Argos Fast Track delivery grew by nearly five per cent year on year. In Food and Grocery, Groceries Online grew by nearly eight per cent and we have over 141,000 Delivery Pass customers.

Sainsbury's has rolled out SmartShop technology to all supermarkets, delivering easier and convenient ways for customers to shop using in-store handsets or their own smartphone. Customers are increasingly choosing to shop with us in this way and SmartShop sales account for up to 20 per cent of sales in some stores. To further improve our supermarkets, we upgraded 3,639 self-checkouts. Recent customer service scores show that customers value these improvements. Ease of checkout is up three per cent and speed of checkout is up nearly four per cent.

At Argos, we rapidly rolled out Pay@Browse to 386 Argos stores, offering customers a quicker way to pay in 548 Argos stores.

Drive efficiency to reinvest

We have met our objective to make savings to cover the impact of cost inflation and we are making good early progress with our target to structurally reduce our costs by approximately £500 million over five years by bringing Sainsbury's and Argos together. Reducing our costs 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 have reviewed our central support functions including logistics, supply and shared services and we are looking at ongoing capital prioritisation and procurement. In January we announced a major head office restructure which saw a reduction of hundreds of management roles.

We are developing an in-house 'Internet of Things' platform which connects multiple store elements including refrigeration, lighting, heating, ventilation and air conditioning and we are currently rolling this out to our supermarket estate. Behind the scenes we have rebuilt our entire data and analytics eco-system and have transformed store connectivity by replacing and updating the WiFi technology in the majority of our stores.

More colleagues have devices and are better connected than ever before. We are creating smarter stores, digitising day-to-day processes through a range of app developments, such as replenishment and stock apps, to drive efficiency and availability and give store colleagues more time to serve customers.

At our Capital Markets Day in September we unveiled our new five year property strategy, which included a review of our current estate to ensure we have the right stores in the right places for our customers. We announced a plan to open 10 Sainsbury's supermarkets, 95 convenience stores and 18 larger format convenience stores. We also said we would open more than 80 new Argos stores within Sainsbury's supermarkets. The review also means a closure programme of around 125 shops.

We opened two new supermarkets this year and closed two less profitable ones. We also opened 13 convenience stores and closed 27. We currently have 573 standalone Argos stores. Our model of Argos stores in Sainsbury's drives efficiencies and enables us to maximise our supermarket space. There are now 306 Argos stores in Sainsbury's supermarkets.

Be a place where we all love to work

Being a company that people love to work for means being an inclusive employer where colleagues are encouraged to develop their skills and fulfil their potential. It's about playing an active role in our communities and about having high ethical standards that we and our suppliers adhere to.

It is important for the long-term success of the business that our colleagues remain engaged and we measure this twice a year through our colleague engagement survey. We retained our Gold accreditation from Investors in People (IIP) for the fourth consecutive time over 10 years, despite the level of change in the business.

We have made good progress with our inclusivity agenda. We are a Disability Confident Leader for our work on disability and inclusivity and, looking ahead, we aim to increase our employment of Black, Asian and Minority Ethnic (BAME) representation at senior manager level. We also aim to increase the percentage of colleagues who agree with the statement 'I feel I am able to be myself at work' in our colleague engagement survey.

We continue to work on our gender pay balance across the business and have further reduced our gender pay gap by 1.6 per cent to 10.5 per cent this year, while our median gender pay gap remains at 3.8 per cent. Female representation at Board level is 33 per cent and female representation at senior levels has increased to 35 per cent by the year end. Across the entire business, female representation is 54.6%. There are 94,992 women and 78,983 men and the remaining colleagues did not identify as either women or men. We are committed to achieving our aspirational target of 40 per cent female representation in senior positions by 2021. For more information, see our Gender Pay Report on our corporate website.

In this complex retail environment, excellent leadership of our store teams is crucial. We have an award winning leadership programme for store colleagues and managers. We are also focused on ensuring that more junior colleagues can develop their skills and progress and measure the number of colleagues enrolled on an apprenticeship programme and the completion rate for those apprenticeships.

We play an active role in local communities and we raised £29 million this year for local and national causes. As part of our 150th birthday, we launched 150 Days of Community and over 35,000 colleagues pledged their time to volunteer during working hours for over 2,400 local community projects. For more information on how our colleagues support the communities we serve, see our Sustainability update on our corporate website.

We are committed to complying with laws and regulations and set high ethical standards for our colleagues and suppliers. We expect all colleagues to abide by our Ethical Conduct Policy, covering areas including anti-bribery and corruption, conflicts of interest, suppliers, fraud and whistleblowing. Training on these policies is provided to colleagues in the commercial divisions as part of their inductions and then annually. This year we also updated policies and processes for our suppliers to gain a better understanding of risk, and updated our Human Rights policy which can also be found on our corporate website.

Alongside our community investment, we make positive economic contributions through our supply chain, our market-leading pay for colleagues and our responsible approach to tax, contributing £2.1 billion in taxes borne and collected this year.

Net Zero by 2040

Living well means living sustainably and we have committed to invest £1 billion over 20 years to become Net Zero across all our operations by 2040. We have seven key areas of focus and we will report progress against each of them at our interim results in November.

We are the only UK food retailer to receive an A rating in the Climate Disclosure Project for six consecutive years. We are proud to have achieved a 42 per cent reduction in carbon emissions over fifteen years, despite a 46 per cent increase in our estate. We have committed to reduce carbon emissions within our own operations to net zero greenhouse gas emissions, increasing the use of renewable energy.

We were also the first retailer to achieve The Carbon Trust Water Standard in 2017 as well as this past year achieving the Climate Disclosure Project A-rating for water disclosure. We achieved our 2020 water reduction targets early, saving one billion litres since 2005. We have committed to minimise the use of water in our own operations, driving towards water neutral by 2040.

In 2005 we were the first retailer to introduce multiple traffic light labelling on the front of our own-brand packaging and we have reduced the number of red traffic lights since 2015. Through reformulation, 97 per cent of our own-brand products meet Public Health England's salt reduction targets and we have reduced the amount of sugar across soft drinks, ice cream, cereals and more by over 20 per cent since 2015. As part of our Net Zero commitment we will continue to develop healthy, tasty nutritious food for our customers and expand our popular meat alternative range.

We have committed to reduce our use of plastic packaging by 50 per cent by 2025 and then go further. We were the first retailer to remove plastic bags from our produce aisles and bakery counters; customers now use their own bags or buy a reusable bag made from a recycled plastic bottle. Among a large number of initiatives, we removed plastic bags from online deliveries and reduced the weight of plastic used in milk and water packaging.

We were the first retailer to achieve zero waste to landfill and we plan to reduce food waste by 50 per cent by 2030. Most of our stores redistribute good quality food safely to local charities and community groups through our food donation partnerships.

We will also increase the use of recycling in our own operations and make it easier for customers and colleagues to recycle. All our plastic hangers are made from 100 per cent recycled materials and last year we recycled 300 tonnes of them. As we move forward we will expand recycling facilities at our stores to help customers recycle metal cans, glass, plastic, paper, clothing and other materials.

Finally, we will ensure that the impact of our operation is net positive for biodiversity. We have planted nearly four million trees in partnership with the Woodland Trust since 2004 and we expect to plant more than 1.5 million trees by 2025. 99.1 per cent of the palm oil used in our products is sustainably sourced as is all our farmed seafood.

Financial Review of the year results for the 52 weeks to 7 March 2020

This is Sainsbury's first full year 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 5 on page 34.

Please note a number of Alternative Performance Measures ('APMs') have been adopted by the Directors to provide additional information on the underlying performance of the Group. These measures are intended to supplement, rather than replace the measures provided under IFRS. Please see pages 61 to 65 for further information.

In the 52 weeks to 7 March 2020 the Group generated profit before tax of £255 million (2018/19: £202 million) and underlying profit before tax of £586 million (2018/19: £601 million)

Summary income statement	**52 weeks to 07 March 2020 £m**	52 weeks to 09 March 2019 £m	Change %
Group sales (including VAT)	**32,394**	32,412	(0.1)
Retail sales (including VAT)	**31,825**	31,871	(0.1)
Group sales (excluding VAT)	**28,993**	29,007	(0.0)
Retail sales (excluding VAT)	**28,424**	28,466	(0.1)
Underlying operating profit			
Retail	**938**	981	(4)
Financial services	**48**	31	55
Total underlying operating profit	**986**	1,012	(3)
Underlying net finance costs[1]	**(400)**	(419)	5
Underlying share of post-tax profit from JVs[2]	**-**	8	(100)
Underlying profit before tax	**586**	601	(2)
Items excluded from underlying results	**(331)**	(399)	17
Profit before tax	**255**	202	26
Income tax expense	**(103)**	(16)	544
Profit for the financial period	**152**	186	(18)
Underlying basic earnings per share	**19.8p**	20.7p	(4.3)
Basic earnings per share	**5.8p**	7.6p	(23.7)
Dividend per share	**3.3p**	11.0p	(70.0)

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
Group and Retail sales (including VAT, including fuel) both decreased by 0.1 per cent year-on-year. Retail sales (including VAT, excluding fuel) decreased by 0.4 per cent driven by General Merchandise sales declines.

Total sales performance by category	**52 weeks to 07 March 2020 £bn**	**52 weeks to 09 March 2019 £bn**	**Change %**
Grocery	19.5	19.5	0.4%
General Merchandise	6.4	6.5	(2.9)%
Clothing	1.0	1.0	1.2%
Retail (exc. fuel)	**26.9**	**27.0**	**(0.4)%**
Fuel sales	4.9	4.9	1.1%
Retail (inc. fuel)	**31.8**	**31.9**	**(0.1)%**

Grocery sales grew by 0.4 per cent year-on-year. A weak start to the year in the first quarter was offset by a strong performance in the second quarter which continued into the second half as customers responded positively to price investment and new entry price ranges and investments in our store estate. Clothing sales grew by 1.2 per cent with a strong performance in the second half as cooler weather helped drive sales in the winter ranges. General Merchandise sales declined by 2.9 per cent driven by the annualisation of last summer's hot weather and challenging market conditions particularly in toys and gaming.

Fuel sales grew 1.1 per cent, driven by both retail price inflation and volumes.

Year-on-year sales performance by channel	**52 weeks to 07 March 2020**	**52 weeks to 09 March 2019**
Supermarkets (inc. Argos stores in Sainsbury's)	(0.1)%	1.0%
Convenience	1.3%	3.7%
Groceries Online	7.6%	6.9%

Supermarket sales declined by 0.1 per cent, impacted by weaker General Merchandise sales. Convenience sales grew by 1.3 per cent despite 27 store closures across the second half. Groceries Online sales grew by 7.6 per cent driven by order growth.

Retail like-for-like sales performance	**52 weeks to 07 March 2020**	**52 weeks to 09 March 2019**
Like-for-like sales (exc. fuel)	(0.6)%	(0.2)%
Like-for-like sales (inc. fuel)	(0.5)%	1.5%

Retail like-for-like sales, excluding fuel, decreased by 0.6 per cent (2018/19: 0.2 per cent decrease) as a result of General Merchandise declines.

Space
In 2019/20, Sainsbury’s opened 2 new supermarkets and closed 2 (2018/19: opened 3 new supermarkets and closed 3). There were 14 new Convenience stores, including 1 replacement, opened in the year and 27 were closed (2018/19: 10 opened and 5 stores closed).

During the period Argos opened 25 new stores in Sainsbury’s and one new standalone and closed 25 standalone Argos stores and 2 Argos in Homebase stores. The number of Argos collection points in Sainsbury’s stores reduced from 317 to 281. As at 7 March 2020, Argos had 882 stores and 281 collection points. Habitat had 16 stores, of which 11 are in Sainsbury’s.

Store numbers and retailing space

	As at 09 March 2019	New stores	Disposals / closures	Extensions / refurbs / downsizes / replacements	**As at 07 March 2020**
Supermarkets	608	2	(2)	-	**608**
Supermarkets area '000 sq. ft.	21,210	54	(43)	(54)	**21,167**
Convenience	820	13	(27)	1	**807**
Convenience area '000 sq. ft.	1,934	35	(74)	3	**1,898**
Sainsbury's total store numbers	1,428	15	(29)	1	**1,415**
Argos stores	594	1	(25)	-	**570**
Argos stores in Sainsbury's	281	25	-	-	**306**
Argos in Homebase	8	-	(2)	-	**6**
Argos total store numbers	883	26	(27)	-	**882**
Argos collection points	317	6	(42)	-	**281**
Habitat	16	-	-	-	**16**

Subject to potential disruption from COVID-19, in 2020/21, Sainsbury's expects to open 2 new supermarkets and around 15 new convenience stores. Sainsbury's also expects to close around 8 supermarkets and around 14 convenience stores. Sainsbury’s also expects to open 35-40 Argos in Sainsbury’s, and close around 50 Argos standalone stores.

Retail underlying operating profit

Retail underlying operating profit decreased by 4.4 per cent to £938 million (2018/19: £981 million), largely driven by tough weather comparatives and higher marketing costs in the first half of the year and a challenging General Merchandise market.

Retail underlying operating margin reduced by 15 basis points year-on-year to 3.30 per cent (2018/19: 3.45 per cent).

Retail underlying operating profit	**52 weeks to 07 March 2020**	52 weeks to 09 March 2019	Change	Change at constant fuel prices
Retail underlying operating profit (£m)[1]	**938**	981	(4.4)%	
Retail underlying operating margin (%)[2]	**3.30**	3.45	(15)bps	(15)bps
Retail underlying EBITDAR (£m)[3]	**2,125**	2,152	(1.3)%	
Retail underlying EBITDAR margin (%)[4]	**7.48**	7.56	(8)bps	(8)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 4 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 net rental income of £10 million and underlying depreciation and amortisation of £1,197 million.
4 Retail underlying EBITDAR divided by underlying retail sales excluding VAT.

In 2020/21, 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 12 months to 29 February 2020	**2020**	2019	Change
Underlying revenue (£m)	**569**	541	5%
Interest and fees payable (£m)	**(125)**	(102)	23%
Total income (£m)	**444**	439	1%
Underlying operating profit (£m)	**48**	31	55%
Cost:income ratio (%)	**71**	71	0bps
Active customers (m) – Bank	**2.12**	2.01	5%
Active customers (m) – AFS[6]	**2.24**	2.14	5%
Net interest margin (%)[1]	**3.4**	3.8	(40)bps
Bad debt as a percentage of lending (%)[2]	**1.1**	1.6	(50)bps
Tier 1 capital ratio (%)[3]	**14.1**	13.7	40bps
Total capital ratio (%)[4]	**17.0**	16.7	30bps
Customer lending (£bn)[5]	**7.4**	7.0	6%
Customer deposits (£bn)	**(6.3)**	(6.0)	5%

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.
6 Prior year restated

Financial Services total income remained broadly flat year-on-year at £444 million, as higher interest and commission income was offset by increased interest payable, driven in part by selective lending growth impacting income whilst improving capital efficiency and a timing impact from the August 2018 Bank base rate rise. Net commission income increased £3 million driven by Travel Money and Banking fees. Financial Services underlying operating profit increased by 55 per cent year-on-year to £48 million, as guided in November 2019 (2018/19: £31 million), primarily due to an increase in contribution from Argos Financial Services as a result of changes to transfer pricing rules, the income factors noted and a reduction in impairment from both the harmonisation of policy and increased debt sales.

The Financial Services cost:income ratio was flat at 71 per cent. The costs of supporting new operating platforms and product growth were offset by a reduction in royalties payments to Argos linked to changes in transfer pricing. Further actions to reduce costs were delivered towards the end of the financial year so did not materially impact this ratio. The number of Bank active customers increased by five per cent year-on-year to 2.12 million, with Argos Financial Services customers also up five per cent to 2.24 million.

Net interest margin decreased by 40 basis points year-on-year to 3.4 per cent (2018/19: 3.8 per cent) driven primarily by the growth of the mortgage book and higher funding costs following the base rate rise. The mortgage book was closed to new business in September 2019. Bad debt expense as a percentage of lending decreased by 50 basis points to 1.1 per cent, primarily driven by the alignment of policy between AFS and Sainsbury's Bank and growth in mortgages.

The CET 1 capital ratio increased by 40 basis points year-on-year to 14.1 per cent, reflecting the effect of the additional £35m capital injection (2018/19: £110 million). Customer lending increased by six per cent to £7.4 billion, mainly due to growth across credit cards and mortgages. To support this lending, customer deposits also grew a similar five per cent to £6.3 billion.

Due to the negative impact of COVID-19, Financial Services are expected to report an operating loss in 2020/21. However, no further capital injections are expected into Financial Services following the £35 million injection in the first half of 2019/20.

Underlying net finance costs

Underlying net finance costs reduced by five per cent to £400 million (2018/19: £419 million). These costs include £77 million of net non-lease interest (2018/19: £86 million). The reduction of net non-lease interest is driven by the repayment of the £450 million Convertible Bond and reduced interest on inflation-linked loans. The interest costs on lease liabilities have reduced to £323 million (2018/19: £333 million) due to reduced lease liabilities and lower interest rates on new lease.

Sainsbury's expects underlying net finance costs in 2020/21 of between £370 million - £380 million, including around £310 million lease interest in 2020/21, following the introduction of IFRS 16.

Items excluded from underlying results

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

Items excluded from underlying results	**52 weeks to 07 March 2020 £m**	52 weeks to 09 March 2019 £m
Store closure write-downs	**(126)**	-
Impairment charges	**(126)**	-
Other closure costs	**(44)**	-
Property strategy programme	**(296)**	-
Retail restructuring programme	**(32)**	(81)
Financial Services transition and other	**(29)**	(70)
Argos integration costs	**-**	(40)
Asda transaction costs	**-**	(46)
IAS 19 pension financing charge and scheme expenses	**19**	(118)
Other	**7**	(44)
Items excluded from underlying results	**(331)**	(399)

- Property strategy programme costs of £296 million (2018/19: nil) within property, plant and equipment, intangible assets and right of use assets, relate to store closures and asset write downs that are part of our broader Property Strategy Programme announced on 25th September 2019 as part of Capital Markets Day.
- Retail restructuring costs of £32 million (2018/19: £81 million) relate to changes to store management structures; the closure of one Argos depot and costs incurred following announced head-office restructures during the year.
- Financial Services transition and other costs of £29 million (2018/19: £70 million) were predominantly the previously announced costs incurred in transitioning to a new banking platform and write-downs of ATMs.
- 2018/19 IAS 19 pension costs of £118 million largely relate to equalising historic pension benefits between men and women following the High Court judgement in October 2018 against the Lloyds Banking Group.
- Other movements of £7 million (2018/19: cost of £44 million) relate to property profits and acquisition adjustments.

The Property Strategy Programme one off costs are expected to be £330 million - £350 million in total (2019/20: £296 million). Since the initial announcement at Capital Markets Day in September 2019 the programme has been revisited and this has resulted in additional planned closures. Total cash costs for the programme are expected to be around £50 million (2019/20: £8 million) versus original guidance of £30m to £40m.

Taxation

The tax charge was £103 million (2018/19: £16 million), with an underlying tax rate of 25.4 per cent (2018/19: 24.5 per cent) and an effective tax rate of 40.4 per cent (2018/19: 7.9 per cent).

The effective tax rate ('ETR') of 40.4 per cent (2018/19: 7.9 per cent) is higher than the prior year (as restated). In 2019/20 the ETR is increased by the impact of non-tax deductible exceptional costs including the impairment of fixed assets, and by prior year Bruce adjustments, partially offset by the tax impact of property disposals. In 2018/19 the ETR was reduced by prior year adjustments, including a c.£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 the tax impact of property disposals.

The underlying tax rate ('UTR') is higher than the prior year (as restated), largely as a result of a year-on-year reduction in the underlying profit before tax. The adoption of IFRS 16 further increases the UTR as an element of the depreciation of the right-of-use assets is non-tax deductible to the extent it relates to capital items. The UTR is also impacted by prior year tax adjustments. However, the UTR is reduced in respect of the interest expense on the perpetual securities which, further to a recent amendment to IAS 12, is now recognised in the Income Statement rather than Statement of Changes in Equity as it was in prior years.

Sainsbury's expects an underlying tax rate in 2020/21 of around 25 per cent.

Earnings per share
Underlying basic earnings per share decreased to 19.8 pence (2018/19: 20.7 pence) driven by the decrease in underlying earnings and the higher income tax charge in the year. Basic earnings per share decreased to 5.8 pence (2018/19: 7.6 pence).

Dividends
Given the wide range of potential profit and cash flow outcomes, the Board believes it is prudent to defer any dividend payment decisions until later in the financial year, when there will be improved visibility on the potential impact of COVID-19 on the business.

Net debt and retail cash flows
As at 7 March 2020, net debt was £6,947 million (9 March 2019: £7,346 million), a decrease of £399 million (2018/19: £229 million reduction). Excluding the impact of lease liabilities on net debt, Sainsbury's reduced net debt by £343 million in the year. Sainsbury's remains on track to reduce non lease net debt by £750 million over a three-year period compared to 2018/19 year end net debt excluding lease liabilities of £1,522 million. We will provide further guidance on net debt expectations for 2020/21 with our interim results.

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 part of the daily operating cycle of the Bank rather than for financing purposes.

Net debt includes lease liabilities under IFRS 16 of £5,768 million (2018/19: £5,824 million) and the perpetual securities of £496 million (2018/19: £496 million restated).

Summary cash flow statement[1,2]	**Retail 52 weeks to 07 March 2020 £m**	Retail 52 weeks to 09 March 2019 £m
Adjusted retail operating cash flow before changes in working capital[2]	**2,094**	2,022
Increase in working capital	**(71)**	(38)
Net interest paid[3]	**(405)**	(423)
Pension cash contributions	**(52)**	(63)
Corporation tax paid	**(113)**	(61)
Net cash generated from/(used in) operating activities	**1,453**	1,437
Cash capital expenditure before strategic capital[4]	**(599)**	(508)
Repayments of obligations under leases	**(419)**	(430)
Initial direct costs on right-of-use assets	**(13)**	(11)
Proceeds from disposal of property, plant and equipment	**81**	64
Bank capital injections	**(35)**	(110)
JV capital injections	**-**	(5)
Dividends and distributions received	**143**	19
Retail free cash flow	**611**	456
Strategic capital expenditure - Argos integration[3]	**-**	(36)
Dividends paid on ordinary shares	**(247)**	(224)
Repayment of borrowings[3]	**(379)**	(446)
Other	**(3)**	(8)
Net increase/(decrease) in cash and cash equivalents	**(18)**	(258)
Decrease in Debt	**798**	876
Other non-cash and net interest movements[5]	**(381)**	(389)
Movement in net debt	**399**	229
Opening net debt	**(7,346)**	(7,575)
Closing net debt	**(6,947)**	(7,346)
of which:		
Lease Liabilities	**(5,768)**	(5,824)
Net Debt Excluding Lease Liabilities	**(1,179)**	(1,522)

Adjusted retail operating cash flow before changes in working capital increased by £72 million year-on-year to £2,094 million (2018/19: £2,022 million) and working capital increased by £71 million. Cash capital expenditure excluding strategic capital was £599 million (2018/19: £508 million). In the year capital injections into the Bank were £35 million (2018/19: £110 million).

Dividends and distributions received of £143 million (2018/19: £19 million) were predominantly as a result of the sale of properties held in a joint venture with British Land.

Retail free cash flow increased by £155 million year-on-year to £611 million (2018/19: £456 million). Free cash flow was used to fund dividends and reduce borrowings.

1 See note 7 for a reconciliation between Retail and Group cash flow.
2 Excludes working capital and pension contributions.
3 Refer to the Alternative Performance Measures on page 63 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.

Dividends of £247 million were paid in the year, which were covered 2.5 times by free cash flow (2018/19 2.0 times). Strategic capital expenditure incurred in the prior year of £36 million related to Argos integration capital expenditure.

The Group held undrawn committed credit facilities of £1,450 million and undrawn uncommitted facilities of £195 million as at 7 March 2020.

Capital expenditure

Core retail cash capital expenditure was £599 million (2018/19: £508 million).

Sainsbury's expects core retail cash capital expenditure (excluding Financial Services) to be around £550-£600 million per annum over the medium term. Further guidance for 2020/21 will be provided with our interim results.

Financial ratios

Key financial ratios	**52 weeks to 07 March 2020**	52 weeks to 09 March 2019
Return on capital employed (%)[1]	**7.4**	7.4
Net debt to EBITDAR[2]	**3.2 times**	3.3 times
Fixed charge cover[3]	**2.7 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 £6,947 million includes lease obligations under IFRS 16 and perpetual securities treated as debt, divided by Group underlying EBITDAR of £2,203 million.
3 Group underlying EBITDAR divided by rent (both capital and interest) and underlying net finance costs, where interest on perpetual securities is treated as an underlying finance cost.

Property value

As at 7 March 2020, Sainsbury's estimated market value of properties, including our 50 per cent share of properties held within property joint ventures, was £9.9 billion (9 March 2019: £10.4 billion), the reduction largely a result of the sale of 15 British Land joint venture properties and the decline in rental values.

Defined benefit pensions

The Pension Scheme is valued on different bases for different purposes. For the corporate annual accounts, the value of the retirement benefit is calculated under IAS19 while the funding of the Scheme is determined by the Trustee's triennial valuation.

At 7 March 2020, the net defined benefit surplus under IAS19 for the Group was £1,119 million (excluding deferred tax). The £160 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 2.8 per cent to 1.6 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.

As part of the agreement reached with the Trustee to complete the 2018 triennial valuation of the Sainsbury's Pension Scheme (the defined benefit scheme), we established a new asset backed contribution ('ABC') structure on 17 July 2019, replacing 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. The distributions will be made through three payment streams:

1) Payments to the Sainsbury's section (approximately £15 million per year)
2) Payments to the Argos section (approximately £20 million per year)
3) Switching payment stream, paid to either the Sainsbury's section or Argos section (initially approximately £23 million per year, increasing to £33 million by 2038)

In addition to the above, further cash contributions of £40 million have been agreed for 2020/21, and £10 million in 2021/22. No additional cash contributions have been agreed for subsequent years.

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 switching 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.

Retirement benefit obligations	**Sainsbury's as at 07 March 2020 £m**	**Argos as at 07 March 2020 £m**	**Group as at 07 March 2020 £m**	Group as at 09 March 2019 £m
Present value of funded obligations	**(8,914)**	**(1,421)**	**(10,335)**	(8,856)
Fair value of plan assets	**10,025**	**1,466**	**11,491**	9,983
Additional liability due to minimum funding requirements (IFRIC 14)	**-**	**-**	**-**	(134)
Pension surplus/(deficit)	**1,111**	**45**	**1,156**	993
Present value of unfunded obligations	**(21)**	**(16)**	**(37)**	(34)
Retirement benefit obligations	**1,090**	**29**	**1,119**	959
Deferred income tax (liability)/asset	**(198)**	**(16)**	**(214)**	(216)
Net retirement benefit obligations	**892**	**13**	**905**	743

Consolidated income statement
for the 52 weeks to 7 March 2020

		2020			2019 (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	7	**28,993**	**-**	**28,993**	29,007	-	29,007
Cost of sales		**(26,699)**	**(278)**	**(26,977)**	(26,708)	(11)	(26,719)
Gross profit		**2,294**	**(278)**	**2,016**	2,299	(11)	2,288
Administrative expenses		**(1,345)**	**(114)**	**(1,459)**	(1,342)	(383)	(1,725)
Other income		**37**	**56**	**93**	55	(17)	38
Operating profit		**986**	**(336)**	**650**	1,012	(411)	601
Finance income	9	**4**	**28**	**32**	5	19	24
Finance costs	9	**(404)**	**6**	**(398)**	(424)	(3)	(427)
Share of post-tax (loss)/profit from joint ventures and associates		**-**	**(29)**	**(29)**	8	(4)	4
Profit before tax		**586**	**(331)**	**255**	601	(399)	202
Income tax (expense)/credit	10	**(149)**	**46**	**(103)**	(147)	131	(16)
Profit for the financial year		**437**	**(285)**	**152**	454	(268)	186
Earnings per share	11			**pence**			pence
Basic earnings				**5.8**			7.6
Diluted earnings				**5.8**			7.5

The restatements relate to the adoption of IFRS 16 as explained in note 5.

Consolidated statement of comprehensive income

for the 52 weeks to 7 March 2020

		2020 £m	2019 £m
Profit for the financial year	Note	**152**	186
Items that will not be reclassified subsequently to the income statement			
Remeasurement on defined benefit pension schemes	20	**89**	1,269
Movements on financial assets at fair value through other comprehensive income		**17**	-
Deferred tax relating to items not reclassified		**(18)**	(216)
		88	1,053
Items that may be reclassified subsequently to the income statement			
Currency translation differences		**-**	1
Movements on financial assets at fair value through other comprehensive income		**4**	55
Items reclassified from financial assets at fair value through other comprehensive income reserve		**-**	(10)
Cash flow hedges effective portion of fair value movements		**(1)**	71
Items reclassified from cash flow hedge reserve		**(19)**	(45)
Current tax on items that may be reclassified		**-**	2
Deferred tax on items that may be reclassified		**3**	(15)
		(13)	59
Total other comprehensive income for the year (net of tax)		**75**	1,112
Total comprehensive income for the year		**227**	1,298

The restatements relate to the adoption of IFRS 16 as explained in note 5.

Consolidated balance sheet

At 7 March 2020 and 9 March 2019

	Note	2020 £m	2019 (restated) £m
Non-current assets			
Property, plant and equipment	13	**8,911**	9,193
Right of use assets	14	**4,826**	4,993
Intangible assets	15	**1,012**	1,043
Investments in joint ventures and associates		**9**	205
Financial assets at fair value through other comprehensive income		**972**	645
Trade and other receivables		**43**	57
Amounts due from Financial Services customers		**3,453**	3,349
Derivative financial assets		**6**	9
Net retirement benefit surplus	20	**1,119**	959
		20,351	20,453
Current assets			
Inventories		**1,732**	1,929
Trade and other receivables		**811**	630
Amounts due from Financial Services customers		**3,951**	3,638
Financial assets at fair value through other comprehensive income		**82**	211
Derivative financial assets		**12**	21
Cash and cash equivalents	18	**994**	1,121
		7,582	7,550
Assets held for sale		**4**	8
		7,586	7,558
Total assets		**27,937**	28,011
Current liabilities			
Trade and other payables		**(4,275)**	(4,373)
Amounts due to Financial Services customers and other deposits		**(6,890)**	(5,797)
Borrowings		**(48)**	(816)
Lease liabilities	14	**(510)**	(533)
Derivative financial liabilities		**(53)**	(17)
Taxes payable		**(163)**	(204)
Provisions	17	**(108)**	(109)
		(12,047)	(11,849)
Net current liabilities		**(4,461)**	(4,291)
Non-current liabilities			
Other payables		**(11)**	(87)
Amounts due to Financial Services customers and other deposits		**(1,204)**	(1,804)
Borrowings		**(1,248)**	(844)
Lease liabilities	14	**(5,264)**	(5,298)
Derivative financial liabilities		**(36)**	(17)
Deferred income tax liability		**(265)**	(235)
Provisions	17	**(89)**	(95)
		(8,117)	(8,380)
Total liabilities		**(20,164)**	(20,229)
Net assets		**7,773**	7,782
Equity			
Called up share capital		**634**	630
Share premium		**1,159**	1,147
Merger reserve		**568**	568
Capital redemption reserve		**680**	680
Other reserves		**168**	172
Retained earnings		**4,068**	4,089
Total equity before perpetual securities		**7,277**	7,286
Perpetual capital securities		**248**	248
Perpetual convertible bonds		**248**	248
Total equity		**7,773**	7,782

Consolidated cash flow statement
for the 52 weeks to 7 March 2020

	Note	2020 £m	2019 (restated) £m
Cash flows from operating activities			
Profit before tax		**255**	202
Net finance costs	9	**366**	403
Share of post-tax loss/(profit) from joint ventures		**29**	(4)
Operating profit		**650**	601
Adjustments for:			
Depreciation expense	13,14	**1,127**	1,119
Amortisation expense	15	**129**	143
Net impairment loss on property, plant and equipment, right of use assets, intangible assets	13,14,15	**263**	3
Non-cash adjustments arising from acquisitions	6	**(2)**	(2)
Financial Services impairment losses on loans and advances		**80**	98
(Profit)/loss on sale of properties and early termination of leases	6	**(56)**	17
Share-based payments expense		**37**	39
Defined benefit scheme expenses	20	**9**	108
Cash contributions to benefit schemes	20	**(52)**	(63)
Operating cash flows before changes in working capital		**2,185**	2,063
Changes in working capital			
Increase/(decrease) in inventories		**197**	(118)
Increase in financial assets at fair value through other comprehensive income		**(177)**	(97)
(Increase)/decrease in trade and other receivables		**(129)**	92
Increase in amounts due from Financial Services customers and other deposits		**(499)**	(1,480)
(Decrease)/increase in trade and other payables		**(195)**	71
Increase in amounts due to Financial Services customers and other deposits		**492**	1,077
Decrease in provisions and other liabilities		**(8)**	(93)
Cash generated from operations		**1,866**	1,515
Interest paid		**(384)**	(404)
Corporation tax paid		**(110)**	(68)
Net cash generated from operating activities		**1,372**	1,043
Cash flows from investing activities			
Purchase of property, plant and equipment		**(519)**	(474)
Initial direct costs on new leases		**(13)**	(11)
Purchase of intangible assets		**(120)**	(116)
Proceeds from disposal of property, plant and equipment		**81**	64
Proceeds from financial assets at fair value through other comprehensive income		**-**	39
Investment in joint ventures		**-**	(5)
Interest received		**2**	4
Dividends and distributions received		**143**	18
Net cash used in investing activities		**(426)**	(481)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**15**	22
Proceeds from borrowings		**250**	135
Repayment of borrowings		**(169)**	(593)
Repayment upon maturity of convertible bonds		**(450)**	-
Purchase of own shares		**(18)**	(30)
Repayment of capital element of lease obligations		**(420)**	(430)
Repayment of capital element of obligations under hire purchase arrangements		**(10)**	(27)
Dividends paid on ordinary shares	12	**(247)**	(224)
Dividends paid on perpetual securities		**(23)**	(23)
Net cash used in financing activities		**(1,072)**	(1,170)
Net decrease in cash and cash equivalents		**(126)**	(608)
Opening cash and cash equivalents		**1,120**	1,728
Closing cash and cash equivalents	18	**994**	1,120

Restatements relate to the adoption of IFRS 16 as explained in note 5.

Consolidated statement of changes in equity
for the 52 weeks to 7 March 2020

	Note	Called up share capital £m	Share premium account £m	Merger reserve £m	Capital redemption and other reserves £m	Retained earnings £m	Total equity before perpetual securities £m	Perpetual capital securities £m	Perpetual convertible bonds £m	Total equity £m
At 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**
Profit for the year		**-**	**-**	**-**	**-**	**129**	**129**	**16**	**7**	**152**
Other comprehensive income		**-**	**-**	**-**	**1**	**89**	**90**	**-**	**-**	**90**
Tax relating to other comprehensive income		**-**	**-**	**-**	**-**	**(15)**	**(15)**	**-**	**-**	**(15)**
Total comprehensive income for the year ended 7 March 2020		**-**	**-**	**-**	**1**	**203**	**204**	**16**	**7**	**227**
Transactions with owners:										
Dividends	12	**-**	**-**	**-**	**-**	**(247)**	**(247)**	**-**	**-**	**(247)**
Distribution to holders of perpetual securities		**-**	**-**	**-**	**-**	**-**	**-**	**(16)**	**(7)**	**(23)**
Amortisation of convertible bond equity component		**-**	**-**	**-**	**(5)**	**5**	**-**	**-**	**-**	**-**
Share-based payment		**-**	**-**	**-**	**-**	**37**	**37**	**-**	**-**	**37**
Purchase of own shares		**-**	**-**	**-**	**-**	**(18)**	**(18)**	**-**	**-**	**(18)**
Allotted in respect of share option schemes		**4**	**12**	**-**	**-**	**(1)**	**15**	**-**	**-**	**15**
Tax on items charged to equity		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
At 7 March 2020		**634**	**1,159**	**568**	**848**	**4,068**	**7,277**	**248**	**248**	**7,773**
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[1]		-	-	-	-	(74)	(74)	-	-	(74)
Profit for the period (restated)		-	-	-	-	168	168	12	6	186
Other comprehensive income/(expense)		-	-	-	72	1,269	1,341	-	-	1,341
Tax relating to other comprehensive income		-	-	-	(13)	(216)	(229)	-	-	(229)
Total comprehensive (expense)/income for the period ended 9 March 2019 (restated)		-	-	-	59	1,147	1,206	12	6	1,224
Transactions with owners:										
Dividends paid	12	-	-	-	-	(224)	(224)	-	-	(224)
Distributions to holders of perpetual subordinated 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

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

Restatements relate to the adoption of IFRS 16 as explained in note 5.

Notes to the consolidated financial statements

1 General information

The financial information, which comprises the Group income statement, Group statement of comprehensive income, Group balance sheet, Group cash flow statement, Group statement of changes in equity and related notes, is derived from the full Group financial statements for the 52 weeks to 7 March 2020 and does not constitute full accounts within the meaning of section 435 (1) and (2) of the Companies Act 2006.

The Group Annual Report and Financial Statements 2020 on which the auditors have given an unqualified report and which does not contain a statement under section 498 (2) or (3) of the Companies Act 2006, will be delivered to the Registrar of Companies in due course, and made available to shareholders in June 2020.

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 financial year represents the 52 weeks to 7 March 2020 (prior financial year: 52 weeks to 9 March 2019). The consolidated financial statements for the 52 weeks to 7 March 2020 comprise the financial statements of the Company and its subsidiaries (the 'Group') and the Group's share of the post-tax results of its joint ventures and associates.

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

2 Basis of preparation

Sainsbury's Bank Plc and its subsidiaries have been consolidated for the twelve months to 29 February 2020 being the Bank's year-end date (prior financial year: 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 Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and International Financial Reporting Interpretations Committee (IFRIC) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

The financial statements are presented in sterling, rounded to the nearest million ('£m') unless otherwise stated. They have been prepared under the historical cost convention, except for derivative financial instruments, defined benefit pension scheme assets and financial assets at fair value through other comprehensive income that have been measured at fair value. The financial statements have been prepared on a going concern basis. In reaching this conclusion, the Directors have reviewed liquidity forecasts for the Group, which have been updated for the expected impact of COVID-19 trading. The Directors also considered sensitivities in respect of potential downside scenarios and the mitigating actions available in concluding that the Group is able to continue in operation for a period of at least twelve months from the date of approving the financial statements.

The Group has adopted IFRS 16 'Leases' effective for the 52 weeks ending 7 March 2020. 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 5.

Accounting policies have been applied consistently to all periods presented in the financial statements with the exception of the item noted below.

Tax treatment for dividends on perpetual securities

In December 2017, the International Accounting Standards Board issued their annual cycle of improvements to IFRS, 'Annual Improvements to IFRS Standards 2015-2017 Cycle'. This included amendments to IAS 12 'Income Taxes' which became effective for reporting periods beginning on or after 1 January 2019, and was therefore adopted by the Group in the current financial year.

2 Basis of preparation continued

The amendments clarified that an entity must recognise all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend. Previously the tax on dividends paid on the perpetual securities was recognised in equity, however under the amended standard, this is now recognised in the income statement.

Impact of COVID-19

The COVID-19 outbreak has developed rapidly in 2020, with a significant number of infections across many countries. Management has exercised significant judgement when determining whether any adjustments are required to the financial statements as at 7 March 2020.

The conditions that existed at the balance sheet date were that a disease, present in a number of countries globally, was in existence. It had stabilised in China, however had caused a level of uncertainty in the market. The UK response to the outbreak was still minor and day-to-day life in the UK where the Group operates was unchanged. Despite the lockdown in China, a UK lockdown and subsequent economic impact was not readily apparent at this stage. As a result none of the conditions at the balance sheet date indicated that any adjustments would be required to the Group's financial statements.

The subsequent rise in infections in the UK, significant market movements and global lockdowns occurred after the year-end date, but do not provide additional information about conditions that existed at the balance sheet date. In particular, it was on 11 March that the World Health Organisation declared the virus a pandemic, and from 16 March that the UK Government announced major government-backed loans. It is also this date that day-to-day life in the UK began to be impacted through announced social distancing measures, with additional, stay at home measures being enforced even later. The scale of these Government interventions and impact on daily life in the UK were not apparent at the balance sheet date and therefore represent non-adjusting events to the Group. Given the significance of these events, additional disclosures, including sensitivities, are included in note 21.

3 Amendments to published standards

Effective for the Group and Company in these financial statements:

The Group considered the following amendments to published standards that are effective for the Group for the financial year beginning 10 March 2019 and concluded that, with the exception of IFRS 16 'Leases', they are either not relevant to the Group or they do not have a significant impact on the Group's financial statements other than disclosures. These standards and interpretations have been endorsed by the European Union.

- 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 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)

Further information on the impact of IFRS 16 is included in note 5.

3 Amendments to published standards continued

Standards and revisions effective for future periods:

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

- Amendments to References to Conceptual Framework in IFRS Standards
- Amendments to IFRS 3 ‘Business Combinations’ on the definition of a Business
- 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 IFRS 9 ‘Financial Instruments’, IAS 39 ‘Financial Instruments: Presentation and IFRS 7 ‘Financial Instruments: Disclosures’ on interest rate benchmark reform
- IFRS 17 ‘Insurance Contracts’

The Group has considered the impact of the remaining above standards and revisions and have concluded that they will not have a significant impact on the Group’s financial statements.

4 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’ APMs.

4.1 Purpose of APMs

The Directors believe that these APMs provide 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.

4 Alternative Performance Measures (APMs) continued

The APMs that the Group has focused on in the period are detailed on page 61. All of the APMs relate to the current period's results and comparative periods.

4.2 Changes to APMs

The following APMs have been updated during the period:

<table>
<tr><th>APM</th><th>Prior definition</th><th>Updated definition</th><th>Explanation</th></tr>
<tr><td>Retail free cash flow</td><td>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.</td><td>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.</td><td>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.</td></tr>
<tr><td>Net debt</td><td>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 + net cash and cash equivalents + loans + finance lease obligations.</td><td>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.</td><td>Following the adoption of IFRS 16, the definition of net debt has been updated to include lease obligations.
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.
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.
A reconciliation of net debt as previously reported to restated net debt for all comparative periods is shown below:
<table>
<tr><th></th><th>11 March 2018 £m</th><th>9 March 2019 £m</th></tr>
<tr><td>Net debt as previously reported</td><td>(1,364)</td><td>(1,142)</td></tr>
<tr><td>Remove previously reported finance leases (including hire purchase arrangements)</td><td>127</td><td>122</td></tr>
<tr><td>Add perpetual securities</td><td>(496)</td><td>(496)</td></tr>
<tr><td>Remove derivatives not linked to borrowings</td><td>55</td><td>(6)</td></tr>
<tr><td>Lease liabilities and hire purchase arrangements (Retail)</td><td>(5,897)</td><td>(5,824)</td></tr>
<tr><td>Restated net debt</td><td>(7,575)</td><td>(7,346)</td></tr>
</table>
Hire purchase arrangements included in the above lease liabilities are as follows:
<table>
<tr><th></th><th>11 March 2018 £m</th><th>9 March 2019 £m</th></tr>
<tr><td>Hire purchase arrangements</td><td>(37)</td><td>(10)</td></tr>
</table>
These are £nil at 7 March 2020.</td></tr>
<tr><td>Adjusted net debt to EBITDAR</td><td>Net debt plus capitalised lease obligations divided by Group underlying EBITDAR.</td><td>Net debt divided by Group underlying EBITDAR.</td><td>Due to updates to net debt (see above), lease liabilities are now already included within net debt.</td></tr>
</table>

4 Alternative Performance Measures (APMs) continued

<table>
<tr><td>Return on capital employed (ROCE)</td><td>Return on capital employed is calculated as return divided by average capital employed.

Return is defined as underlying profit before interest and tax.

Capital employed is defined as net assets excluding net debt. The average is calculated on a 14 point basis.</td><td>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.</td><td>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.</td></tr>
<tr><th>APM</th><th>Prior definition</th><th>Updated definition</th><th>Explanation</th></tr>
<tr><td>Interest cover</td><td>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.</td><td>N/A</td><td>Interest cover is no longer included as an APM used by management.</td></tr>
<tr><td>Gearing</td><td>Retail net debt divided by Group net assets.</td><td>N/A</td><td>Gearing is no longer included as an APM used by management.</td></tr>
<tr><td>Retail underlying operating profit</td><td>Underlying earnings before interest, tax, Financial Services operating profit and Sainsbury's underlying share of post-tax profit from joint ventures and associates.</td><td colspan="2">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:

<table>
<tr><th></th><th>52 weeks to 9 March 2019 £m</th></tr>
<tr><td>Underlying operating profit pre IFRS 16</td><td>692</td></tr>
<tr><td>Add back rent</td><td>747</td></tr>
<tr><td>Depreciation on right-of-use assets</td><td>(470)</td></tr>
<tr><td>Other</td><td>12</td></tr>
<tr><td>Underlying operating profit post IFRS 16</td><td>981</td></tr>
</table>
</td></tr>
<tr><td>Fixed charge cover</td><td>Group underlying EBITDAR divided by net rent and underlying net finance costs, where interest on perpetual securities is included in underlying finance costs.</td><td>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.</td><td>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.</td></tr>
</table>

5 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 the consolidated 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').

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.

5 Adoption of IFRS 16 'Leases' continued

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 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
Operating lease commitments (discounted) as previously reported at 10 March 2018[1]	(5,939)
Application of lease specific discount rates	178
Effect of extension / break periods	(107)
IFRS 16 lease liability	(5,868)
Add back finance lease liability already recognised	90
Net impact of IFRS 16 on lease liability	(5,778)

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

5 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 9 March 2019 is set out below:

Group income statement

	52 weeks 9 March 2019 (reported) £m	IFRS 16 Impact £m	52 weeks 9 March 2019 (restated) £m
Revenue	29,007	-	29,007
Cost of sales[(a)]	(27,000)	281	(26,719)
Gross profit	2,007	281	2,288
Administrative expenses[(a)]	(1,733)	8	(1,725)
Other income	38	-	38
Operating profit	312	289	601
Finance income[(b)]	22	2	24
Finance costs[(a)]	(99)	(328)	(427)
Share of post-tax profit from joint ventures and associates	4	-	4
Profit before tax	239	(37)	202
Analysed as:			
Underlying profit before tax	635	(34)	601
Non-underlying items	(396)	(3)	(399)
	239	(37)	202
Income tax credit/(expense)	(20)	4	(16)
Profit for the financial period	219	(33)	186
Earnings per share	pence		pence
Basic earnings	9.1	(1.5)	7.6
Diluted earnings	8.9	(1.4)	7.5
Underlying basic earnings	22.0	(1.3)	20.7
Underlying diluted earnings	20.3	(1.2)	19.1

(a) Adjustments to cost of sales, administrative expenses and finance costs reflect rental expenses under IAS 17 being replaced with interest on lease liabilities and depreciation on right-of-use assets
(b) Adjustment to finance income relates to interest income on leases where the Group acts as lessor

There is no material impact on other comprehensive income.

5 Adoption of IFRS 16 'Leases' continued

Group balance sheet

	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[a]	9,708	(515)	9,193
Right-of-use asset[b]	-	4,993	4,993
Intangible assets	1,044	(1)	1,043
Investments in joint ventures and associates	205	-	205
Financial assets at fair value through other comprehensive income	645	-	645
Other receivables[c]	33	24	57
Amounts due from Financial Services customers	3,349	-	3,349
Derivative financial instruments	9	-	9
Net retirement benefit surplus	959	-	959
	15,952	4,501	20,453
Current assets			
Inventories	1,929	-	1,929
Trade and other receivables[c]	661	(31)	630
Amounts due from Financial Services customers	3,638	-	3,638
Financial assets at fair value through other comprehensive income	211	-	211
Derivative financial instruments	21	-	21
Cash and cash equivalents	1,121	-	1,121
	7,581	(31)	7,550
Assets held-for-sale	8	-	8
	7,589	(31)	7,558
Total assets	23,541	4,470	28,011
Current liabilities			
Trade and other payables[d]	(4,444)	71	(4,373)
Amounts due to Financial Services customers and other deposits	(5,797)	-	(5,797)
Borrowings (including lease liabilities)[e]	(832)	(517)	(1,349)
Derivative financial instruments	(17)	-	(17)
Taxes payable	(204)	-	(204)
Provisions[g]	(123)	14	(109)
	(11,417)	(432)	(11,849)
Net current liabilities	(3,828)	(463)	(4,291)
Non-current liabilities			
Other payables[d]	(340)	253	(87)
Amounts due to Financial Services customers and other deposits	(1,804)	-	(1,804)
Borrowings (including lease liabilities)[e]	(950)	(5,192)	(6,142)
Derivative financial instruments	(17)	-	(17)
Deferred income tax liability[f]	(397)	162	(235)
Provisions[g]	(160)	65	(95)
	(3,668)	(4,712)	(8,380)
Net assets	8,456	(674)	7,782
Equity			
Called up share capital	630	-	630
Share premium account	1,147	-	1,147
Merger reserve	568	-	568
Capital redemption reserve	680	-	680
Other reserves	172	-	172
Retained earnings	4,763	(674)	4,089
Total equity before perpetual securities	7,960	(674)	7,286
Perpetual capital securities	248	-	248
Perpetual convertible bonds	248	-	248
Total equity	8,456	(674)	7,782

(a) Reduction in property, plant and equipment reflects previously capitalised direct costs in relation to leases now being included within right-of-use assets, and removal of finance leases recognised under IAS 17

(b) Recognition of right-of-use assets

(c) Adjustments to receivables reflect the recognition of lease receivables where the Group sublets leased properties, offset by the removal of any rent prepayments

(d) Predominantly the removal of any liabilities previously recognised due to lease incentives, along with rent accruals

(e) Recognition of lease liabilities

(f) Deferred tax asset recognised on transition

(g) Predominantly relates to the removal of onerous lease provisions

5 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. The impact of adopting IFRS 16 on the Group consolidated cash flow statement as at 9 March 2019 is as follows:

	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[a]	239	(37)	202
Net finance costs[b]	77	326	403
Share of post-tax-profit from joint ventures and associates	(4)	-	(4)
Operating profit	312	289	601
Adjustments for:			
Depreciation expense [c]	649	470	1,119
Amortisation expense	143	-	143
Non-cash adjustments arising from acquisitions	(2)	-	(2)
Financial Services impairment losses on loans and advances	98	-	98
Loss on sale of properties	17	-	17
Impairment charge of property, plant and equipment	3	-	3
Share-based payments expense	39	-	39
Non-cash defined benefit scheme expenses	108	-	108
Cash contributions to benefit schemes	(63)	-	(63)
Operating cash flows before changes in working capital	1,304	759	2,063
Changes in working capital			
Increase in inventories	(118)	-	(118)
Increase in current financial assets	(97)	-	(97)
Decrease in trade and other receivables[d]	74	18	92
Increase in amounts due from Financial Services customers and other deposits	(1,480)	-	(1,480)
Increase in trade and other payables [d]	94	(23)	71
Increase in amounts due to Financial Services customers and other deposits	1,077	-	1,077
Decrease in provisions and other liabilities[e]	(105)	12	(93)
Cash generated from operations	749	766	1,515
Interest paid[f]	(63)	(341)	(404)
Corporation tax paid	(68)	-	(68)
Net cash generated from operating activities	618	425	1,043
Cash flows from investing activities			
Purchase of property, plant and equipment[g]	(478)	4	(474)
Initial direct costs on right-of-use assets[g]	-	(11)	(11)
Purchase of intangible assets	(116)	-	(116)
Proceeds from disposal of property, plant and equipment	64	-	64
Proceeds from financial assets at fair value through other comprehensive income	39	-	39
Investment in joint ventures	(5)	-	(5)
Interest received	4	-	4
Dividends and distributions received	18	-	18
Net cash used in investing activities	(474)	(7)	(481)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	22	-	22
Proceeds from borrowings	135	-	135
Repayment of borrowings	(593)	-	(593)
Purchase of own shares	(30)	-	(30)
Repayment of capital element of lease obligations [h]	(5)	(425)	(430)
Repayment of capital element of obligations under hire purchase arrangements	(27)	-	(27)
Interest elements of lease obligations[i]	(7)	7	-
Dividends paid on ordinary shares	(224)	-	(224)
Dividends paid on perpetual securities	(23)	-	(23)
Net cash used in financing activities	(752)	(418)	(1,170)
Net decrease in cash and cash equivalents	(608)	-	(608)
Opening cash and cash equivalents	1,728	-	1,728
Closing cash and cash equivalents	1,120	-	1,120

(a) Reduction in profit due to recognition of IFRS 16 depreciation and interest being greater than derecognised IAS 17 costs, predominantly rent
(b) Add back of additional interest expense on recognition of lease liabilities
(c) Depreciation on right-of-use assets added back as non-cash
(d) Movement year-on-year of de-recognised accrual balances, predominantly prepaid and accrued rent
(e) Movement year-on-year of de-recognised onerous leases
(f) IFRS 16 interest paid offset by de-recognised existing IAS 17 finance leases
(g) Initial direct costs capitalised as part of right-of-use assets removed from the purchase of property, plant and equipment with outflow now recognised in right-of-use asset along with initial direct costs previously expensed
(h) Repayment of IFRS 16 lease liability capital element offset by repayment of IAS 17 finance lease liabilities de-recognised
(i) De-recognition of IAS 17 finance leases replaced by IFRS 16

6 Profit before non-underlying items

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. The adjusted items are as follows:

- 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.

6 Profit before non-underlying items continued

The effect of these adjusted items is as follows:

	Cost of sales	Administrative expenses	Other income	Net finance income/(costs)	Share of loss from JVs	Total adjustments before tax	Tax	Total adjustments
	£m	£m	£m	£m	£m	£m	£m	£m
Property strategy programme	(255)	(41)	-	-	-	(296)	28	(268)
Retail restructuring programme	(21)	(11)	-	-	-	(32)	6	(26)
Financial Services transition and other	(2)	(27)	-	-	-	(29)	4	(25)
Total strategic programmes	**(278)**	**(79)**	**-**	**-**	**-**	**(357)**	**38**	**(319)**
Property, finance, pension and acquisition adjustments								
Profit/(loss) on disposal of properties	-	-	56	-	(21)	35	3	38
Investment property fair value movements	-	-	-	-	(3)	(3)	-	(3)
Perpetual securities coupons	-	-	-	23	-	23	(4)	19
Non-underlying finance movements	-	-	-	(17)	(5)	(22)	3	(19)
IAS 19 pension expenses	-	(9)	-	28	-	19	(4)	15
Acquisition adjustments	-	(26)	-	-	-	(26)	5	(21)
Total property, finance, pension and acquisition adjustments	**-**	**(35)**	**56**	**34**	**(29)**	**26**	**3**	**29**
Tax adjustments								
Over provision in prior years	-	-	-	-	-	-	8	8
Revaluation of deferred tax balances	-	-	-	-	-	-	(3)	(3)
Total adjustments	**(278)**	**(114)**	**56**	**34**	**(29)**	**(331)**	**46**	**(285)**

(a) Property strategy programme

- The Group identified an impairment indicator during the period following an approved programme of store closures during the year. This programme was initially announced at the Capital Markets Day in September. It was subsequently revisited during the second half of the year resulting in additional planned closures. An impairment charge of £(252) million has been recognised on property, plant and equipment (£154 million), right-of-use assets (£80 million) and goodwill allocated to stores (£18 million). £(126) million of the charge is in relation to properties identified for closure. The remaining £(126) million relates to unprofitable and marginally profitable sites for which the cash flows no longer support the carrying amount. Further information on the impairment charges, including sensitivities can be found in note 16.
- In addition, store closure costs have been recognised in the period of £(44) million. They comprise £(41) million onerous contract charges and dilapidation costs, and £(3) million of redundancy provisions.

(b) Retail restructuring programme

- Restructuring costs of £(32) million in the year mostly 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.
- Also includes costs incurred following announced head-office restructures during the year.

(c) Financial Services transition and other

- These predominantly comprise Financial Services transition costs of £(19) 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.
- In addition, a number of ATMs were decommissioned during the year, leading to write-downs of £(6) million within property, plant and equipment.

6 Profit before non-underlying items continued

(d) Property, finance, pension and acquisition adjustments

- Profit on disposal of properties for the financial period comprised £56 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 £(17) million for the Group and £(5) million for the joint ventures. These are presented separately in note 9.
- Defined benefit pension expenses comprise pension finance income of £28 million and scheme expenses of £(9) million (see note 20). Included in the prior year 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 £(26) 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:

	2020				2019			
	Financial Services £m	Argos £m	Nectar £m	Total Group £m	Financial Services £m	Argos £m	Nectar £m	Total Group £m
Revenue	-	-	-	-	-	-	-	-
Cost of sales	-	2	-	2	-	2	-	2
Depreciation	-	(2)	-	(2)	-	(13)	-	(13)
Amortisation	-	(18)	(8)	(26)	(1)	(16)	(25)	(42)
	-	(18)	(8)	(26)	(1)	(27)	(25)	(53)

Comparative information

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)

6 Profit before non-underlying items continued

Cash flow statement

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

	2020 £m	2019 £m
Cash flows from operating activities		
IAS 19 pension expenses	**(9)**	(10)
Sainsbury's Bank transition	**(22)**	(66)
Argos integration costs	**(2)**	(52)
Property strategy programme	**(8)**	-
Restructuring costs	**(26)**	(152)
Transaction costs relating to the proposed merger with Asda	**(13)**	(39)
Cash used in operating activities	**(80)**	(319)
Cash flows from investing activities		
Proceeds from property disposals	**81**	64
Cash generated from investing activities	**81**	64
Net cash flows	**1**	(255)

7 Segment reporting

Background

The Group's businesses are organised into three (previously four) operating segments:

—Retail – Food;

—Retail – General Merchandising and Clothing;

—Financial Services (Sainsbury's Bank plc and Argos Financial Services entities).

Previously the Group has disclosed a Property Investment segment, relating to its joint ventures with The British Land Company PLC and Land Securities Group PLC. Following the sale of properties from the joint venture with British Land to Reality Income Corporation during the year, management has reassessed this segment, and determined that it no longer meets the definition of an operating segment due to its results not being reviewed by the chief operating decision maker to make decisions about resource allocations. As a result, financial information relating to this component is now included in the Group's Retail segment. Comparative information has been restated.

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

The Operating Board assesses the performance of all segments on the basis of underlying profit before tax. Underlying profit before tax is an APM as described in note 6. 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. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

7 Segment reporting continued

Income statement and balance sheet

52 weeks to 7 March 2020	Retail £m	Financial Services £m	Group £m
Segment revenue			
Retail sales to external customers	**28,424**	**-**	**28,424**
Financial Services to external customers[1]	**-**	**569**	**569**
Underlying revenue	**28,424**	**569**	**28,993**
Revenue	**28,424**	**569**	**28,993**
Underlying operating profit	**938**	**48**	**986**
Underlying finance income	**4**	**-**	**4**
Underlying finance costs	**(404)**	**-**	**(404)**
Underlying share of post-tax profit from joint ventures and associates	**-**	**-**	**-**
Underlying profit before tax	**538**	**48**	**586**
Non-underlying expense (note 6)			**(331)**
Profit before tax			**255**
Income tax expense (note 10)			**(103)**
Profit for the financial period			**152**
Assets	**18,463**	**9,465**	**27,928**
Investment in joint ventures and associates	**9**	**-**	**9**
Segment assets	**18,472**	**9,465**	**27,937**
Segment liabilities	**(11,738)**	**(8,426)**	**(20,164)**
Other segment items			
Capital additions[2]	**1,021**	**37**	**1,058**
Depreciation expense[3]	**1,119**	**8**	**1,127**
Amortisation expense[4]	**106**	**23**	**129**
Net impairment and onerous contract charge	**300**	**6**	**306**
Share based payments	**34**	**3**	**37**

1 Financial Services income includes £405 million recognised using the effective interest rate method.

2 Retail capital additions consists of right of use asset additions of £406 million, property, plant and equipment additions of £527 million and intangible asset additions of £88 million. Financial Services capital additions consists of right of use asset additions of £nil, property, plant and equipment additions of £1 million and intangible asset additions of £36 million.

3 Depreciation within the Retail segment includes a £2 million charge in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK.

4 Amortisation expense within the Retail segment includes £26 million charge in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK.

7 Segment reporting continued

52 weeks to 9 March 2019	Retail (restated) £m	Financial services (restated) £m	Group (restated) £m
Segment revenue			
Retail sales to external customers	28,466	-	28,466
Financial Services to external customers[1]	-	541	541
Underlying revenue	28,466	541	29,007
Revenue	28,466	541	29,007
Underlying operating profit	981	31	1,012
Underlying finance income	5	-	5
Underlying finance costs	(424)	-	(424)
Underlying share of post-tax profit from joint ventures and associates	8	-	8
Underlying profit before tax	570	31	601
Non-underlying expense (note 6)			(399)
Profit before tax			202
Income tax expense (note 10)			(16)
Profit for the financial period			186
Assets	18,885	8,921	27,806
Investment in joint ventures and associates	205	-	205
Segment assets	19,090	8,921	28,011
Segment liabilities	(12,284)	(7,945)	(20,229)
Other segment items			
Capital additions[2]	941	44	985
Depreciation expense[3]	1,111	8	1,119
Amortisation expense[4]	127	16	143
Net impairment and onerous contract charge	3	-	3
Share based payments	36	3	39

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

2 Retail capital additions consists of right of use asset additions of £388 million, property, plant and equipment additions of £473 million and intangible asset additions of £80 million. Financial Services capital additions consists of right of use asset additions of £nil, property, plant and equipment additions of £8 million and intangible asset additions of £36 million.

3 Depreciation within the Retail segment includes a £13 million charge in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK.

4 Amortisation expense within the Retail segment includes £41 million charge in relation to the unwind of fair value adjustments recognised on acquisition of HRG and Nectar UK. Amortisation expense within the Financial Services segment includes a £1 million charge in relation to the unwind of fair value adjustments recognised on acquisition of Sainsbury's Bank.

Geographical segments

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

7 Segment reporting continued

Cash flow

	APM reference	52 weeks to 7 March 2020 Retail £m	Financial Services £m	Group £m	52 weeks to 9 March 2019 Retail (restated) £m	Financial Services (restated) £m	Group (restated) £m
Profit/(loss) before tax		**235**	**20**	**255**	223	(21)	202
Net finance costs		**363**	**3**	**366**	403	-	403
Share of post-tax loss/(profit) from joint ventures and associates		**29**	**-**	**29**	(4)	-	(4)
Operating profit		**627**	**23**	**650**	622	(21)	601
Adjustments for:							
Depreciation and amortisation expense		**1,225**	**31**	**1,256**	1,238	24	1,262
Net impairment charge on property, plant and equipment, right-of-use assets, investment property and intangible assets		**257**	**6**	**263**	3	-	3
Non-cash adjustments arising from acquisitions		**(2)**	**-**	**(2)**	(2)	-	(2)
Financial Services impairment losses on loans and advances		**-**	**80**	**80**	-	98	98
(Profit)/loss on sale of properties and early termination of leases		**(56)**	**-**	**(56)**	17	-	17
Share-based payments expense		**34**	**3**	**37**	36	3	39
Defined benefit scheme expenses		**9**	**-**	**9**	108	-	108
Cash contributions to defined benefit scheme		**(52)**	**-**	**(52)**	(63)	-	(63)
Operating cash flows before changes in working capital		**2,042**	**143**	**2,185**	1,959	104	2,063
Changes in working capital							
Increase in working capital		**(71)**	**(248)**	**(319)**	(38)	(510)	(548)
Cash generated from operations		**1,971**	**(105)**	**1,866**	1,921	(406)	1,515
Interest paid	a	**(384)**	**-**	**(384)**	(404)	-	(404)
Corporation tax paid		**(113)**	**3**	**(110)**	(61)	(7)	(68)
Net cash generated/(used) from operating activities		**1,474**	**(102)**	**1,372**	1,456	(413)	1,043
Cash flows from investing activities							
Purchase of property, plant and equipment excluding strategic capital expenditure		**(517)**	**(2)**	**(519)**	(430)	(8)	(438)
Strategic capital expenditure	b	**-**	**-**	**-**	(36)	-	(36)
Purchase of property, plant and equipment		**(517)**	**(2)**	**(519)**	(466)	(8)	(474)
Initial direct costs on new leases		**(13)**	**-**	**(13)**	(11)	-	(11)
Purchase of intangible assets		**(82)**	**(38)**	**(120)**	(78)	(38)	(116)
Proceeds from disposal of property, plant and equipment		**81**	**-**	**81**	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	**2**	**-**	**2**	4	-	4
Dividends and distributions received	f	**143**	**-**	**143**	18	-	18
Net cash used in investing activities		**(386)**	**(40)**	**(426)**	(435)	(46)	(481)
Cash flows from financing activities							
Proceeds from issuance of ordinary shares	e	**15**	**-**	**15**	22	-	22
Proceeds from borrowings	d	**250**	**-**	**250**	135	-	135
Repayment of borrowings	d	**(169)**	**-**	**(169)**	(593)	-	(593)
Repayment upon maturity of convertible bonds	d	**(450)**	**-**	**(450)**	-	-	-
Purchase of own shares	e	**(18)**	**-**	**(18)**	(30)	-	(30)
Repayment of capital element of obligations under lease liabilities	c	**(419)**	**(1)**	**(420)**	(429)	(1)	(430)
Repayment of capital element of obligations under hire purchase agreements	d	**(10)**	**-**	**(10)**	(27)	-	(27)
Dividends paid on ordinary shares		**(247)**	**-**	**(247)**	(224)	-	(224)
Dividends paid on perpetual securities	a	**(23)**	**-**	**(23)**	(23)	-	(23)
Net cash used in financing activities		**(1,071)**	**(1)**	**(1,072)**	(1,169)	(1)	(1,170)
Intra group funding							
Bank capital injections		**(35)**	**35**	**-**	(110)	110	-
Net cash (used in)/generated from intra group funding		**(35)**	**35**	**-**	(110)	110	**-**
Net decrease in cash and cash equivalents		**(18)**	**(108)**	**(126)**	(258)	(350)	(608)

8 Supplier arrangements

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

— Discounts and supplier incentives – these represent the majority of all supplier arrangements and are linked to individual unit sales. The incentive is typically based on an agreed sum per item sold on promotion for a period and therefore is considered part of the purchase price of that product.
— Fixed amounts – these are agreed with suppliers primarily to support in-store activity including promotions, such as utilising specific space. These involve a degree of judgement and estimation in ensuring the appropriate cut-off of arrangements for fixed amounts which span period-end. These require judgement to determine when the terms of the arrangement are satisfied and that amounts are recognised in the correct period.
— Supplier rebates – these are typically agreed on an annual basis, aligned with the Group's financial year. The rebate amount is linked to pre-agreed targets such as sales volumes and requires estimates of the amount earned up to the balance sheet date, for each relevant supplier contract. Where agreements span a financial period-end, estimations are required of projected turnover and judgement may also need to be applied to determine the rebate level earned as agreements may involve multiple tiers. In order to minimise any risk arising from estimation, agreements from suppliers are obtained to agree the value to be recognised at year-end, prior to it being invoiced. By aligning the agreements to the Group's financial year, where possible, the judgements required are minimised.
— Marketing and advertising income – relates to income which is directly linked to the cost of producing the Argos catalogue as well as advertising income from suppliers through the Group's subsidiary Nectar 360 Services LLP (previously Insight 2 Communication). Income relating to the Argos catalogue is recognised once agreed with the supplier and when the catalogue is made available to the Group, which is the point at which the catalogue costs are recognised. Advertising income within Nectar 360 involves a level of judgement to ensure amounts are recognised in the correct period.

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

	2020 £m	2019 £m
Fixed amounts	**278**	281
Supplier rebates	**68**	69
Marketing and advertising income	**105**	107
Total supplier arrangements	**451**	457

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

	2020 £m	2019 £m
Within inventory	**(7)**	(7)
Within current trade receivables		
Supplier arrangements due	**44**	39
Accrued supplier arrangements	**38**	39
Within current trade payables		
Supplier arrangements due	**12**	22
Deferred income due	**(2)**	(1)
Total supplier arrangements	**85**	92

9 Finance income and finance costs

	2020			2019 (restated)		
	Underlying £m	Non-Underlying £m	Total £m	Underlying £m	Non-Underlying £m	Total £m
Interest on bank deposits and other financial assets	**2**	**-**	**2**	3	-	3
Fair value measurements	**-**	**-**	**-**	-	19	19
IAS 19 pension financing income	**-**	**28**	**28**	-	-	-
Finance income on net investment in leases	**2**	**-**	**2**	2	-	2
Finance Income	**4**	**28**	**32**	5	19	24
Borrowing costs:						
Secured borrowings	**(50)**	**-**	**(50)**	(55)	-	(55)
Unsecured borrowings	**(12)**	**-**	**(12)**	(19)	-	(19)
Lease liabilities	**(323)**	**(9)**	**(332)**	(333)	(9)	(342)
Fair value measurements	**-**	**(8)**	**(8)**	-	-	-
	(385)	**(17)**	**(402)**	(407)	(9)	(416)
Other finance costs:						
Interest capitalised - qualifying assets	**4**	**-**	**4**	6	-	6
IAS 19 pension financing charge	**-**	**-**	**-**	-	(8)	(8)
Transaction financing costs	**-**	**-**	**-**	-	(9)	(9)
Perpetual securities coupon	**(23)**	**23**	**-**	(23)	23	-
	(19)	**23**	**4**	(17)	6	(11)
Finance costs	**(404)**	**6**	**(398)**	(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 at fair value through other comprehensive income that was reclassified to the income statement on disposal of the related debt-securities.

10 Taxation

	2020 £m	2019 (restated) £m
Current tax expense:		
Current year UK tax	**96**	102
Current year overseas tax	**5**	5
Over provision in prior years	**(13)**	(26)
Total current tax expense	**88**	81
Deferred tax expense/(credit):		
Origination and reversal of temporary differences	**(2)**	(35)
Under/(over) provision in prior years	**17**	(30)
Total deferred tax expense/(credit)	**15**	(65)
Total income tax expense in income statement	**103**	16
Analysed as:		
Underlying tax	**149**	147
Non-underlying tax	**(46)**	(131)
Total income tax expense in income statement	**103**	16
Underlying tax rate	**25.4%**	24.5%
Effective tax rate	**40.4%**	7.9%

11 Earnings per share

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

For diluted earnings per share, the earnings attributable to the ordinary shareholders are adjusted by the interest on the senior convertible bonds (net of tax) and by the coupons on the perpetual subordinated convertible bonds. 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 6. 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.

	2020 million	2019 (restated) million
Weighted average number of shares in issue	**2,207.6**	2,197.6
Weighted average number of dilutive share options	**24.1**	42.1
Weighted average number of dilutive senior convertible bonds	**153.7**	148.1
Weighted average number of dilutive subordinated perpetual convertible bonds	**84.6**	80.8
Total number of shares for calculating diluted earnings per share	**2,470.0**	2,468.6

	£m	£m
Profit for the financial year (net of tax)	**152**	186
Less profit attributable to:		
Holders of perpetual capital securities	**(16)**	(12)
Holders of perpetual convertible bonds	**(7)**	(6)
Profit for the financial year attributable to ordinary shareholders	**129**	168

	£m	£m
Profit for the financial year attributable to ordinary shareholders	**129**	168
Add interest on senior convertible bonds (net of tax)	**9**	12
Add coupon on subordinated perpetual convertible bonds (net of tax)	**6**	6
Diluted earnings for calculating diluted earnings per share	**144**	186

	£m	£m
Profit for the financial year attributable to ordinary shareholders of the parent	**129**	168
Adjusted for non-underlying items (note 6)	**331**	399
Tax on non-underlying items	**(46)**	(131)
Add back coupons on perpetual securities[1]	**23**	18
Underlying profit after tax attributable to ordinary shareholders of the parent	**437**	454
Add interest on convertible bonds (net of tax)	**9**	12
Add coupon on subordinated perpetual convertible bonds (net of tax)	**6**	6
Diluted underlying profit after tax attributable to ordinary shareholders of the parent	**452**	472

	Pence per share	Pence per share
Basic earnings	**5.8**	7.6
Diluted earnings	**5.8**	7.5
Underlying basic earnings	**19.8**	20.7
Underlying diluted earnings	**18.3**	19.1

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

12 Dividends

	2020 Pence per share	2019 Pence per share	2020 £m	2019 £m
Amounts recognised as distributions to ordinary shareholders in the year:				
Final dividend of prior financial year	**7.9**	7.1	**174**	156
Interim dividend of current financial year	**3.3**	3.1	**73**	68
	11.2	10.2	**247**	224

No final dividend is proposed. Given the wide range of potential profit and cash flow outcomes of COVID-19, the Board believes it is prudent to defer any dividend payment decisions until later in the financial year, when there will be improved visibility on the potential impact of COVID-19 on the business.

13 Property, plant and equipment

	Land and buildings £m	Fixtures and equipment £m	Total £m
Cost			
At 10 March 2019 (restated)	**9,917**	**5,111**	**15,028**
Additions	**31**	**497**	**528**
Disposals	**(245)**	**(305)**	**(550)**
Transfer from/(to) asset held for sale	**9**	**-**	**9**
At 7 March 2020	**9,712**	**5,303**	**15,015**
Accumulated depreciation and impairment			
At 10 March 2019 (restated)	**2,644**	**3,191**	**5,835**
Depreciation expense for the year	**184**	**450**	**634**
Impairment loss for the year	**123**	**37**	**160**
Disposals	**(269)**	**(264)**	**(533)**
Transfer from/(to) asset held for sale	**8**	**-**	**8**
At 7 March 2020	**2,690**	**3,414**	**6,104**
Net book value at 7 March 2020	**7,022**	**1,889**	**8,911**
Capital work-in-progress included above	**141**	**295**	**436**
Cost			
At 11 March 2018 (restated)	9,939	5,076	15,015
Additions	63	418	481
Disposals	(85)	(384)	(469)
At 9 March 2019 (restated)	9,917	5,110	15,027
Accumulated depreciation and impairment			
At 11 March 2018 (restated)	2,504	3,112	5,616
Depreciation expense for the year	177	456	633
Impairment loss for the year	2	1	3
Disposals	(39)	(379)	(418)
At 9 March 2019 (restated)	2,644	3,190	5,834
Net book value at 9 March 2019 (restated)	7,273	1,920	9,193
Capital work-in-progress included above	135	107	242

Impairment charges include £6 million in relation to decommissioned ATMs within the Financial Services business, and £154 million in relation to the property strategy review.

14 Leases

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period.

Net book value	Land and buildings £m	Equipment £m	Total £m
At 10 March 2019 (restated)	**4,747**	**246**	**4,993**
Additions[1]	**285**	**121**	**406**
Depreciation charge	**(416)**	**(77)**	**(493)**
Impairment charge	**(80)**	**-**	**(80)**
At 7 March 2020	**4,536**	**290**	**4,826**
At 11 March 2018 (restated)	4,858	233	5,091
Additions[1]	303	85	388
Depreciation charge	(414)	(72)	(486)
At 9 March 2019 (restated)	4,747	246	4,993

1 Additions include cash and non-cash indirect costs and are offset by terminations which occurred during the period.

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2020 £m	2019 £m
At 10 March 2019 and 11 March 2018	**5,831**	5,905
Additions[1]	**373**	382
Interest expense	**332**	342
Payments	**(762)**	(798)
At 7 March 2020 and 9 March 2019	**5,774**	5,831
Current	**510**	533
Non-current	**5,264**	5,298

1 Additions are net of terminations which occurred during the period.

The following are the amounts recognised in profit or loss:

	2020 £m	2019 £m
Depreciation of right-of-use assets	**(493)**	(486)
Interest on lease liabilities	**(332)**	(342)
Variable lease payments not included in the measurement of lease liabilities	**(1)**	(1)
Finance income from sub-leasing of right-of-use assets	**2**	2
Operating sublet income	**47**	51
Expenses relating to short term leases	**(28)**	(29)
Expenses relating to leases of low value assets	**(8)**	(9)
Total amount recognised in profit or loss	**(813)**	(814)
Total cash outflow for leases	**(798)**	(836)

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.

14 Leases continued

Maturity analysis

Lease liabilities:

	2020 £m	2019 £m
Contractual undiscounted cash flows		
Less than one year	**820**	789
One to five years	**2,722**	2,690
More than five years	**8,245**	7,927
Total undiscounted lease liability	**11,787**	11,406
Lease liabilities included in the statement of financial position	**5,774**	5,831
Current	**510**	533
Non-current	**5,264**	5,298

The group is committed to payments totalling £38m (2019: £96m) in relation to leases that have been signed but have not yet commenced.

15 Intangible assets

	Goodwill £m	Computer software £m	Acquired brands £m	Customer relationships £m	Total £m
Cost					
At 10 March 2019 (restated)	**400**	**617**	**231**	**32**	**1,280**
Additions	**-**	**124**	**-**	**-**	**124**
Disposals	**-**	**(247)**	**-**	**-**	**(247)**
At 7 March 2020	**400**	**494**	**231**	**32**	**1,157**
Accumulated amortisation and impairment					
At 10 March 2019 (restated)	**4**	**122**	**89**	**22**	**237**
Amortisation expense for the year	**-**	**105**	**20**	**4**	**129**
Impairment loss for the year	**18**	**5**	**-**	**-**	**23**
Disposals	**-**	**(244)**	**-**	**-**	**(244)**
At 7 March 2020	**22**	**(12)**	**109**	**26**	**145**
Net book value at 7 March 2020	**378**	**506**	**122**	**6**	**1,012**
Cost					
At 11 March 2018 (restated)	401	524	231	32	1,188
Additions	-	116	-	-	116
Disposals	(1)	(23)	-	-	(24)
At 9 March 2019 (restated)	400	617	231	32	1,280
Accumulated amortisation and impairment					
At 11 March 2018 (restated)	4	45	66	2	117
Amortisation expense for the year	-	100	23	20	143
Disposals	-	(23)	-	-	(23)
At 9 March 2019 (restated)	4	122	89	22	237
Net book value at 9 March 2019 (restated)	396	495	142	10	1,043

Goodwill impairments of £18 million are detailed in note 16. The £5 million software impairment relates to assets written off in full for which replacements are planned.

16 Impairment of non-financial assets

At the Capital Markets Day on 25 September 2019, a programme of store closures was announced. In doing so, the performance of all stores, including pipeline developments, was reviewed, identifying stores whose economic performance was worse than expected and thus triggering a full impairment review by management on the Group's property portfolio.

A total impairment charge of £(252) million has been recognised during the year, allocated as follows:

- £154 million on property, plant and equipment;
- £80 million on right-of-use assets; and,
- £18 million on goodwill allocated to stores.

£(126) million of the charge is in relation to properties identified for closure – in these instances the carrying amounts of these stores has been written down to £nil. The remaining £(126) million relates to unprofitable and marginally profitable sites for which the cash flows no longer support the carrying amount. Assets with a carrying amount of £578 million were written down to their recoverable amount of £452 million.

The recoverable amounts for trading store CGUs has been determined using value in use calculations which are based on the cash flows expected to be generated by the stores using the latest budget and forecast data, the results of which are reviewed by the Board. Budget and forecast data reflect both past experience and future expectation of market conditions. The key assumptions in the value in use calculation are as follows:

Composition of CGU	• Property, plant and equipment and any goodwill attributable to individual stores. • For leased assets, the CGU also includes right-of-use assets and corresponding lease liabilities as management has concluded that lease liabilities need to be considered when determining the recoverable amount of the CGU.
Cash flow years / assumptions	• Board approved cash flow projections for five years are used and then extrapolated for a further 20 years for supermarkets and 10 years for convenience stores with no assumed growth rate, representing the typical time between refits. • Where lease terms are shorter than this, the remaining lease term has been used.
Terminal value	• For owned sites, a terminal value is included in the final cash flow year, representing the net cash flows expected to be received for the disposal of the assets at the end of their useful life. • It is calculated using an assumed market rent for the stores, with an investment yield based on similar properties in the area.
Discount rate	• A post-tax discount rate representing the Group's weighted average cost of capital (WACC), subsequently grossed up to a pre-tax rate of 9% • The post-tax WACC been calculated using the capital asset pricing model, the inputs of which include a risk-free rate for the UK, a UK equity risk premium, levered debt premium and a risk adjustment using a 10 year average beta for the Group.

16 Impairment of non-financial assets continued

For store pipeline development sites the carrying value of the asset is compared with its value in use using a methodology consistent with that described above for sites that will be developed. Future cash flows include the estimated costs to completion. For sites where there is no plan to develop a store, the recoverable amount is based on its fair value less costs to dispose.

Sensitivities

Of the above assumptions, the value-in-use calculations are most sensitive to changes in the discount rate, cash flows and inputs underpinning the terminal value. The table below sets out the key sensitivities performed on the trading value-in-use model.

Sensitivity area	Sensitivity	Increase / (decrease) in impairment £m
Discount rate	Increase of 1%	38
	Decrease of 1%	(21)
Cash flows	Increase of 1%	(2)
	Decrease of 1%	2
Rental yield (input for terminal values)	Increase of 1%	4
	Decrease of 1%	(5)
Market rent (input for terminal values)	Increase of 5%	(1)
	Decrease of 5%	1

17 Provisions

	Onerous contracts £m	Insurance provisions £m	Restructuring £m	Financial Services loan commitment provisions £m	Other Financial Services related provisions £m	Other provisions £m	Total £m
At 10 March 2019 (restated)	**34**	**71**	**22**	**18**	**39**	**20**	**204**
Additional provisions	**46**	**25**	**22**	**2**	**9**	**14**	**118**
Unused amounts reversed	**(4)**	**(9)**	**-**	**-**	**(13)**	**(10)**	**(36)**
Utilisation of provision	**(15)**	**(24)**	**(24)**	**-**	**(18)**	**(8)**	**(89)**
At 7 March 2020 (restated)	**61**	**63**	**20**	**20**	**17**	**16**	**197**
At 11 March 2018 (restated)	37	78	94	-	52	19	280
IFRS 9 opening adjustment	-	-	-	17	(3)	-	14
Additional provisions	20	29	67	2	8	18	144
Unused amounts reversed	(6)	(6)	-	(1)	(5)	-	(18)
Utilisation of provision	(17)	(30)	(139)	-	(13)	(17)	(216)
At 9 March 2019 (restated)	34	71	22	18	39	20	204

	2020 £m	2019 (restated) £m
Disclosed as:		
Current	**108**	109
Non-current	**89**	95
	197	204

18 Cash and cash equivalents

	2020 £m	2019 £m
Cash in hand and bank balances	**519**	609
Money market funds and deposits	**202**	204
Deposits at central banks	**273**	308
Cash and bank balances	**994**	1,121
Bank overdrafts	**-**	(1)
Net cash and cash equivalents	**994**	1,120

Of the above balance, £21 million (2019: £49 million) was restricted as at year-end.

19 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 part of the daily operating cycle of the Bank rather than for financing purposes. 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 4 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 4.

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.

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

19 Analysis of net debt continued

		Cash Movements		Non-Cash Movements			
	9 March 2019	Cash flows excluding interest	Net interest (received) / paid	Accrued Interest	Other non-cash movements	Changes in fair value	7 March 2020
	£m	£m	£m	£m	£m	£m	£
Retail							
Financial assets at fair value through other comprehensive income	1	-	-	-	-	-	1
Net derivative financial instruments (restated)	(9)	-	4	(5)	5	(10)	(15)
Cash and cash equivalents	466	(19)	(2)	2	-	-	447
Bank overdrafts	(1)	1	-	-	-	-	-
Borrowings (excluding overdrafts and finance leases)	(1,483)	369	48	(50)	-	-	(1,116)
Lease liabilities and hire purchase arrangements (restated)	(5,824)	429	332	(332)	(373)	-	(5,768)
Retail net debt (excluding perpetual securities) (restated)	(6,850)	780	382	(385)	(368)	(10)	(6,451)
Financial Services							
Financial assets at fair value through other comprehensive income	622	177	-	-	-	3	802
Net derivative financial instruments (restated)	-	-	-	-	-	4	4
Cash and cash equivalents	655	(108)	-	-	-	-	547
Bank overdrafts	-	-	-	-	-	-	-
Borrowings (excluding overdrafts and finance leases)	(176)	-	-	-	-	(4)	(180)
Lease liabilities and hire purchase arrangements (restated)	(7)	1	-	-	-	-	(6)
Financial Services net debt (restated)	1,094	70	-	-	-	3	1,167
Group							
Financial assets at fair value through other comprehensive income	623	177	-	-	-	3	803
Net derivative financial instruments (restated)	(9)	-	4	(5)	5	(6)	(11)
Cash and cash equivalents	1,121	(127)	(2)	2	-	-	994
Bank overdrafts	(1)	1	-	-	-	-	-
Borrowings (excluding overdrafts and finance leases)	(1,659)	369	48	(50)	-	(4)	(1,296)
Lease liabilities and hire purchase arrangements (restated)	(5,831)	430	332	(332)	(373)	-	(5,774)
Group net debt (excluding perpetual securities) (restated)	(5,756)	850	382	(385)	(368)	(7)	(5,284)
Retail net debt (excluding perpetual securities) (restated)	(6,850)	780	382	(385)	(368)	(10)	(6,451)
Perpetual capital securities	(248)						(248)
Perpetual convertible bonds	(248)						(248)
Retail net debt (including perpetual securities) (restated)	(7,346)	780	382	(385)	(368)	(10)	(6,947)
Of which:							
Leases	(5,824)						(5,768)
Net debt excluding lease liabilities	(1,522)						(1,179)

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

19 Analysis of net debt continued

		Cash changes		Non-cash changes			
	11 March 2018 £m	Cash flows excluding interest £m	Net interest (received) / paid £m	Accrued interest £m	Other non-cash movements £m	Changes in fair value £m	9 March 2019 £m
Retail							
Financial assets at fair value through other comprehensive income	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)

20 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.

On 20 March 2018, the Home Retail Group Pension Scheme was merged into the Sainsbury's Pension Scheme. The Sainsbury's Pension Scheme has two sections, the Sainsbury's Section which holds all the Scheme assets and liabilities relating to members who were in the original Sainsbury's Pension Scheme, and the Argos Section which holds all the assets and liabilities relating to former members of the Home Retail Group Pension Scheme. Each section's assets are segregated by deed and ring fenced for the benefit of the members of that section. The Scheme has nine Trustee directors.

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

Sainsbury's section

The Sainsbury's section of the Scheme has three different benefit categories: final salary, career average and cash balance. For final salary and career average members, benefits at retirement are determined by length of service and salary. For cash balance members, benefits are determined by the accrued retirement account credits.

20 Retirement benefit obligations continued

The section was closed to new employees on 31 January 2002 and closed to future accrual on 28 September 2013. The Scheme is also used to pay life assurance benefits to current (including new) colleagues.

Argos section

The section holds the assets and liabilities of the former Home Retail Group Pension Scheme, which was closed to new employees in 2009 and to future accrual in January 2013. Pension benefits at retirement are based on service and final salary.

Triennial valuation

The pension scheme is valued on different bases for different purposes. For the corporate annual accounts, the value of the retirement benefit is calculated under IAS19 while the funding of the Scheme is determined by the Trustee's 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 as 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 replaced 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 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.

The Scheme's interest in the Partnership entitles it to annual distributions over up to 20 years. The distributions will be made through three payment streams:

4) Payments to the Sainsbury's section (approximately £15 million per year)
5) Payments to the Argos section (approximately £20 million per year)
6) Switching payment stream, paid to either the Sainsbury's section or Argos section (initially approximately £23 million per year, increasing to £33 million by 2038)

In addition to the above, further cash contributions of £40 million have been agreed in FY2021 and £10 million in FY2022. No additional cash contributions have been agreed for subsequent years.

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.

20 Retirement benefit obligations continued

The switching 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.

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 £134 million as at 9 March 2019 were recognised. The resulting movement in the liability is included within remeasurement gains in other comprehensive income.

Unfunded pension liabilities

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

The amounts recognised in the balance sheet are as follows:

	Sainsbury's 2020 £m	**Argos 2020 £m**	**Group 2020 £m**	Sainsbury's 2019 £m	Argos 2019 £m	Group 2019 £m
Present value of funded obligations	**(8,914)**	**(1,421)**	**(10,335)**	(7,654)	(1,202)	(8,856)
Fair value of plan assets	**10,025**	**1,466**	**11,491**	8,759	1,224	9,983
	1,111	**45**	**1,156**	1,105	22	1,127
Additional liability due to minimum funding requirements (IFRIC 14)	**-**	**-**	**-**	-	(134)	(134)
Retirement benefit surplus/(deficit)	**1,111**	**45**	**1,156**	1,105	(112)	993
Present value of unfunded obligations	**(21)**	**(16)**	**(37)**	(20)	(14)	(34)
Retirement benefit surplus/(deficit)	**1,090**	**29**	**1,119**	1,085	(126)	959

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

	2020 £m	2019 £m
As at the beginning of the year	**959**	(257)
Interest cost	**28**	(8)
Remeasurement gains	**89**	1,269
Pension scheme expenses	**(9)**	(10)
Contributions by employer	**52**	63
Past service (charge)/credit	**-**	(98)
As at the end of the year	**1,119**	959

20 Retirement benefit obligations continued

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

	2020 %	2019 %
Discount rate	**1.6**	2.8
Inflation rate – RPI	**2.7**	3.2
Inflation rate – CPI	**1.7**	2.2
Future pension increases	**1.65 – 2.70**	2.00 - 3.05

The base mortality assumptions are based on the SAPS S2 tables, with adjustments to reflect the Scheme's population. Future mortality improvements are CMI 2018 projections with a long-term rate of improvement of 1.25 per cent per annum.

21 Post balance sheet events

Impact of coronavirus (COVID-19)
The COVID-19 pandemic has developed rapidly in 2020, with a significant number of infections across many countries. As detailed in note 2 it has been concluded that none of the conditions at the balance sheet date indicated that any adjustments would be required to the Group's financial statements. However, given the significance of these events, further disclosure is provided below indicating where there may be material changes in the Group's judgements and estimates impacting the balance sheet as at 7 March 2020.

Impairment of non-current assets
Subsequent to the balance sheet date, the Group closed Argos standalone stores – the effect of this is to decrease cash flows attributable to Argos clusters and therefore the recoverable amount used for impairment testing purposes.

In addition, operating expenses will be materially higher than forecast, particularly in the areas of retail labour and absence costs and instore costs where we assume disruption will continue for most of the first half of our financial year. There will however be some offset from approximately £450m of business rates relief on shops in England, Scotland and Northern Ireland.

The Group has carried out sensitivity analyses, including on forecast cash flows, for its portfolio of store and store cluster CGUs as part of the impairment review conducted during the year which are included in note 16. As the outbreak continues to progress and evolve, it is challenging at this time, to predict the full extent and duration of its business and economic impact. For Argos clusters, a decrease in cash flows has been modelled in line with the assumptions included within the Group's viability statement with no additional impairments noted. For Sainsbury's stores, it is likely that the additional instore costs and reduction in general merchandise and clothing sales will be mostly offset by the grocery sales growth and business rates relief. It is therefore not anticipated that the resulting cash flow impacts will cause material impairment charges on the Group's non-current assets.

Financial Services expected credit loss implications
As at the balance sheet date, a multi-scenario economic model is used which includes an assessment of downside risk reflective of future economic uncertainty that existed at that time.

21 Post balance sheet events continued

Subsequent to the balance sheet date, there has been a deterioration in the economic outlook in the UK as a consequence of the COVID-19 pandemic and measures taken by the government to control the spread of the virus. A significant reduction in UK economic output is now expected over an uncertain period, with increases in unemployment resulting in increased expected credit losses. These losses will be mitigated, to some degree, by UK government actions such as subsidies to businesses for furloughed employees and the self-employed. In order to estimate the increased credit losses resulting from this deterioration in outlook, the Group has developed three unemployment scenarios which have been risk-weighted to determine an overlay rate applied to the existing IFRS 9 models. In line with guidance from the Bank of England, these scenarios assume that there will be significant economic disruption while social distancing measures are in place, followed by an expected recovery when these are lifted. The three scenarios assume peak unemployment over the next 12 months of 6%, 8% and 10% respectively, with the weighted average resulting in an expected credit loss (ECL) uplift of approximately £30m.

Pension surplus

The defined benefit pension scheme (the Scheme) has been affected by the impact of COVID-19 on financial markets and the global economy.

An approximate reassessment of the IAS 19 retirement benefit surplus as at 31 March 2020 has been performed, resulting in an estimated revised surplus of £1,340 million (excluding the unfunded obligations), an increase of 16 per cent compared to 7 March 2020. A valuation date of 31 March has been selected as it aligns with the Scheme's quarter-end date and captures movements following the COVID-19 lockdown.

When considering the ongoing funding of the Scheme, the exposure to falling asset values has been reduced as a result of the continued reduction in equities held in recent years. Although there was an absolute reduction in the value of the Scheme's assets (some of which have been estimated) over this period, when valuing the Scheme on an IAS19 basis, this reduction was more than offset by the increase in yields on AA corporate bonds (mainly due to a widening of credit spreads) over the same period and a reduction in inflation expectations over the long-term.

Although there has been no formal update to the official mortality tables since the 31st March, it is expected that any decline in longevity, due to the Coronavirus, will be minimal. Equity prices have recovered some of the losses experienced in March, with bond prices also higher, albeit only slightly. There is also a slight decrease to the discount rate applied to the expected liability cash flows, suggesting that whilst the overall pension surplus will have decreased since the 31st March, we do not believe the movement to be significant relative to the size of the assets, liabilities or surplus.

Note 20 includes detail of the Group contributions which are set by the Trustee's triennial valuation and will not be impacted by COVID-19. The Group contributions framework allows for short-term changes in volatility, so the Scheme can continue its longer-term journey to being funded on a low dependency basis, giving members a greater level of security.

Inventory

The inventory provisions in our General Merchandise and Clothing areas have been reviewed for post year-end changes in expected net realisable value, driven by changes in customer buying behaviour as a result of COVID-19. All inventory provisioning requires judgement, and is based on a number of factors including current and expected sales performance, stock cover, current trends and changes in technology. Following the review it is not anticipated that further material provisioning is required against the inventory held at the balance sheet date of 7 March 2020.

Financial risk management

The Group has prepared additional cash flow forecasts in connection to COVID-19, to identify associated liquidity requirements and ensure these are closely managed. The counterparty credit, foreign currency, interest rate, inflation and commodity risks detailed have been considered in light of the current economic environment and the sensitivities remain reasonable. The Group's policies on foreign currency, interest rate, commodity and counterparty credit risk management are unchanged.

Alternative performance measures (APMs)

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

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

<table>
<tr><th>APM</th><th>Closest equivalent IFRS measure</th><th>Definition/ Purpose</th><th>Reconciliation</th></tr>
<tr><td colspan="4">Income statement - Revenue</td></tr>
<tr><td>Underlying Group sales</td><td>Revenue</td><td>Total sales less acquisition fair value unwinds on Argos Financial Services.
This is the headline measure of revenue for the Group. It shows the annual rate of growth in the Group's sales and is considered a good indicator of how rapidly the Group's core business is growing.</td><td>A reconciliation of the measure is provided in note 7 of the financial statements.</td></tr>
<tr><td>Underlying Retail sales</td><td>Revenue</td><td>Underlying Group sales as above, less underlying Financial Services revenue.
Shows the annual rate of growth in the Group's Retail business sales.</td><td>A reconciliation of the measure is provided in note 7 of the financial statements.</td></tr>
<tr><td>Like-for-like sales</td><td>No direct equivalent</td><td>Year-on-year growth in sales including VAT, excluding fuel, excluding Financial Services, for stores that have been open for more than one year.
The relocation of Argos stores into Sainsbury's supermarkets are classified as new space, while the host supermarket is classified like-for-like.
Stores closed in the period are also excluded from like-for-like at the point in which they close with prior year comparatives then removed from the calculation in the equivalent closure weeks.
The measure is used widely in the retail industry as an indicator of current trading performance and is useful when comparing growth between retailers that have different profiles of expansion, disposals and closures.</td><td><table>
<tr><th>The reported retail like-for-like sales (excluding fuel) decrease of (0.6) per cent is based on a combination of Sainsbury’s like-for-like sales and Argos like-for-like sales for the 52 weeks to 7 March 2020. See movements below:</th><th>52 weeks to 7 March 2020</th><th>52 weeks to 9 March 2019</th></tr>
<tr><td>Underlying retail like-for-like (exc. fuel)</td><td>(0.6)</td><td>(0.2)</td></tr>
<tr><td>Underlying net new space impact</td><td>0.2</td><td>0.6</td></tr>
<tr><td>Underlying total retail sales growth (exc. fuel)</td><td>(0.4)</td><td>0.4</td></tr>
<tr><td>Fuel Impact</td><td>0.3</td><td>1.7</td></tr>
<tr><td>Underlying total retail sales growth (inc. fuel)</td><td>(0.1)</td><td>2.1</td></tr>
</table></td></tr>
<tr><td colspan="4">Income statement – Profit</td></tr>
<tr><td>Retail underlying operating profit</td><td>Profit before tax</td><td>Underlying earnings before interest, tax, Financial Services operating profit and Sainsbury's underlying share of post-tax profit from joint ventures and associates.</td><td>A reconciliation of the measure is provided in note 7 of the financial statements.</td></tr>
</table>

Alternative performance measures (APMs) continued

APM	Closest equivalent IFRS measure	Definition/ Purpose	Reconciliation
Underlying profit before tax	Profit before tax	• Profit or loss before tax excluding items which by virtue of their size or nature may obscure understanding of the Group's underlying performance.	Underlying profit before tax is bridged to statutory profit before tax in the income statement and note 6 of the financial statements. The adjusted items are as follows: • 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 ongoing 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.
Underlying basic earnings per share	Basic earnings per share	• Earnings per share using underlying profit as described above.	A reconciliation of the measure is provided in note 11 of the financial statements.
Retail underlying EBITDAR	No direct equivalent	• Retail underlying operating profit as above, before rent, depreciation and amortisation.	A reconciliation of the measure is provided on page 17 of the Financial Review.
Underlying net finance costs	Finance income less finance costs	• Net finance costs before any non-underlying items as defined above that are recognised within finance income / expenses	A reconciliation of this measure is included in note 9 of the financial statements. The adjusted items are as follows: • 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 ongoing 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
Underlying tax rate	Effective tax rate	• 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 6 of the financial statements

Alternative performance measures (APMs) continued

APM	Closest equivalent IFRS measure	Definition/Purpose	Reconciliation

Cash flows and net debt

APM	Closest equivalent IFRS measure	Definition/Purpose
Retail cash flow items in Financial Review	No direct equivalent	• To help the reader understand cash flows of the business a summarised cash flow statement is included within the Financial Review. • As part of this a number of line items have been combined. The cash flow in note 7 of the financial statements includes a reference to show what has been combined in these line items.

	Ref	52 weeks to 7 March 2020 £m	52 weeks to 9 March 2019 (restated) £m
Net interest paid	a	**(405)**	(423)
Strategic capital expenditure	b	**-**	(36)
Repayment of lease liabilities	c	**(419)**	(429)
(Repayment)/ proceeds from borrowings	d	**(379)**	(446)
Other	e	**(3)**	(8)
Joint ventures	f	**143**	13

APM	Closest equivalent IFRS measure	Definition/Purpose
Retail free cash flow	Net cash generated from operating activities	• 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	52 weeks to 7 March 2020 £m	52 weeks to 9 March 2019 (restated) £m
Cash generated from retail operations	**1,971**	1,921
Net interest paid (ref (a) above)	**(405)**	(423)
Corporation tax	**(113)**	(61)
Retail purchase of property, plant and equipment	**(517)**	(466)
Retail purchase of intangible assets	**(82)**	(78)
Retail proceeds from disposal of property, plant and equipment	**81**	64
Initial direct costs on right-of-use assets	**(13)**	(11)
Repayments of obligations under leases[1]	**(419)**	(429)
Add back: Strategic capital expenditure	**-**	36
Dividends and distributions received	**143**	18
Investment in joint ventures and associates	**-**	(5)
Bank capital injections	**(35)**	(110)
Free cash flow	**611**	456

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

Alternative performance measures (APMs) continued

<table>
<tr><th>APM</th><th>Closest equivalent IFRS measure</th><th>Definition/Purpose</th><th>Reconciliation</th></tr>
<tr><td>Net cash generated from retail operations (per Financial Review)</td><td>Cash generated from operations</td><td>

- 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:

</td><td>

	52 weeks to 7 March 2020 £m	52 weeks to 9 March 2019 (restated) £m
Retail cash generated from operating activities (per note 7)	**1,474**	1,456
Perpetual security coupons	**(23)**	(23)
Interest received	2	4
Net retail cash generated from operations in Financial Review	**1,453**	1,437

</td></tr>
<tr><td>Core retail capital expenditure</td><td>No direct equivalent</td><td>

- Capital expenditure excludes Sainsbury's Bank, before proceeds on disposals and before strategic capital expenditure.
- This allows management to assess core retail capital expenditure in the period in order to review the strategic business performance.
- The reconciliation from the cash flow statement is included here.

</td><td>

	52 weeks to 7 March 2020 £m	52 weeks to 9 March 2019 (restated) £m
Purchase of property, plant and equipment	**(517)**	(430)
Purchase of intangibles	**(82)**	(78)
Cash capital expenditure before strategic capital expenditure (note 7)	**(599)**	(508)

</td></tr>
<tr><td>Net debt</td><td>Borrowings, cash, derivatives, financial assets at FVTOCI, lease liabilities</td><td>

- 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.

</td><td>

A reconciliation of the measure is provided in note 19 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:,

	7 March 2020 £m	9 March 2019 (restated) £m
Financial instruments at FVTOCI per balance sheet	**1,054**	856
Less equity-related securities	**(251)**	(233)
Financial instruments at FVTOCI included in Group net debt	**803**	623
Net derivatives per balance sheet	**(71)**	(4)
Less derivatives not used to hedge borrowings	**60**	(5)
Derivatives included in Group net debt	**(11)**	(9)

</td></tr>
</table>

Alternative performance measures (APMs) continued

APM	Closest equivalent IFRS measure	Definition/ Purpose	Reconciliation
Other			
Net debt/ underlying EBITDAR	No direct equivalent	• 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 22.
Return on capital employed	No direct equivalent	• 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 22.
Fixed charge cover	No direct equivalent	• 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.	EBITDAR is reconciled in the Financial Review on page 22. Underlying net finance costs as per note 9 of the financial statements.