5 November 2020

J Sainsbury plc

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

Strategy Update and Interim Results for the 28 weeks ended 19 September 2020

- Total Retail sales up 7.1 per cent (excluding fuel) with like-for-like sales up 6.9 per cent. Grocery sales up 8.2 per cent and General Merchandise sales up 7.4 per cent
- Digital sales up 117 per cent to £5.8 billion, nearly 40 per cent of total sales. Groceries Online sales up 102 per cent
- Statutory Group sales (excluding VAT) down 1.1 per cent, with fuel sales down 44.6 per cent
- Loss before tax £(137) million, reflecting £438 million of one-off costs associated with Argos store closures and other strategic and market changes
- Underlying profit before tax £301 million
- Retail costs of approximately £290 million to protect customers and colleagues from COVID-19, partially offset by £230 million business rates relief
- Free cash flow £943 million
- Non-lease net debt down by £912 million to £267 million
- Special dividend of 7.3p to be paid in lieu of final dividend for the 2019/20 financial year, aligned to policy of 1.9x full year dividend cover by underlying earnings
- Interim dividend of 3.2p, in line with policy of paying 30 per cent of prior full year dividend
- Full year underlying profit before tax now expected to be at least five per cent higher than last year, reflecting stronger than expected sales, particularly at Argos

Strategy Update: Driven by our passion for food, together we serve and help every customer

We are refocusing on our core food business, putting food back at the heart of Sainsbury's. We will:

- Lower food prices, focusing on offering customers consistently good value
- Accelerate food innovation, tripling the number of new products we launch each year
- Profitably grow Groceries Online sales to meet further demand
- Increase the rate of new Convenience store and Neighbourhood Hub openings over the next three years
- Continue to reduce plastic and food waste and inspire customers to eat healthier products, which will be better for the climate and environment, as we work towards becoming Net Zero by 2040
- Close our meat, fish and deli counters, based on reduced customer demand. This will make stores simpler to run and reduce food waste. We will keep adding more quality and innovation in our aisles

Our other businesses and brands must deliver in their own right and actively support our ambition in food

- We are building on the success of integrating Argos stores into Sainsbury's and accelerating the final stages:
  - By March 2024 we will open up to 150 more Argos stores in Sainsbury's and add 150-200 more Argos collection points in supermarkets and convenience stores, so that every Sainsbury's supermarket will have either an Argos store in store or a collection point
  - As we add more Argos stores and collection points in Sainsbury's, we will close around 420 Argos standalone stores, reducing the UK Argos standalone store estate to around 100 by March 2024
- We are expanding our ambition for Habitat, which will become our main home and furniture brand in Argos and Sainsbury's
- We are accelerating our plans for Nectar, bringing greater support for food and faster profit growth
- We expect Financial Services returns and profits to double in five years, despite the challenges of COVID-19

We will accelerate the pace of change across our business, simplifying our operations, delivering structural cost savings to support investment into our core food offer and driving an inflection in profit momentum.

- We will transform our approach to costs across the business, delivering a reduction in our retail operating costs to sales ratio of at least two percentage points by March 2024
- This will create at least £600 million of annual additional funding by March 2024 to reinvest in the customer offer and deliver improved financial returns. This will be after driving efficiencies to cover inflationary cost pressures, volume-related cost increases and the cost of meeting increasing customer demand for online groceries
- We are investing in the integration of our logistics and supply chain network and the accelerated restructuring of the Argos store estate, reducing costs and delivering working capital benefits

- Reflecting our commitments to focus our resources and move faster, we are open to partnering or outsourcing where this efficiently accelerates our plans to improve our customer offer

We expect this new plan to drive an inflection in underlying profit momentum, with pre-tax profits in the year to March 2022 to exceed those reported in the year to March 2020 (which were not impacted by COVID-19)

- We will continue our track record of strong cash generation, meeting our target of at least £750 million net debt reduction in the three years to March 2022 and generating average retail free cash flow of £500 million per year over the following three years to March 2025
- Capital expenditure will increase to between £700 million and £750 million per year in the three years to March 2024 to support high returning infrastructure transformation investments before returning to around £600 million per year
- We will incur one off costs from infrastructure, operating model and structure changes of £900 million to £1 billion in the period to March 2024 (approximately £300 million cash). We expect total non-underlying costs of around £625 million to be booked in the current financial year (around £100 million cash)

Simon Roberts, Chief Executive of J Sainsbury plc said:

"As we go into lockdown in England for the second time this year and restrictions are in place across the UK, we know our customers and colleagues are feeling anxious and we will do all we can to support them. Our colleagues have done an exceptional job going above and beyond for our customers every day which is why we are giving our frontline colleagues a second 10 per cent thank you payment. Above all else today, I want to express my heartfelt thanks to every one of my colleagues in our stores, in our depots, and across our store support centres for all your hard work and for your outstanding team effort. We also want to support our communities and those in need and are creating a £5 million community fund for local charities and good causes, in addition to the £7 million we donated to Fareshare and Comic Relief earlier this year. We want to do our bit to ensure that no one goes hungry at Christmas and to support those most in need.

"COVID-19 has accelerated a number of shifts in our industry. Investments over recent years in digital and technology have laid the foundations for us to flex and adapt quickly as customers needed to shop differently. Around 19 per cent of our sales were digital this time last year and nearly 40 per cent of our sales are digital today.

"While we are working hard to help feed the nation through the pandemic, we have also spent time thinking about how we deliver for our customers and our shareholders over the longer term.

"We will put food back at the heart of Sainsbury's. We are already working to make this happen – we have lowered prices on over 1,500 every day grocery products over the past few months and we will do more of this, focusing on the staple products that our customers buy every day. We know that customers are feeling the pinch and we want them to feel confident they will get always get great value, quality and service from Sainsbury's. We will focus on accelerating product innovation and will bring new and exclusive products to our customers much more often. To support our ambition in food, we are accelerating our ambition to structurally reduce our cost base right across the business so we can invest faster back into our core food offer.

"Our other brands - Argos, Habitat, Tu, Nectar and Sainsbury's Bank - must deliver for their customers and for our shareholders in their own right. Argos sales have been strong over the past six months and we have gained almost two million new customers as people have re-connected with Argos. Over the next three years we will make Argos a simpler, more efficient and more profitable business while still offering customers great convenience and value and improving availability. We will also make Habitat more widely available in Sainsbury's and Argos, giving customers access to stylish home and furniture products at more affordable prices. We are talking to colleagues today about where the changes we are announcing in Argos standalone stores and food counters impact their roles. We will work really hard to find alternative roles for as many of these colleagues as possible and expect to be able to offer alternative roles for the majority of impacted colleagues.

"Given the unprecedented circumstances of this year and the challenges facing our colleagues, including the changes we are announcing today, I have informed the Board that if a bonus is payable, I will waive any bonus entitlement for this financial year.

"We are raising our ambitions. By delivering improvements in value and quality and simplifying this business, we will do a better job for our customers and deliver an improved financial performance and stronger shareholder returns.

"Right here and now I and all the team are focused on supporting and delivering for our customers in the days and weeks ahead."

Tables

	28 weeks to 19 September 2020	28 weeks to 21 September 2019
Statutory Reporting		
Group sales (exc. VAT, inc. fuel)	£14,934m	£15,097m
Items excluded from underlying results	£(438)m	£(229)m
(Loss)/profit before tax	£(137)m	£9m
(Loss) for the financial period	£(179)m	£(38)m
Basic loss per share	(8.3)p	(2.2)p

	28 weeks to 19 September 2020	28 weeks to 21 September 2019
Business Performance		
Underlying group sales (inc. VAT)	£16,557m	£16,856m
Underlying profit before tax	£301m	£238m
Underlying basic earnings per share	10.1p	7.9p
Net debt	£(6,168)m	£(6,778)m
Non-lease net debt	£(267)m	£(1,008)m
Interim dividend	3.2p	3.3p
Special dividend	7.3p	-

Like-for-like sales growth	**2019/20**				**2020/21**		
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**H1**
Like-for-like sales (exc. fuel)	(1.6)%	(0.2)%	(0.7)%	1.3%	8.2%	5.1%	6.9%
Like-for-like sales (inc. fuel)	(1.0)%	(0.4)%	(1.1)%	1.3%	(2.3)%	(0.5)%	(1.6)%

	2019/20				**2020/21**		
Total sales growth	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**H1**
Grocery	(0.5)%	0.6%	0.4%	2.0%	10.5%	5.1%	8.2%
Total General Merchandise	(3.1)%	(2.0)%	(3.9)%	(1.3)%	7.2%	7.6%	7.4%
GM (Argos)				0.4%	10.7%	10.9%	10.8%
GM(Sainsbury's Supermarkets)				(8.1)%	(9.3)%	(6.9)%	(8.2)%
Clothing	(4.5)%	3.3%	4.4%	2.5%	(26.7)%	(7.5)%	(18.3)%
Total Retail (excl. fuel)	**(1.2)%**	**0.1%**	**(0.7)%**	**1.3%**	**8.5%**	**5.2%**	**7.1%**
Fuel				4.9%	(56.1)%	(29.3)%	(44.6)%
Total Retail (inc. fuel)	**(0.6)%**	**0.1%**	**(0.9)%**	**1.9%**	**(2.1)%**	**(0.4)%**	**(1.4)%**

Outlook

Sales during the first half were stronger than the base case assumptions we outlined in April, particularly at Argos, driving a strong underlying profit increase against a soft comparative base. Retail costs of around £290 million associated with protecting customers and colleagues from COVID-19 were partially offset by £230 million of business rates relief.

Grocery sales and general merchandise sales have remained strong to date in the second half of the year and we expect Financial Services to return to profit in the second half. Retail profits will, however, also reflect a tougher comparative base, investment in improving value for customers and ongoing costs associated with protecting customers and colleagues from COVID-19. We cannot fully predict the impact of COVID-19 and lockdown restrictions on retail sales and costs for the remainder of the second half of the year but our current assumptions would result in full year Group underlying profit before tax increasing by at least five per cent year on year.

Looking beyond this financial year, we will invest significantly to accelerate innovation, improve the quality of our food, lower our prices and meet the growing demand for online groceries. We will fund these investments through simplifying our business and accelerating our cost savings plans and expect underlying profits in the year to March 2021/22 to be higher than those reported in the year to March 2019/20[1] (which were not impacted by COVID-19).

Capital expenditure will increase over the next three years to fund high-returning logistics and Argos transformation plans. We expect these projects to generate working capital improvements and expect cash generation to remain strong. We will meet our target of reducing net debt by at least £750 million in the three years to March 2022 while maintaining our dividend policy. In outer years we expect to continue our track record of strong cash generation, with average retail free cash flow of £500 million per annum over the three years to March 2025.

Dividend

In April the Board chose, due to limited visibility at the time on the potential impact of COVID-19 on the business, to defer dividend payment decisions and did not pay a final dividend for the 2019/20 financial year. In the light of improved visibility, strong trading and a strong balance sheet position, the Board has chosen to pay a special dividend in lieu of a final dividend for the 2019/20 financial year. The dividend of 7.3p is aligned to policy of 1.9x full year dividend cover by underlying earnings. This will be paid on 18 December 2020 to shareholders on the Register of Members at the close of business on 13 November 2020.

The Board has approved an interim dividend of 3.2p, in line with our policy of paying 30 per cent of prior full year dividend. This will also be paid on 18 December 2020 to shareholders on the Register of Members at the close of business on 13 November 2020.

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 7.30am. The webcast can be accessed at the following link: https://webcasts.sainsburys.co.uk/sainsbury157
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.sainsburys.co.uk/sainsbury158
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 Third Quarter Trading Statement at 07:00 (BST) on 13 January 2021.

ENDS

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[1] 2019/20 UPBT £586 million

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

Enquiries

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Strategy Update: Driven by our passion for food, together we serve and help every customer

We will put food back at the heart of our business and will build on the changes we have made as we helped our customers through the COVID-19 pandemic. We are raising our ambitions and will speed up the pace of change across our business, simplifying our operations and accelerating our cost savings programmes so that we can invest more in food quality, choice, innovation and consistently lower prices for our customers. We will reduce complexity, transform our cost base and ensure that our portfolio of brands supports our focus on food, thereby improving financial performance and delivering stronger shareholder returns.

Food First

Our clear priority is to build on our strong brand heritage and reputation for quality, range and innovation and offer more consistent value to customers while making shopping more convenient. This is what we mean by putting food back at the heart of Sainsbury's. We will deliver delicious, great value food wherever and however customers want to shop with us.

- We have lowered prices on over 1,500 products and will go much further. We will lower prices on thousands of every day food products, focusing on staple products that our customers buy every day
- We will accelerate food product innovation by recruiting more product developers. Working closely with our suppliers, we will triple the number of new products and increase speed to market by at least 30 per cent. In September we launched 200 new fresh food products as part of the biggest re-vamp of our fresh food aisles in more than a decade
- We closed our meat, fish and delicatessen counters in March as we focused all our efforts on feeding the nation. Customers have told us they are happy buying these products in the aisle. We have therefore decided to close permanently our meat, fish and delicatessen counters. Our pizza and patisserie counters remain open and we continue to freshly bake bread in 1,348 stores. These changes will help us focus on quality, value and availability, while reducing store complexity and waste
- We have more than doubled our Groceries Online capacity and volume since March. 17 per cent of our grocery sales are now online compared with seven per cent in March. We are currently fulfilling over 700,000 online customer orders per week across home delivery and click and collect. By the end of this year we expect to be able to fulfil 760,000 orders per week and we will continue to grow capacity in order to meet customer demand going forward. Our groceries online business is profitable due to its scale and in-store pick model and we will focus on driving efficiencies to continually improve profitability. Our Chop Chop one hour food delivery service is now in 15 cities across the UK and our agreements with Uber Eats and Deliveroo will help us to reach even more new customers and serve more shopping missions
- Our Net Zero sustainability plan is key to putting food at the heart of Sainsbury's. Customers want tasty food, great quality, low prices and they want to ensure that the food they buy is having the lowest impact on the environment, now and in the future. We are committed to helping customers to eat more healthy products, which is good for them and good for the climate and the environment. We will reduce our plastic usage by 50 per cent by 2025 and reduce our food waste
- We will adapt our supermarkets and convenience stores to reflect changing shopping habits and local demand. We will expand the successful introduction of fresh food prepared on site - such as hot meals, sushi, freshly baked bread and hot coffee - and make more space available for our in-aisle fresh food ranges and food to go. To do this profitably, we will free up space, reduce complexity and cut excess costs in our supermarkets
- We plan to open around 18 more 'Neighbourhood Hub' convenience stores over the next three years. These stores are larger than a typical convenience store and offer locally-tailored choice across food, beauty, clothing, seasonal and general merchandise. They are conveniently located, easy to shop and have all the benefits of the Argos offer. We expect them to be very popular one-stop shops for their local communities. We will also increase our rate of new convenience store openings to at least 20 per year over the next three years

Brands that Deliver

We will refocus the role of our portfolio brands to ensure that they contribute positively in their own right, actively support our ambition in food and do not dilute returns or divert focus and resources from the core.

Argos, Habitat, Tu, Nectar and Sainsbury's Bank will deliver for their customers and drive strong, sustainable, profitable growth to support our core food business.

- Argos sales grew by nearly 11 per cent in the first half, with 90 per cent of sales originating online and almost two million customers re-discovering Argos despite standalone Argos stores being closed for 12 weeks. Building on this success we will accelerate the structural integration of Sainsbury's and Argos and further simplify the Argos business model, making it more efficient and profitable and improving our customer offer at the same time
- 120 of our standalone Argos stores have not reopened since we closed them back in March. These stores will now close permanently. We currently have 315 Argos stores in our supermarkets and 296 collection points across supermarkets and convenience stores. Over the next three years we will open up to another 150 Argos Stores in supermarkets and a further 150-200 collection points. In total, we will close around 420 Argos stores by March 2024, reducing the total number of standalone stores to around 100
- To support this streamlined infrastructure we will build a total of 32 Local Fulfilment Centres across the UK that will operate our fast track delivery operations, delivering to customers' homes and to Argos stores and collection points across the country within hours. Through this transformation, we will significantly reduce our cost base and stock holding while improving speed, convenience and availability for customers
- We stopped printing the Argos catalogue as customers are increasingly shopping online. By focusing our resources on our website we are able to deliver a more modern, dynamic and flexible approach to both pricing and new products. We will continue to print the iconic Christmas Gift Guide, which is bigger and better than ever this year
- We are investing in Habitat, which will become our main home and furniture brand across Sainsbury's and Argos. Habitat is a strong brand and, by increasing its visibility in Sainsbury's and Argos stores and online, expanding the product range and making prices more affordable, we have a significant opportunity to grow market share
- Tu Clothing has delivered very strong online sales growth and the range is growing both value and volume market share[1]
- Nectar gives us a strong competitive advantage, supports our food business and is valued by our customers. It is also central to how we understand our customers because it identifies, in real time, how they shop with us and what they want. We will continue to grow our portfolio of coalition partners and build our Nectar360 digital media business
- We have made good progress with our Financial Services transformation plan and streamlined our product offer. We still expect to double profit and returns in our Financial Services business within five years, despite the challenges of COVID-19. This reflects a strong balance sheet and effective cost management and we remain confident that no capital injections will be required from the Group

Colleague impact

We are talking to colleagues today where the changes we are announcing impact their roles. We recruit 55,000 Retail colleagues every year and have already hired 52,000 people since March, including 29,000 additional colleagues to support our efforts to feed the nation. We have many job opportunities for colleagues who work on our food counters or in our Argos standalone stores that are closing, but vacancies might not always be in the right location or at suitable hours for all colleagues. Whilst we will aim to find alternative roles for as many colleagues as possible, around 3,500 of our colleagues could lose their roles as a result of our proposals. Including these proposals, we expect to increase our colleague population by 6,000 roles by the end of the financial year. We have an excellent track record of finding alternative roles for colleagues - for example, where we have moved colleagues from Argos standalone stores to stores in Sainsbury's supermarkets, we have retained 90 per cent of colleagues. We will do everything possible to find alternative roles for our colleagues.

Save to Invest

We will deliver a step change in efficiency by transforming our approach to costs, simplifying our organisation and delivering a structural reduction in our operating cost base. We are accelerating our cost saving plans to unlock new opportunities in order to fund the improvement of our food offer and to ensure we can meet the growth in customers shopping across a broad range of channels.

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[1] Kantar Total Clothing, Footwear and Acc for 24 weeks to 20 September 2020

- We will simplify our business and lower the overall cost base in our operations. We will deliver a step change reduction in our retail operating costs to sales ratio of at least two percentage points by March 2024, creating around £600 million of annualised additional capacity to invest in the customer offer and deliver improved financial returns. The money we save will enable us to reinvest in our food business to give our customers better products, improved service and lower prices
- This will require total cost savings significantly higher than £600 million given the need to additionally address inflationary cost pressures, volume-related cost increases and the cost of meeting increasing customer demand for online groceries. We have extensive plans in place to deliver these cost savings across the business. Some key examples are:
    - Creating a new supply chain and logistics operating model, moving to a single integrated supply chain and logistics network across Sainsbury's and Argos. This will structurally reduce our costs by £150 million by March 2024
    - Moving 150 Argos standalone stores into Sainsbury's and reducing the number of Argos standalone stores to 100 over the next three years will reduce our operating costs by £105 million by March 2024
    - Reducing significantly our costs by further adapting our store operating model to better reflect customer demand and the way customers shop in our stores now and in the future. The closure of our meat, fish and delicatessen counters will save at least £60 million in operating costs and will reduce food waste and energy consumption in our stores
    - Building on last year's property strategy programme, where we said 10 to 15 supermarkets and 30 to 40 convenience stores would close over two years, we now expect that 15 to 20 supermarkets and 50 to 60 convenience stores will close over the next three years. We expect to open 100 convenience stores over the next three years

Strategy Update - Key Financials

- We expect an inflection in underlying profit momentum, driven by an improved food performance, improved financial services and general merchandise profits, lower interest costs and funding from the accelerated cost savings programmes outlined above
- Based on an expectation that the impact of COVID-19 on profits will be limited to the financial year to March 2021, we expect underlying pre-tax profits in the financial year to March 2022 to exceed those reported in the financial year to March 2020
- We expect to meet our target of reducing net debt by at least £750 million in the three years to March 2022 while maintaining a policy of paying a dividend covered 1.9x by underlying earnings and to generate average retail free cash flow of £500 million per year over the following three years
- Capital expenditure will increase to around £700-750 million per year in the three years to March 2024 to support high returning investments in the transformation of our logistics platform and accelerated restructuring of the Argos store estate, before returning to around £600 million per year
- The changes required to our physical infrastructure, store operating models and central structures will incur one-off costs of £900 million to £1 billion in the period to March 2024, of which around £300 million will be cash costs. We expect total non-underlying costs of around £625 million to be booked in the current financial year, of which around £100 million will be cash costs

Targets and metrics

We will better align internal and external metrics and targets and will report against these consistently. Key metrics will be:

- Customer Satisfaction
- Grocery market share
- Colleague engagement
- Movement in operating costs as a percentage of sales
- Underlying Profit Before Tax
- Retail Free Cash Flow
- Net Zero by 2040 in our own operations

Financial Review for the 28 weeks to 19 September 2020

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 Note 2.5 on page 30 for further information.

In the 28 weeks to 19 September 2020, the Group generated a loss before tax of £137 million (HY 2019/20: profit before tax of £9 million) and an underlying profit before tax of £301 million (HY 2019/20: £238 million).

Summary income statement	**28 weeks to 19 September 2020 £m**	28 weeks to 21 September 2019 £m	Change %	52 weeks to 7 March 2020 £m
Underlying Group sales (including VAT)	**16,557**	16,856	(1.8)	32,394
Underlying Retail sales (including VAT)	**16,338**	16,567	(1.4)	31,825
Underlying Group sales (excluding VAT)	**14,934**	15,097	(1.1)	28,993
Underlying Retail sales (excluding VAT)	**14,715**	14,808	(0.6)	28,424
Underlying operating profit/(loss)				
Retail	**555**	437	27	938
Financial services	**(55)**	20	N/A	48
Total underlying operating profit	**500**	457	9	986
Underlying net finance costs[1]	**(199)**	(219)	9	(400)
Underlying profit before tax	**301**	238	26	586
Items excluded from underlying results	**(438)**	(229)	(91)	(331)
(Loss)/profit before tax	**(137)**	9	N/A	255
Income tax expense	**(42)**	(47)	11	(103)
(Loss)/profit for the financial period	**(179)**	(38)	(372)	152
Underlying basic earnings per share	**10.1p**	7.9p	28	19.8p
Basic (loss)/earnings per share	**(8.3)p**	(2.2)p	(277)	5.8p
Interim dividend per share	**3.2p**	3.3p	(3)	3.3p
Special dividend per share	**7.3p**	N/A	N/A	N/A

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

Group sales

Group sales including VAT decreased by 1.8 per cent year-on-year whilst Retail sales (including VAT, including fuel) decreased by 1.4 per cent year-on-year. Retail sales (including VAT, excluding fuel) increased by 7.1 per cent driven by Grocery and General Merchandise sales.

Total sales performance by category	**28 weeks to 19 September 2020 £bn**	**28 weeks to 21 September 2019 £bn**	**Change %**
Grocery	11.2	10.3	8.2%
General Merchandise	3.2	3.0	7.4%
Clothing	0.4	0.5	(18.3)%
Retail (exc. fuel)	**14.8**	**13.9**	**7.1%**
Fuel sales	1.5	2.7	(44.6)%
Retail (inc. fuel)	**16.3**	**16.6**	**(1.4)%**

A number of factors contributed to an 8.2 per cent growth in Grocery sales, with the primary driver being customers consuming more meals at home instead of at out of home locations such as pubs, restaurants and work places in response to the COVID-19 pandemic.

COVID-19 provided and continues to provide a challenging backdrop for customers and colleagues, but we have a clear mission as we focus on helping feed the nation. We have sought to make the customer journey convenient, whether in store or online, supported by great service from our colleagues across the business. We have invested in our estate to ensure customers and colleagues are able to shop and work safely, through protective measures such as checkout screens, personal protective equipment and increased cleaning. We continue to innovate and invest in customer experience through key initiatives such as SmartShop providing customers with scan as you go technology, which is increasingly popular.

We responded at great pace to the increase in demand for Groceries Online by more than doubling our online delivery and click and collect capacity. This was achieved at very little capital expense, as the capacity increase was driven predominantly through stores that already fulfilled online orders, with an increase of only 15 stores versus H1 last year (259 versus 244). We helped to protect and serve the most vulnerable in society through offering priority slots. In stores, customers are choosing to shop less frequently and buying more during each visit.

General Merchandise sales grew 7.4 per cent, with Argos sales up nearly 11 per cent despite all Argos standalone stores being closed for a number of weeks. Our strong execution combined with the strength and flexibility of the Argos supply chain and digital platform meant we were able to fulfil a 78 per cent increase in sales ordered online and delivered to home or collected in a Sainsbury’s store. Customer shopping patterns were influenced by the pandemic with a notable increase in demand for Office equipment as customers transitioned towards working from home. Gaming also saw a year on year uplift driven by customer purchases of Hardware and Software whilst Seasonal sales benefitted from longer periods of warm weather in comparison to last year.

Clothing sales declined by 18.3 per cent as customers deprioritised non-essential spend during the pandemic. Nevertheless, Online Clothing sales grew by 75 per cent as customers switched to shopping digitally. Clothing was the hardest hit in the first few months of the pandemic, with sales steadily improving over the summer months.

Fuel sales declined by 44.6 per cent, due to both retail price deflation and lower volumes as a result of reduced travel during the pandemic.

Total sales performance by channel	28 weeks to 19 September 2020	28 weeks to 21 September 2019
Supermarkets (inc Argos stores in Sainsbury's)	3.2%	(0.7)%
Convenience	(8.0)%	2.0%
Groceries Online	102.2%	7.0%

Supermarket sales increased by 3.2 per cent. Our investment into adapting our supermarket space to serve a wide variety of shopping missions has enabled us to serve customers as they consume more meals at home and move towards ‘less frequent but larger’ shops. We have been able to offer customers a broad range of products and services under one roof, through Argos stores in Sainsbury’s and initiatives such as our Beauty Halls and Wellness aisles.

Convenience sales declined by 8.0 per cent partly due to COVID-19 resulting in the temporary closure of 26 stores, of which 15 have since reopened. Sales have grown strongly in neighbourhood locations, with customers spending more time at home and preferring to shop locally, but this was more than offset by reduced footfall in urban locations and reduced demand for Food on the Move.

Groceries Online sales increased by 102.2 per cent, predominantly driven by an increase in the number of orders. This increase in capacity has enabled us to serve and protect the most vulnerable in society and provide our customers with a more convenient shopping experience.

Retail like-for-like sales performance	28 weeks to 19 September 2020	28 weeks to 21 September 2019
Like-for-like sales (exc. fuel)	6.9%	(1.0)%
Like-for-like sales (inc. fuel)	(1.6)%	(0.7)%

Retail like-for-like (‘LFL’) sales, excluding fuel, increased by 6.9 per cent (HY 2019/20: 1.0 per cent decrease).

583 Argos stores were closed on Tuesday 24th March 2020 as a result of COVID-19 lockdown restrictions prohibiting the opening of non-essential retail stores. This included 570 standalone stores within the UK and Republic of Ireland (‘ROI’); seven Argos in Sainsbury’s stores and six Argos in Homebase stores. 38 ROI stores were reopened in May whilst the other stores were opened in phases between June and September. 137 reopened as part of phase one in June and July; 115 reopened as part of phase two in late July and 131 opened as part of phase three in September. As at 19 September 2020, 14 stores have been permanently closed and 148 stores, including 142 standalone stores and 6 Argos in Homebase stores, remain closed. A decision was made at the end of the half as announced as part of the Restructuring Programme (refer to Strategy Update on page 1), to permanently close these 148 stores. Of these 148 stores, 28 stores had previously been identified for closure in future periods as part of the programme announce at the Capital Markets Day on 25th September 2019. These closures have now been accelerated. The closure of the 120 additional stores has been announced today.

The impact on sales of stores which were temporarily closed due to COVID-19 have been included within LFL sales. Only permanently closed sites and those temporarily closed for non COVID-19 related reasons are treated as non LFL. The 148 stores which remained closed as of 19 September 2020, and which will now not reopen, will be treated as permanently closed from H2 for the purpose of like-for-like calculations.

Space

In the first half of 2020/21, Sainsbury's opened five new Convenience stores and closed two. During the period Argos opened four new stores in Sainsbury's and closed 14 standalone Argos stores. The number of Argos collection points in Sainsbury's stores increased from 281 to 308. In total Argos had 872 stores and 308 collection points at the end of the period. Habitat had 16 stores, of which 11 are in Sainsbury's.

As at 19 September 2020, closed stores due to COVID-19 include 11 Sainsbury's Convenience stores; 142 standalone Argos stores and six Argos in Homebase stores. A decision was made at the end of the half, as announced as part of the Restructuring Programme, to not reopen the 142 standalone Argos stores and six Argos in Homebase stores.

Store numbers and retailing space	As at 7 March 2020	New stores	Disposals / closures[1,2]	Extensions / refurbishments / downsizes	**As at 19 September 2020**
Supermarkets	608	-	-	-	**608**
Supermarkets area '000 sq. ft.	21,167	-	-	(1)	**21,166**
Convenience	807	5	(2)	-	**810**
Convenience area '000 sq. ft.	1,898	14	(5)	6	**1,913**
Sainsbury's total store numbers	1,415	5	(2)	-	**1,418**
Argos stores	570	-	(14)	-	**556**
Argos stores in Sainsbury's	306	4	-	-	**310**
Argos in Homebase	6	-	-	-	**6**
Argos total store numbers	882	4	(14)	-	**872**
Argos collection points	281	31	(4)	-	**308**
Habitat	16	-	-	-	**16**

1 Disposals/closures exclude those stores temporarily closed during the half.

2 Disposals/closures exclude the 148 Argos stores, to be closed permanently, following the decision made at the end of the half as part of the Restructuring Programme.

Subject to further disruption from COVID-19, in this financial year, Sainsbury's expects to open two supermarkets and 15-20 new convenience stores and to close around 11 supermarkets and around 16 convenience stores.

In FY 2020/21, Argos expects to open 30-35 stores in Sainsbury's, and close around 170 Argos standalone stores, of which 142 were already closed as at 19 September 2020.

The standalone Argos store estate will reduce to around 100 stores by March 2024, while we expect to open up to 150 new Argos stores in Sainsbury's supermarkets and 150-200 collection points.

Retail underlying operating profit

Retail underlying operating profit increased by 27 per cent to £555 million (HY 2019/20: £437 million). Retail underlying operating margin increased by 82 basis points year-on-year to 3.77 per cent (HY 2019/20: 2.95 per cent).

We invested heavily in our estate to ensure our customers and colleagues were able to operate safely under the challenging circumstances presented by the pandemic. We implemented protective measures in store such as checkout screens, personal protective equipment and increased cleaning. We supported our colleagues through absence caused by COVID-19 and saw an overall increase in labour hours as a result of social distancing, marshalling and the increase in online demand. We also incurred additional costs due to the pandemic within our Groceries Online channel from lower picking speeds as a result of social distancing measures and the reintroduction of bags as a COVID-19 precaution. We made a Thank You payment to our store colleagues in recognition of their efforts helping feed the nation, despite the challenging backdrop of the pandemic. We benefited from Rates Relief during the period, partially offsetting COVID-19 related costs.

We experienced higher operating cost inflation during the half but were able to more than offset this through savings. This was partly driven by improvements to our central operating model, which delivered efficiencies within a number of areas, including Logistics and Distribution. Changes to our store estate continue to bring our businesses together, lowering costs and providing a better integrated customer offer. We also achieved in Store efficiencies through initiatives such as Smart Shop and the Stock Replenishment App for colleagues. These investments in technology provide a more convenient shopping experience for our customers whilst simultaneously lowering our cost to serve. Fuel operating profit declined year-on-year, driven by lower volumes following reduced travel as a result of COVID-19 measures.

Retail underlying operating profit	**28 weeks to 19 September 2020**	28 weeks to 21 September 2019	Change	Change at constant fuel prices
Retail underlying operating profit (£m)[1]	**555**	437	27.0%	
Retail underlying operating margin (%)[2]	**3.77**	2.95	82bps	78bps
Retail underlying EBITDAR (£m)[3]	**1,194**	1,067	11.9%	
Retail underlying EBITDAR margin (%)[4]	**8.11**	7.20	91bps	82bps

[1] Retail underlying earnings before interest, tax and Sainsbury's underlying share of post-tax profit from joint ventures.
[2] Retail underlying operating profit divided by underlying retail sales excluding VAT.
[3] Retail underlying operating profit before net rental expense of £4 million and underlying depreciation and amortisation of £635 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 £1.2 billion, including around £500 million right of use asset depreciation.

Financial Services

Financial Services results 6 months to 31 Aug 2020	**2020**	2019	Change
Underlying revenue (£m)	**219**	289	(24)%
Interest and fees payable (£m)	**(54)**	(62)	(13)%
Total income (£m)	**165**	227	(27)%
Underlying operating (loss)/profit (£m)	**(55)**	20	N/A
Cost:income ratio (%)	**77**	70	700bps
Active customers (m) - Bank	**2.0**	2.1	(5)%
Active customers (m) - AFS	**2.3**	2.2	5%
Net interest margin (%)[1]	**3.1**	3.5	(40)bps
Bad debt as a percentage of lending (%)[2]	**2.7**	1.3	140bps
Tier 1 capital ratio (%)[3]	**14.9**	13.7	120bps
Total capital ratio (%)[4]	**17.8**	16.7	110bps
Customer lending (£bn)[5]	**6.2**	7.4	(16)%
Customer deposits (£bn)[5]	**(5.4)**	(6.3)	(14)%

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. The prior year comparative is as at the Year End balance sheet date.

Financial Services underlying operating loss of £55 million reflects the changed economic environment driven by COVID-19. We have seen significantly reduced demand across consumer credit, and less activity in our fee based products, particularly Travel Money and ATMs. We have also made a significant provision in anticipation of future credit losses, largely reflective of predictions for unemployment, partially offset by management actions on funding and costs.

Financial Services total income of £165 million has declined year-on-year (HY 2019/20: £227 million). The fall in interest income reflects a significant contraction in balances due to lower consumer demand and a tightening of credit appetite. Fee income has dropped markedly due to the closure of Travel Money Bureaux, and a decline in ATM income due to lower cash usage, particularly during lockdown.

The Financial Services cost:income ratio increased 700 basis points to 77 per cent (HY 2019/20: 70 per cent) and is reflective of the material drop in income in the half. However, we have also materially reduced costs, with cost savings being delivered through management actions including reducing FTE; digitising and improving customer journeys; transitioning credit card customers to paperless; efficiencies reducing resource required in call centres and reduced fraud costs due to enhanced fraud detection controls.

Net interest margin decreased by 40 basis points year-on-year to 3.1 per cent (HY 2019/20: 3.5 per cent) driven by a combination of some changes in customer behaviour, particularly in terms of spend and retention, and the reduction in base rate (with the associated impact on our interest rate swap portfolio). We have significantly reduced our savings rates which should recover some of the fall in the second half.

Bad debt expense as a percentage of lending increased by 1.4 per cent to 2.7 per cent (HY 2019/20: 1.3 per cent), mainly to account for the expected unemployment increases of COVID-19.

The number of Bank active customers reduced by five per cent year-on-year to 2.0 million driven by lower acquisition of new business in the half, particularly on Cards and Loans, whilst Argos Financial Services customers are up five per cent to 2.3 million driven by more customers taking out an AFS store card following improvements made to the customer online journey.

The Bank offered payment holidays across all of its lending products to support customers who were impacted by COVID-19. 61,000 payment holidays were granted, 84 per cent of which have matured and have returned to normal payment schedules following the initial 3 months. A small element requested a further 3 month extension.

The capital position is strong with the CET 1 capital ratio increasing by 120 basis points since August 2019 to 14.9 per cent (HY 2019/20: 13.7 per cent) with the capital released as a result of the contraction in balances more than offsetting the loss. Customer lending decreased by 16 per cent to £6.2 billion, driven by management actions to tighten credit and a decline in demand for loans, credit cards and store cards. Customer deposits decreased by 14 per cent to £5.4 billion, reflecting the reduced funding required due to the decline in lending.

We have made good progress with our Financial Services transformation plan and streamlined our product offering. We still expect to double profit and returns in our Financial Services business within 5 years, despite the challenges of the current environment. The Group's exposure to Financial Services has reduced in the half driven by lower demand and customers deleveraging. The level of credit provisions held against lending balances increased by 1.2% to 5.0%. This largely reflects an additional overlay of £43 million we booked in relation to COVID-19, reflecting our best estimate of future losses. We expect Financial Services will return to profit in the second half. Given our very strong capital and liquidity positions, together with effective cost management we remain confident that Financial Services will not require capital injections from the Group.

Underlying net finance costs

Underlying net finance costs reduced by nine per cent to £199 million (HY 2019/20: £219 million). These costs include £37 million of net non-lease interest (HY 2019/20: £45 million). The reduction of net non-lease interest is driven by the repayment of the £450 million Convertible Bond in November 2019 and redemption of the £250 million Hybrid Bond at the first call date in July 2020. Net Interest costs on lease liabilities have reduced to £162 million (HY 2019/20: £174 million), mainly due to lower interest rates on new leases.

Sainsbury's expects underlying net finance costs in 2020/21 of around £360 million, including around £300 million lease interest in 2020/21.

Items excluded from underlying results

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

Items excluded from underlying results	**28 weeks to 19 September 2020 £m**	28 weeks to 21 September 2019 £m
Restructuring programmes	(259)	(131)
Impairment charges	(214)	(97)
Financial Services transition	(7)	(15)
Restructuring, impairment and integration	**(480)**	**(243)**
ATM business rates reimbursement	42	-
IAS 19 pension interest and expenses	8	11
Property, finance and acquisition adjustments	(8)	3
Items excluded from underlying results	**(438)**	**(229)**

Restructuring programmes:

- During the financial period, it has been agreed to accelerate the structural integration of Sainsbury's and Argos and further simplify the Argos business model. As a result, around 420 Argos stores will be closed by March 2024, leaving the total number of UK standalone stores at around 100. To support this, a total of 32 Local Fulfilment Centres will be built across the UK that will operate the Group's fast track delivery operations, delivering to customers' homes and to Argos stores and collection points across the country.
- In addition, the Group is creating a new supply chain and logistics operating model, moving to a single integrated supply chain and logistics network across Sainsbury's and Argos. As a result of this, a number of existing depots are closing.
- Further opportunities to rationalise the Group's supermarkets and convenience estate have been identified, building on last year's property strategy programme that was announced at the Capital Markets Day in September 2019. At that time it was communicated that 10 to 15 supermarkets and 30 to 40 convenience stores would close. It is now expected that 15 to 20 supermarkets and 50 to 60 convenience stores will close or be sold.
- Costs totalling £259 million have been recognised in the period in relation to the above and comprise impairment charges, property closure costs and redundancy costs.

Impairment charges:

- The Group has concluded that the combination of COVID-19 and the accelerated integration programme is an impairment indicator during the period.
- Additional impairment charges of £214 million have therefore been recognised over and above those recognised as part of the strategy review.
- Of this, £105 million has been recognised in relation to assets within the Financial Services Business, and £109 million in relation to Retail assets.

We estimate that we will incur one off costs from infrastructure, operating model and structure changes of £900 million to £1 billion in the period to March 2024 (approximately £300 million cash). We expect total non-underlying costs of around £625 million to be booked in the current financial year (around £100 million cash).

Other non-underlying items:

- Financial Services transition costs of £7 million (HY 2019/20: £15 million) were predominantly the previously announced costs incurred in transitioning to a new banking platform and write-downs of ATMs.
- ATM income of £42 million (HY 2019/20: £nil) arises following the Supreme Court's ruling that ATMs outside stores should not be assessed for additional business rates on top of normal store rates.
- IAS 19 Pension income of £8 million (HY 2019/20: £11 million) comprises pension finance income of £11 million and scheme expenses of £3 million.
- Property, Finance and Acquisition adjustments result in a cost of £8 million (HY 2019/20: £3 million income)

Taxation

The tax charge for the interim period was £42 million (2019/20 Interim tax charge: £47 million).

Despite the interim loss before tax, a tax charge rather than a tax credit was recognised in the first half of the year. This was mainly due to the derecognition of capital losses for deferred tax purposes reflecting a legislative change in the half resulting in £178 million gross costs, non-deductible one-off gross costs of £54 million and prior year adjustments with a tax effect of £12 million.

The resulting effective tax rate (ETR) in the 2020/21 interim accounts of negative 30.7 per cent (2019/20 interim: 522.2 per cent) differs significantly to the full year forecast ETR (297.9 per cent) because of the movement in profit (from a loss at interim) as well as the fact that the capital loss derecognition and most of the non-deductible one-off costs are recognised in full in first half of the year and thus reflected in the interim ETR.

The underlying tax rate (UTR) for the interim period was 27.6 per cent (2019/20 interim: 26.5 per cent). Sainsbury's expects an underlying tax rate for FY 2020/21 of around 26 per cent. As in prior years the most significant factor in the UTR being higher than the statutory rate (19.0 per cent) relates to adjustments in respect of non-qualifying property (4.9 per cent).

(Loss)/Earnings per share

Underlying basic earnings per share increased to 10.1 pence (HY 2019/20: 7.9 pence) driven by an increase in underlying earnings. Basic earnings per share decreased to negative 8.3 pence (HY 2019/20: negative 2.2 pence).

Dividends

In April the Board chose, due to limited visibility at the time on the potential impact of COVID-19 on the business, to defer dividend payment decisions and did not pay a final dividend for the 2019/20 financial year. In the light of improved visibility, strong trading and a strong balance sheet position, the Board has chosen to pay a special dividend in lieu of a final dividend for the 2019/20 financial year. The dividend of 7.3p is aligned to policy of 1.9x full year dividend cover by underlying earnings. This will be paid on 18 December 2020 to shareholders on the Register of Members at the close of business on 13 November 2020.

The Board has approved an interim dividend of 3.2 pence per share (21 September 2019: 3.3 pence per share), in line with our policy of paying 30 per cent of prior full year dividend. This will be paid on 18 December 2020 to shareholders on the Register of Members at the close of business on 13 November 2020.

Net debt and retail cash flows

As at 19 September 2020, net debt was £6,168 million (21 September 2019: £6,778 million), a decrease of £610 million (2019/20: £367 million reduction). Excluding the impact of lease liabilities on net debt, Sainsbury's reduced non lease net debt by £912 million in the half (21 September 2019: £514 million in the half). We remains on track to meet our target of at least £750 million net debt reduction in the three years to March 2022 and generate average retail free cash flow of £500 million per year over the following three years.

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 £5,901 million (HY 2019/20: £5,770 million) and the perpetual securities of £248 million (HY 2019/20: £496 million). Lease liabilities are analysed in more detail in note 11. Although the perpetual securities are accounted for as equity in the financial statements, they have similarities to debt instruments due to the coupons, and are therefore included by management when assessing Group borrowings.

The presentation of the summary cash flow statement has been updated to provide useful additional information of the build from Retail Underlying Operating Profit to the movement in net debt. Working capital movements also now exclude any movements due to non-underlying items. Additional reconciliations are included on pages 65 to 69 to bridge to statutory measures, with prior year comparatives adjusted accordingly.

Summary cash flow statement[1]	**Retail 28 weeks to 19 September 2020 £m**	Retail 28 weeks to 21 September 2019 £m	Retail 52 weeks to 7 March 2020 £m
Retail underlying operating profit	**555**	437	938
Adjustments for:			
Retail underlying depreciation and amortisation	**635**	636	1,197
Share based payments and other	**15**	17	34
Retail exceptional operating cash flows (excluding pensions)	**3**	(18)	(49)
Adjusted retail operating cash flow before changes in working capital[2,3]	**1,208**	1,072	2,120
Decrease/(increase) in working capital[3]	**571**	251	(97)
Net interest paid[3]	**(213)**	(226)	(405)
Pension cash contributions	**(60)**	(48)	(52)
Corporation tax paid	**(88)**	(8)	(113)
Net cash generated from operating activities	**1,418**	1,041	1,453
Cash capital expenditure before strategic capital	**(290)**	(248)	(599)
Repayments of obligations under leases	**(223)**	(230)	(419)
Initial direct costs on right-of-use assets	**(3)**	(2)	(13)
Proceeds from disposal of property, plant and equipment	**19**	54	81
Bank capital injections	**-**	(35)	(35)
Dividends and distributions received[3]	**22**	118	143
Retail free cash flow	**943**	698	611
Dividends paid on ordinary shares	**-**	(174)	(247)
Repayment of borrowings[3]	**(519)**	(160)	(379)
Other[3]	**(26)**	1	(3)
Net increase/(decrease) in cash and cash equivalents	**398**	365	(18)
Decrease in Debt	**742**	390	798
Other non-cash and net interest movements[4]	**(361)**	(187)	(381)
Movement in net debt	**779**	568	399
Opening net debt	**(6,947)**	(7,346)	(7,346)
Closing net debt	**(6,168)**	(6,778)	(6,947)
of which			
Lease Liabilities	**(5,901)**	(5,770)	(5,768)
Net Debt Excluding Lease Liabilities	**(267)**	(1,008)	(1,179)

[1] See note 4b for a reconciliation between Retail and Group cash flow.

[2] Excludes working capital and pension contributions.

[3] Refer to the Alternative Performance Measures on pages 67 to 68 for reconciliation.

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

Adjusted retail operating cash flow before changes in working capital was £1,208 million (HY 2019/20: £1,072 million) and working capital decreased by £571 million since the year end. Working capital typically decreases between year end and half year, driven by seasonality and the phasing of payables. This impact is more pronounced this year as a result of the strong trading performance driving lower inventories and increased payables balances. In addition, challenges sourcing stock on certain product ranges have further reduced inventory, notably in our non-food business. This is partially offset by the impact of lower fuel sales. We expect most of the working capital benefit to reverse once trading and supply stabilises following the pandemic.

Cash capital expenditure was £290 million (HY 2019/20: £248 million). There were no capital injections into the Bank (HY 2019/20: £35 million). Dividends and distributions received declined to £22 million (HY 2019/20: £118 million), reflecting the sale of 12 British Land joint venture properties in the prior year.

Corporation tax of £88 million was paid (HY 2019/20: £8 million). This has increased with the change to the quarterly payment regime, whereby in this half year Sainsbury's has had to pay the first two quarterly instalments for 2020/21 based on early estimates for taxable profit for the year, as well as finalising quarterly payments for 2019/20.

Retail free cash flow increased by £245 million year-on-year to £943 million (HY 2019/20: £698 million).

As previously announced, Sainsbury's deferred the decision on the final dividend payment for 2019/20, and accordingly there was no dividend payment in the half (HY 2019/20: £174 million).

As at 19 September 2020 Sainsbury's has drawn debt facilities of £1.08 billion including the Perpetual securities (HY 2019/20 £1.82 billion). The Group holds undrawn committed credit facilities of £1.45 billion and undrawn uncommitted facilities of £195 million.

Compared to the 2018/19 year end net debt excluding lease liabilities of £1,522 million, Sainsbury's expects a reduction of at least £750 million over a three year period and to generate average retail free cash flow of £500 million per year over the following three years.

Capital expenditure

Core retail cash capital expenditure was £290 million (HY 2019/20: £248 million).

Sainsbury's expects core retail cash capital expenditure (excluding Financial Services) to be around £600 million in the 2020/21 financial year and for this to increase to around £700 million - £750 million in the 3 years to March 2024, reflecting investment in high-returning supply chain, logistics and infrastructure projects.

Financial ratios

Key financial ratios	**52 weeks to 19 September 2020**	52 weeks to 21 September 2019	52 weeks to 7 March 2020
Return on capital employed (%)[1]	**7.9**	7.1	7.4
Net debt to EBITDAR[2]	**2.7 times**	3.1 times	3.2 times
Fixed charge cover[3]	**2.8 times**	2.6 times	2.7 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 £6,168 million includes lease obligations under IFRS 16 and perpetual securities treated as debt, divided by Group underlying EBITDAR of £2,253 million, calculated for a 52-week period to 19 September 2020.

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

Property value

As at 19 September 2020, Sainsbury's estimated market value of properties was £9.9 billion (7 March 2020: £9.9 billion). This includes the Group's beneficial interest in a property investment pool.

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 19 September 2020, the net defined benefit surplus under IAS19 for the Group was £1,012 million (excluding deferred tax). The £107 million movement from 7 March 2020 was driven by an increase in the scheme liabilities due to changes in the financial assumptions, offset by favourable movements on plan assets, which are held at fair value. The discount rate has remained constant since year-end at 1.6 per cent.

As disclosed in April, the Scheme was subject to a triennial actuarial valuation, as at 30 September 2018, which was completed last year. As part of the agreement reached with the Trustee, we established a new asset backed contribution ('ABC') structure on 17 July 2019, replacing the existing property partnership. The actuarial deficit reduced to £538 million, from £1,055 million in 2015.

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)

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.

Cash contributions and ABC distributions of £60 million have been paid in H1, with a further £42 million agreed in H2. Cash contributions and ABC distributions for 2021/22 are expected to be £76 million.

Retirement benefit obligations	**Sainsbury's as at 19 September 2020**	**Argos as at 19 September 2020**	**Group as at 19 September 2020**	Group as at 7 March 2020
	£m	**£m**	**£m**	£m
Present value of funded obligations	**(9,043)**	**(1,457)**	**(10,500)**	(10,335)
Fair value of plan assets	**10,072**	**1,478**	**11,550**	11,491
Pension surplus/(deficit)	**1,029**	**21**	**1,050**	1,156
Present value of unfunded obligations	**(21)**	**(17)**	**(38)**	(37)
Retirement benefit obligations	**1,008**	**4**	**1,012**	1,119
Deferred income tax (liability)/asset	**(191)**	**(1)**	**(192)**	(214)
Net retirement benefit obligations	**817**	**3**	**820**	905

Group income statement (unaudited)
for the 28 weeks to 19 September 2020

		28 weeks to 19 September 2020			28 weeks to 21 September 2019		
	Note	**Before non-underlying items £m**	**Non-underlying items £m**	**Total £m**	Before non-underlying items £m	Non-underlying items £m	Total £m
Revenue	4a	**14,934**	**-**	**14,934**	15,097	-	15,097
Cost of sales		**(13,644)**	**(298)**	**(13,942)**	(13,970)	(177)	(14,147)
Gross profit/(loss)		**1,290**	**(298)**	**992**	1,127	(177)	950
Administrative expenses		**(801)**	**(154)**	**(955)**	(694)	(86)	(780)
Other income		**11**	**(5)**	**6**	24	44	68
Operating profit/(loss)		**500**	**(457)**	**43**	457	(219)	238
Finance income	6	**2**	**14**	**16**	2	16	18
Finance costs	6	**(201)**	**5**	**(196)**	(221)	4	(217)
Share of post-tax loss from joint ventures and associates		**-**	**-**	**-**	-	(30)	(30)
Profit/(loss) before tax		**301**	**(438)**	**(137)**	238	(229)	9
Income tax (expense)/credit	7	**(83)**	**41**	**(42)**	(63)	16	(47)
Profit/(loss) for the financial period		**218**	**(397)**	**(179)**	175	(213)	(38)
Loss per share	8			**pence**			pence
Basic loss				**(8.3)**			(2.2)
Diluted loss				**(8.3)**			(2.2)

		52 weeks to 7 March 2020		
	Note	Before non-underlying items £m	Non-underlying items £m	Total £m
Revenue	4a	28,993	-	28,993
Cost of sales		(26,699)	(278)	(26,977)
Gross profit/(loss)		2,294	(278)	2,016
Administrative expenses		(1,345)	(114)	(1,459)
Other income		37	56	93
Operating profit/(loss)		986	(336)	650
Finance income	6	4	28	32
Finance costs	6	(404)	6	(398)
Share of post-tax loss from joint ventures and associates		-	(29)	(29)
Profit/(loss) before tax		586	(331)	255
Income tax (expense)/credit	7	(149)	46	(103)
Profit/(loss) for the financial period		437	(285)	152
Earnings per share	8			pence
Basic earnings				5.8
Diluted earnings				5.8

The notes on pages 27 to 61 form an integral part of these Condensed Consolidated Interim Financial Statements.

Group statement of comprehensive income (unaudited)

for the 28 weeks to 19 September 2020

	Note	**28 weeks to 19 September 2020 £m**	28 weeks to 21 September 2019 £m	52 weeks to 7 March 2020 £m
(Loss)/profit for the financial year		**(179)**	(38)	152
Items that will not be reclassified subsequently to the income statement				
Remeasurement on defined benefit pension schemes	18	**(175)**	364	89
Movements on financial assets at fair value through other comprehensive income		**28**	-	17
Current tax relating to items not reclassified		**23**	-	-
Deferred tax relating to items not reclassified		**(24)**	(62)	(18)
		(148)	302	88
Items that may be reclassified subsequently to the income statement				
Currency translation differences		**-**	3	-
Movements on financial assets at fair value through other comprehensive income		**1**	(12)	4
Cash flow hedges effective portion of fair value movements		**6**	58	(1)
Items reclassified from cash flow hedge reserve		**-**	(30)	(19)
Deferred tax on items that may be reclassified		**(2)**	(2)	3
		5	17	(13)
Total other comprehensive (loss)/income for the year (net of tax)		**(143)**	319	75
Total comprehensive (loss)/income for the year		**(322)**	281	227

The notes on pages 27 to 61 form an integral part of these Condensed Consolidated Interim Financial Statements.

Group balance sheet (unaudited)
at 19 September 2020

	Note	**19 September 2020 £m**	21 September 2019 £m	7 March 2020 £m
Non-current assets				
Property, plant and equipment	10	**8,721**	8,943	8,911
Right of use assets	11	**4,796**	4,878	4,826
Intangible assets	12	**896**	1,008	1,012
Investments in joint ventures and associates		**5**	56	9
Financial assets at fair value through other comprehensive income	14a	**863**	838	972
Trade and other receivables		**52**	50	43
Amounts due from Financial Services customers	14a	**2,812**	3,593	3,453
Derivative financial assets	14c	**4**	8	6
Net retirement benefit surplus	18	**1,012**	1,382	1,119
		19,161	20,756	20,351
Current assets				
Inventories		**1,635**	1,953	1,732
Trade and other receivables		**748**	693	811
Amounts due from Financial Services customers	14a	**3,380**	3,808	3,951
Financial assets at fair value through other comprehensive income	14a	**61**	182	82
Derivative financial assets	14c	**28**	41	12
Cash and cash equivalents	17	**1,453**	1,468	994
		7,305	8,145	7,582
Assets held for sale		**2**	5	4
		7,307	8,150	7,586
Total assets		**26,468**	28,906	27,937
Current liabilities				
Trade and other payables		**(4,702)**	(4,710)	(4,275)
Amounts due to Financial Services customers and other deposits	14a	**(5,906)**	(6,573)	(6,890)
Borrowings	16	**(257)**	(495)	(48)
Lease liabilities	11	**(538)**	(536)	(510)
Derivative financial liabilities	14c	**(38)**	(12)	(53)
Taxes payable		**(29)**	(185)	(163)
Provisions		**(136)**	(127)	(108)
		(11,606)	(12,638)	(12,047)
Net current liabilities		**(4,299)**	(4,488)	(4,461)
Non-current liabilities				
Other payables		**(1)**	(69)	(11)
Amounts due to Financial Services customers and other deposits	14a	**(904)**	(1,594)	(1,204)
Borrowings	16	**(772)**	(1,023)	(1,248)
Lease liabilities	11	**(5,369)**	(5,240)	(5,264)
Derivative financial liabilities	14c	**(60)**	(41)	(36)
Deferred income tax liability		**(328)**	(291)	(265)
Provisions		**(241)**	(104)	(89)
		(7,675)	(8,362)	(8,117)
Total liabilities		**(19,281)**	(21,000)	(20,164)
Net assets		**7,187**	7,906	7,773
Equity				
Called up share capital		**635**	632	634
Share premium		**1,163**	1,151	1,159
Merger reserve		**568**	568	568
Capital redemption reserve		**680**	680	680
Other reserves		**194**	184	168
Retained earnings		**3,699**	4,195	4,068
Total equity before perpetual securities		**6,939**	7,410	7,277
Perpetual capital securities		-	248	248
Perpetual convertible bonds		**248**	248	248
Total equity		**7,187**	7,906	7,773

The notes on pages 27 to 61 form an integral part of these Condensed Consolidated Interim Financial Statements.

Group cash flow statement (unaudited)
for the 28 weeks to 19 September 2020

	Note	**28 weeks to 19 September 2020 £m**	28 weeks to 21 September 2019 £m	52 weeks to 7 March 2020 £m
Cash flows from operating activities				
(Loss)/profit before tax		**(137)**	9	255
Net finance costs		**180**	199	366
Share of post-tax loss from joint ventures		**-**	30	29
Operating profit		**43**	238	650
Adjustments for:				
Depreciation expense	10,11	**596**	597	1,127
Amortisation expense	12	**65**	70	129
Net impairment loss on property, plant and equipment, right of use assets and intangible assets	10,11,12	**292**	177	263
Non-cash adjustments arising from acquisitions		**(1)**	(1)	(2)
Financial Services impairment losses on loans and advances		**39**	47	80
Loss/(profit) on sale of properties and early termination of leases		**7**	(44)	(56)
Share-based payments expense		**16**	19	37
Non-cash defined benefit scheme expenses	18	**3**	4	9
Cash contributions to benefit schemes	18	**(60)**	(48)	(52)
Operating cash flows before changes in working capital		**1,000**	1,059	2,185
Changes in working capital				
Decrease/(increase) in inventories		**97**	(24)	197
Decrease/(increase) in financial assets at fair value through other comprehensive income		**159**	(176)	(177)
Decrease/(increase) in trade and other receivables		**58**	(69)	(129)
Decrease/(increase) in amounts due from Financial Services customers and other deposits		**1,173**	(461)	(499)
Increase/(decrease) in trade and other payables		**409**	316	(195)
(Decrease)/increase in amounts due to Financial Services customers and other deposits		**(1,284)**	566	492
Increase/(decrease) in provisions and other liabilities		**180**	27	(8)
Cash generated from operations		**1,792**	1,238	1,866
Interest paid	15	**(193)**	(208)	(384)
Corporation tax paid		**(88)**	(6)	(110)
Net cash generated from operating activities		**1,511**	1,024	1,372
Cash flows from investing activities				
Purchase of property, plant and equipment		**(257)**	(213)	(519)
Initial direct costs on new leases		**(3)**	(2)	(13)
Purchase of intangible assets		**(44)**	(52)	(120)
Proceeds from disposal of property, plant and equipment		**19**	54	81
Interest received	15	**-**	2	2
Dividends and distributions received		**22**	118	143
Net cash used in investing activities		**(263)**	(93)	(426)
Cash flows from financing activities				
Proceeds from issuance of ordinary shares		**4**	5	15
Proceeds from borrowings	15	**-**	80	250
Proceeds from short term borrowings	15	**660**	-	-
Repayment of borrowings	15	**(269)**	(230)	(169)
Repayment of short term borrowings	15	**(660)**	-	-
Repayment upon maturity of convertible bonds		**-**	-	(450)
Repayment of perpetual capital securities	15	**(250)**	-	-
Purchase of own shares		**(30)**	(4)	(18)
Repayment of capital element of lease obligations	15	**(224)**	(231)	(420)
Repayment of capital element of obligations under hire purchase arrangements	15	**-**	(10)	(10)
Dividends paid on ordinary shares	9	**-**	(174)	(247)
Dividends paid on perpetual securities		**(20)**	(20)	(23)
Net cash used in financing activities		**(789)**	(584)	(1,072)
Net increase/(decrease) in cash and cash equivalents		**459**	347	(126)
Opening cash and cash equivalents		**994**	1,120	1,120
Closing cash and cash equivalents		**1,453**	1,467	994

The notes on pages 27 to 61 form an integral part of these Condensed Consolidated Interim Financial Statements.

Group statement of changes in equity (unaudited)
for the 28 weeks to 19 September 2020

	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 8 March 2020	634	1,159	568	848	4,068	7,277	248	248	7,773
Loss for the period	-	-	-	-	(183)	(183)	-	4	(179)
Other comprehensive income/(loss)	-	-	-	35	(175)	(140)	-	-	(140)
Tax relating to other comprehensive income/(loss)	-	-	-	(9)	6	(3)	-	-	(3)
Total comprehensive income/(loss) for the period ended 19 September 2020	-	-	-	26	(352)	(326)	-	4	(322)
Transactions with owners:									
Distribution to holders of perpetual securities	-	-	-	-	-	-	-	(4)	(4)
Share-based payment	-	-	-	-	16	16	-	-	16
Purchase of own shares	-	-	-	-	(30)	(30)	-	-	(30)
Allotted in respect of share option schemes	1	4	-	-	(1)	4	-	-	4
Redemption of perpetual capital securities	-	-	-	-	(2)	(2)	(248)	-	(250)
Tax on items charged to equity	-	-	-	-	-	-	-	-	-
At 19 September 2020	635	1,163	568	874	3,699	6,939	-	248	7,187
At 10 March 2019	630	1,147	568	852	4,089	7,286	248	248	7,782
Loss for the period	-	-	-	-	(40)	(40)	-	2	(38)
Other comprehensive income	-	-	-	19	364	383	-	-	383
Tax relating to other comprehensive income	-	-	-	(2)	(62)	(64)	-	-	(64)
Total comprehensive income for the period ended 21 September 2019	-	-	-	17	262	279	-	2	281
Transactions with owners:									
Dividends paid	-	-	-	-	(174)	(174)	-	-	(174)
Distribution to holders of perpetual convertible bonds	-	-	-	-	-	-	-	(4)	(4)
Amortisation of convertible bond equity component	-	-	-	(5)	5	-	-	-	-
Share-based payment	-	-	-	-	19	19	-	-	19
Purchase of own shares	-	-	-	-	(4)	(4)	-	-	(4)
Allotted in respect of share option schemes	2	4	-	-	(1)	5	-	-	5
Tax on items charged to equity	-	-	-	-	(1)	(1)	-	2	1
At 21 September 2019	632	1,151	568	864	4,195	7,410	248	248	7,906

The notes on pages 27 to 61 form an integral part of these Condensed Consolidated Interim Financial Statements.

Group statement of changes in equity continued (unaudited)

	Called up share capital £m	Share premium account £m	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	630	1,147	568	852	4,089	7,286	248	248	7,782
Profit for the period	-	-	-	-	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 paid	-	-	-	-	(247)	(247)	-	-	(247)
Distribution to holders of perpetual convertible bonds	-	-	-	-	-	-	(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

The notes on pages 27 to 61 form an integral part of these Condensed Consolidated Interim Financial Statements.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

1. General information

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

The Condensed Consolidated Interim Financial Statements are unaudited but have been reviewed by the auditors whose report is set out on page 64. The financial information presented herein does not amount to statutory accounts within the meaning of Section 434 of the Companies Act 2006. The Annual Report and Financial Statements 2020 have been filed with the Registrar of Companies. The Independent Auditors’ report on the Annual Report and Financial Statements 2020 was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

The financial period represents the 28 weeks to 19 September 2020 (comparative financial period 28 weeks to 21 September 2019; prior financial year 52 weeks to 7 March 2020). The financial information comprises the results of the Company and its subsidiaries (the ‘Group’) and the Group’s interests in joint ventures and associates.

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

2. Basis of preparation and accounting policies

2.1 Basis of preparation

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

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

The financial information contained in the Condensed Consolidated Interim Financial Statements should be read in conjunction with the Annual Report and Financial Statements 2020, which were prepared in accordance with International Financial Reporting Standards (‘IFRSs’) as adopted by the European Union.

Sainsbury’s Bank plc and its subsidiaries have been consolidated for the six months to 31 August 2020 (21 September 2019: six months to 31 August 2019; 7 March 2020: twelve months to 29 February 2020). Adjustments have been made for the effects of significant transactions or events that occurred between this date and the Group’s balance sheet date.

2.2 Going concern

The Directors are satisfied that the Group has sufficient resources to continue in operation for a period of at least 12 months from the date of approval. Accordingly, they continue to adopt the going concern basis in preparing the financial statements. The assessment period for the purposes of considering going concern is the 16 months to 5 March 2022.

In assessing the Group’s ability to continue as a going concern, the Directors have considered the Group’s most recent corporate planning process. This includes an annual review which considers profitability, the Group’s cash flows, committed funding and liquidity positions and forecasted future funding requirements over three years, with a further two years of indicative movements. The most recent corporate plan was prepared in October 2020 and was reviewed by the Operating Board and ultimately by the PLC Board with involvement throughout from both the Chief Financial Officer and Chief Executive.

2. Basis of preparation and accounting policies continued

The Group manages its financing by diversifying funding sources, structuring core borrowings with long-term maturities and maintaining sufficient levels of standby liquidity via the Revolving Credit Facility. This seeks to minimise liquidity risk by maintaining a suitable level of undrawn additional funding capacity.

In September 2019 the maturity of part of the £1,450 million Revolving Credit Facility was extended by one year. The Revolving Credit Facility is split into two Facilities, a £300 million Facility (A) and a £1,150 million Facility (B). Facility A has a final maturity of April 2025 and Facility B has a final maturity of October 2024. As at 19 September 2020, the Revolving Credit Facility was undrawn. In addition, the Group maintains uncommitted facilities of £195m to provide additional capacity to fund short term working capital requirements. The uncommitted facilities were undrawn at 19 September 2020.

In assessing going concern, scenarios in relation to the Group's principal risks have been considered in line with those disclosed at year-end by overlaying them into the corporate plan and assessing the impact on cash flows, net debt and funding headroom.

COVID-19 continues to be an area of uncertainty, developing rapidly in 2020 with significant impacts on customer behaviour, and a second national lockdown now being implemented in the UK. In particular, the Group is exposed to a number of areas as follows:

- Sales impact from the closure of certain stores, predominantly Argos
- Changing customer behaviours during lockdown
- Operational cost increases, such as increased labour and other in-store costs, which are partly mitigated by business rates holiday until March 2021
- Supply chain disruptions
- Exposure to credit risk within the Financial Services business

At the year-end, the Group outlined details of the base case scenario that was used for modelling the potential impact of COVID-19. Since then, costs of around £290 million associated with protecting customers and colleagues from COVID-19 were partially offset by £230 million of business rates relief received to date. These are broadly in line with the base case, whilst sales during the first half have been stronger than the base case assumptions, particularly at Argos.

For the going concern period, the impact of COVID-19 on sales and costs continues to be uncertain. Therefore for the going concern assessment, scenarios have been modelled that apply GDP movements seen during the recession of FY2008/09 to forecast sales, however to differing extents per category, as well as increased cash outflows over and above those in the corporate plan. The scenarios are hypothetical and severe for the purpose of assessing the Group's ability to continue as a going concern.

In performing the above analysis, the Directors have made certain assumptions around the availability and effectiveness of the mitigating actions available to the Group. These include reducing any non-essential capital expenditure and operating expenditure on projects, bonuses and dividend payments.

As a consequence of the work performed, the Directors considered it appropriate to adopt the going concern basis in preparing the Condensed Consolidated Interim Financial Statements with no material uncertainties to disclose.

2.3 Accounting judgements and estimates

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

In preparing these Condensed Consolidated Interim Financial Statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements for the year ended 7 March 2020 unless otherwise stated.

2. Basis of preparation and accounting policies continued

In light of the ongoing COVID-19 pandemic, the Group has provided more information in relation to its consideration of the following areas of estimation uncertainty.

- Note 3: Profit before non-underlying items
- Note 13: Impairment of non-financial assets
- Note 14: Financial instruments
- Note 18: Retirement benefit obligations

The Group has updated its assumptions over the exercising of breaks for a number of its leases. More information is included in note 11.

2.4 New standards, interpretations and amendments adopted by the Group

The Group has considered the following amendments to published standards that are effective for the Group for the financial year beginning 8 March 2020 and concluded that they are either not relevant to the Group or that they do not have a significant impact on the Group's financial statements other than disclosures. These standards and interpretations have been endorsed by the European Union.

- 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: Recognition and Measurement' and IFRS 7 'Financial Instruments: Disclosures' on the Interest Rate Benchmark Reform

The Group has noted the exemption granted in the 'COVID-19-related rent concessions' amendment to IFRS 16 'Leases'. This exemption applies for periods commencing on or after 1 June 2020, with an option to early adopt. The Group has elected not to apply the exemption granted as the Group has not received material COVID-19-related rent concessions as a lessee.

The accounting policies have remained unchanged from those disclosed in the Annual Report for the year ended 7 March 2020.

Interest Rate Benchmark Reform
During the period, the Group has adopted the 'Interest Rate Benchmark Reform' amendments to IFRS 9, as indicated above. A hedging relationship is affected by the reform if it gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument. The amendments allow the Group to continue hedge accounting for its benchmark interest rate exposures during the period of uncertainty arising from the reform. The Group will continue to apply these amendments until the uncertainty arising from the reform is no longer present with respect to the timing and amount of the interest rate benchmark cash flows.

Details of the hedging relationships for which the Group has applied the reform amendments are provided in note 14. These relate to the utilisation of derivatives to achieve the desired mix of fixed and floating debt.

2. Basis of preparation and accounting policies continued

2.5 Alternative performance measures (APMs)

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

Purpose of APMs

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

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

Changes to APMs

The following APMs have been updated during the period:

- **Like-for-like sales**: Previously temporary closures have been excluded from like-for-like sales. The impact on sales of stores which were temporarily closed due to COVID-19 have been included within like-for-like sales. During the current period due to temporary store closures as a result of the COVID-19 pandemic there has been a material increase in digital sales. It is not possible to calculate the exact transfer of sales from temporarily closed stores to online as a result of the pandemic therefore the like-for-like definition has been adjusted to include temporary store closures as a result of COVID-19. Only permanently closed sites and those temporarily closed for non COVID-19 related reasons are excluded from like-for-like sales.
- **Cash flow presentation in Financial Review**: The presentation of the summary cash flow statement within the Financial Review has been updated to provide useful additional information of the build from Retail Underlying Operating Profit to the movement in net debt. Working capital movements also now exclude any movements due to non-underlying items. Additional reconciliations are included on pages 65 to 69 to bridge to statutory measures, with prior year comparatives adjusted accordingly.

3. 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.

Underlying profit is how the Group measures performance internally, but is not an IFRS measure and therefore not directly comparable to other companies.

The most significant non-underlying items in the current year relate to restructuring programmes, impairment charges and income relating to the Supreme Court ruling on ATM business rates. More details on each are included further below.

3. Profit before non-underlying items continued

The Group has also chosen to exclude the following items from underlying profit:

- 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 or loss 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 borrowings.
- 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 interest and 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.

The Group has not included any additional costs incurred or credits received directly in relation to the impacts of COVID-19 within non-underlying items. Whilst some items (such as business rates relief and additional expenses incurred protecting colleagues and customers) are discrete and can be separately quantified others, such as incremental food sales cannot be reliably disaggregated from the Group's underlying performance. The Group has therefore concluded that presenting some movements as underlying and others as non-underlying would give an imbalanced view that is not easily comparable to past and subsequent periods.

28 weeks to 19 September 2020

	Cost of sales £m	Administrative expenses £m	Other income £m	Net finance income/(costs) £m	Share of loss from JVs £m	Total adjustments before tax £m	Tax £m	Total adjustments £m
Restructuring programmes	(244)	(15)	-	-	-	(259)	45	(214)
Impairment of non-financial assets	(96)	(118)	-	-	-	(214)	37	(177)
Financial Services transition	-	(7)	-	-	-	(7)	-	(7)
Total restructuring, impairment and integration	(340)	(140)	-	-	-	(480)	82	(398)
Property, finance, pension and acquisition adjustments								
ATM business rates reimbursement	42	-	-	-	-	42	(8)	34
Loss on disposal of properties	-	-	(5)	-	-	(5)	1	(4)
Investment property fair value movements	-	-	-	-	-	-	-	-
Perpetual securities coupons	-	-	-	10	-	10	-	10
Non-underlying finance movements	-	-	-	(2)	-	(2)	-	(2)
IAS 19 pension interest and expenses	-	(3)	-	11	-	8	(2)	6
Acquisition adjustments	-	(11)	-	-	-	(11)	2	(9)
Total property, finance, pension and acquisition adjustments	42	(14)	(5)	19	-	42	(7)	35
Tax adjustments								
Under provision in prior years	-	-	-	-	-	-	-	-
Revaluation of deferred tax balances	-	-	-	-	-	-	(34)	(34)
Total adjustments	(298)	(154)	(5)	19	-	(438)	41	(397)

3. Profit before non-underlying items continued

Restructuring programmes

During the financial period, it has been agreed to accelerate the structural integration of Sainsbury's and Argos and further simplify the Argos business model. As a result, around 420 Argos stores will be closed by March 2024, leaving the total number of UK standalone stores at around 100. To support this, a total of 32 Local Fulfilment Centres will be built across the UK that will operate the Group's fast track delivery operations, delivering to customers' homes and to Argos stores and collection points across the country.

In addition, the Group is creating a new supply chain and logistics operating model, moving to a single integrated supply chain and logistics network across Sainsbury's and Argos. As a result of this, a number of existing depots are closing.

Further opportunities to rationalise the Group's supermarkets and convenience estate have been identified, building on last year's property strategy programme that was announced at the Capital Markets Day in September 2019. At that time it was communicated that 10 to 15 supermarkets and 30 to 40 convenience stores would close. It is now expected that 15 to 20 supermarkets and 50 to 60 convenience stores will close or be sold.

Costs totalling £259 million have been recognised in the period in relation to the above and comprise the following:

	£m
Write downs of property, plant and equipment	9
Write downs of leased assets	66
Write downs of intangible assets	3
Closure provisions	151
Redundancy provisions	30
	259

Closure provisions relate to onerous contract costs, dilapidations and strip out costs.

Impairment of non-financial assets

In addition to the above, in line with IAS 36 'Impairment of non-financial assets', the Group is required to assess whether there is any indication that an asset (or CGU) may be impaired (i.e. its carrying amount may be higher than its recoverable amount).

The COVID-19 pandemic has resulted in changes to customer shopping habits, patterns and sources of finance. Despite this, the Group has proved resilient through the pandemic, with additional in-store costs mostly offset by the grocery sales growth and business rates relief. However the changes in customer behaviour have led to an acceleration of the Group's structural integration of Sainsbury's and Argos during the period and through this, a review of the economic performance of the Group's assets has been performed as a result of store rationalisation, changes in channel mix, and changes in customer borrowing and cash usage behaviour. This has been deemed an indicator of impairment and a full impairment review has therefore been performed covering both Retail and Financial Services non-financial assets.

An impairment charge of £214 million has been recognised in the period and comprises:

	£m
Impairment of property, plant and equipment	60
Impairment of leased assets	62
Impairment of intangible assets	92
	214

3. Profit before non-underlying items continued

Of the total charge of £214 million, £105 million is in relation to assets within the Financial Services segment, with the remaining £109 million within the Retail segment. Further details of the impairment charge are included within note 13.

With regards to the above restructuring and impairment charges, the costs incurred arise as a result of implementing changes for the future to evolve and reshape the business. They are therefore different in nature to the COVID-19-related income and costs that were incurred to maintain business as usual activity and which have been reported within underlying profit. In addition, they can be separately identified, are material in size / nature, and not related to the underlying operations of the business. This is consistent with the Group's existing accounting policy for non-underlying items and are therefore reported outside underlying profit.

Financial Services transition

These predominantly comprise Financial Services transition costs of £(7) million and were incurred in transitioning to new banking platforms 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. These also include circa £(1) million for the decommissioning of ATMs.

ATM business rates reimbursement

£42 million of income is due to be received from the Valuation Office following the Supreme Court's ruling that ATMs outside stores should not be assessed for additional business rates on top of normal store rates.

Property, finance, pension and acquisition adjustments

- Loss on disposal of properties for the financial period comprised £(5) million for the Group and nil 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. During the year, the perpetual capital securities were redeemed.
- Non-underlying finance movements for the financial year comprised £(2) million for the Group and nil for the joint ventures. These are presented separately in note 6.
- Defined benefit pension interest and expenses comprises pension finance income of £11 million and scheme expenses of £(3) million (see note 18).
- Acquisition adjustments of £(11) million reflect the unwind of non-cash fair value adjustments arising from Home Retail Group and Nectar UK acquisitions and are recognised as follows:

	28 weeks to 19 September 2020			28 weeks to 21 September 2019			52 weeks to 7 March 2020		
	Argos	**Nectar**	**Total Group**	Argos	Nectar	Total Group	Argos	Nectar	Total Group
	£m	**£m**	**£m**	£m	£m	£m	£m	£m	£m
Cost of sales	**1**	**-**	**1**	1	-	1	2	-	2
Depreciation	**1**	**-**	**1**	(2)	-	(2)	(2)	-	(2)
Amortisation	**(10)**	**(3)**	**(13)**	(10)	(5)	(15)	(18)	(8)	(26)
	(8)	**(3)**	**(11)**	(11)	(5)	(16)	(18)	(8)	(26)

3. Profit before non-underlying items continued

Comparative information

28 weeks to 21 September 2019

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

52 weeks to 7 March 2020

	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[1]	(255)	(41)	-	-	-	(296)	28	(268)
Retail restructuring programme[1]	(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)

Prior year property strategy programme

During the prior year, the Group identified an impairment indicator following an approved programme of store closures. 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. Impairment charges and closure costs were therefore recognised in the prior year as follows:

	28 weeks to 21 September 2019		52 weeks to 7 March 2020	
	Property strategy programme	Impairment review	Property strategy programme	Impairment review
	£m	£m	£m	£m
Impairment of property, plant and equipment	51	69	70	84
Impairment of leased assets	24	15	51	29
Impairment of intangible assets	5	13	5	13
Store closure provisions	23	-	41	-
Redundancy provisions	3	-	3	-
	106	**97**	**170**	**126**

3. Profit before non-underlying items continued

Prior year retail restructuring programme

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

Cash flow statement

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

	28 weeks to 19 September 2020 £m	28 weeks to 21 September 2019 £m	52 weeks to 7 March 2020 £m
Cash flows from operating activities			
IAS 19 pension expenses	**(3)**	(4)	(9)
Financial Services transition	**(7)**	(13)	(22)
Argos integration costs	**-**	(3)	(2)
Restructuring programmes	**(9)**	(4)	(34)
ATM Rates reimbursement	**12**	-	-
Transaction costs relating to the proposed merger with Asda	**-**	(11)	(13)
Cash used in operating activities	**(7)**	(35)	(80)
Cash flows from investing activities			
Proceeds from property disposals	**19**	54	81
Cash generated from investing activities	**19**	54	81
Net cash flows	**12**	19	1

The Property strategy and Retail restructuring programmes disclosed in prior years are included within Restructuring programmes in the current year.

4. Segment reporting

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

- Retail – Food
- Retail – General Merchandise & Clothing
- Financial Services (Sainsbury's Bank plc and Argos Financial Services entities)

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

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

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

4. Segment reporting continued

a. Income statement and balance sheet

28 weeks to 19 September 2020	Retail £m	Financial Services £m	Group £m
Segment revenue			
Retail sales to external customers	**14,715**	**-**	**14,715**
Financial Services to external customers[1]	**-**	**219**	**219**
Underlying revenue	**14,715**	**219**	**14,934**
Revenue	**14,715**	**219**	**14,934**
Underlying operating profit/(loss)	**555**	**(55)**	**500**
Underlying finance income	**2**	**-**	**2**
Underlying finance costs	**(201)**	**-**	**(201)**
Underlying profit/(loss) before tax	**356**	**(55)**	**301**
Non-underlying expense (note 3)			**(438)**
Loss before tax			**(137)**
Income tax expense (note 7)			**(42)**
Loss for the financial period			**(179)**
Assets	**18,412**	**8,051**	**26,463**
Investment in joint ventures and associates	**5**	**-**	**5**
Segment assets	**18,417**	**8,051**	**26,468**
Segment liabilities	**(12,133)**	**(7,148)**	**(19,281)**

[1] Financial Services income includes £176 million recognised using the effective interest rate method.

28 weeks to 21 September 2019	Retail £m	Financial Services £m	Group £m
Segment revenue			
Retail sales to external customers	14,808	-	14,808
Financial Services to external customers[1]	-	289	289
Underlying revenue	14,808	289	15,097
Revenue	14,808	289	15,097
Underlying operating profit	437	20	457
Underlying finance income	2	-	2
Underlying finance costs	(221)	-	(221)
Underlying share of post-tax profit from joint ventures and associates	-	-	-
Underlying profit before tax	218	20	238
Non-underlying expense (note 3)			(229)
Profit before tax			9
Income tax expense (note 7)			(47)
Loss for the financial period			(38)
Assets	19,308	9,542	28,850
Investment in joint ventures and associates	56	-	56
Segment assets	19,364	9,542	28,906
Segment liabilities	(12,478)	(8,522)	(21,000)

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

4. Segment reporting continued

a. Income statement and balance sheet continued

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 3)			(331)
Profit before tax			255
Income tax expense (note 7)			(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)

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

4. Segment reporting continued

b. Segmented cash flow statement

		28 weeks to 19 September 2020			28 weeks to 21 September 2019		
	APM reference	**Retail**	**Financial Services**	**Group**	Retail	Financial Services	Group
		£m	**£m**	**£m**	£m	£m	£m
Profit/(loss) before tax		**31**	**(168)**	**(137)**	2	7	9
Net finance costs		**180**	**-**	**180**	196	3	199
Share of post-tax loss from joint ventures		**-**	**-**	**-**	30	-	30
Operating profit/(loss)		**211**	**(168)**	**43**	228	10	238
Adjustments for:							
Depreciation and amortisation expense		**647**	**14**	**661**	653	14	667
Net impairment loss on property, plant and equipment, right of use assets and intangible assets		**187**	**105**	**292**	177	-	177
Non-cash adjustments arising from acquisitions		**(1)**	**-**	**(1)**	(1)	-	(1)
Financial Services impairment losses on loans and advances		**-**	**39**	**39**	-	47	47
Loss/(profit) on sale of properties and early termination of leases		**5**	**2**	**7**	(44)	-	(44)
Share-based payments expense		**14**	**2**	**16**	17	2	19
Non-cash defined benefit scheme expenses		**3**	**-**	**3**	4	-	4
Cash contributions to defined benefit scheme		**(60)**	**-**	**(60)**	(48)	-	(48)
Operating cash flows before changes in working capital		**1,006**	**(6)**	**1,000**	986	73	1,059
Changes in working capital							
Decrease/(increase) in working capital		**713**	**79**	**792**	289	(110)	179
Cash generated from/(used in) operations		**1,719**	**73**	**1,792**	1,275	(37)	1,238
Interest paid	a	**(193)**	**-**	**(193)**	(208)	-	(208)
Corporation tax paid		**(88)**	**-**	**(88)**	(8)	2	(6)
Net cash generated/(used) from operating activities		**1,438**	**73**	**1,511**	1,059	(35)	1,024
Cash flows from investing activities							
Purchase of property, plant and equipment excluding strategic capital expenditure		**(257)**	**-**	**(257)**	(213)	-	(213)
Initial direct costs on new leases		**(3)**	**-**	**(3)**	(2)	-	(2)
Purchase of intangible assets		**(33)**	**(11)**	**(44)**	(35)	(17)	(52)
Proceeds from disposal of property, plant and equipment		**19**	**-**	**19**	54	-	54
Interest received	a	**-**	**-**	**-**	2	-	2
Dividends and distributions received	e	**22**	**-**	**22**	118	-	118
Net cash used in investing activities		**(252)**	**(11)**	**(263)**	(76)	(17)	(93)
Cash flows from financing activities							
Proceeds from issuance of ordinary shares	d	**4**	**-**	**4**	5	-	5
Proceeds from borrowings	c	**-**	**-**	**-**	80	-	80
Proceeds from short term borrowings	c	**660**	**-**	**660**	-	-	-
Repayment of borrowings	c	**(269)**	**-**	**(269)**	(230)	-	(230)
Repayment of short term borrowings	c	**(660)**	**-**	**(660)**	-	-	-
Repayment of perpetual capital securities	c	**(250)**	**-**	**(250)**	-	-	-
Purchase of own shares	d	**(30)**	**-**	**(30)**	(4)	-	(4)
Repayment of capital element of obligations under lease liabilities	b	**(223)**	**(1)**	**(224)**	(230)	(1)	(231)
Repayment of capital element of obligations under hire purchase agreements	c	**-**	**-**	**-**	(10)	-	(10)
Dividends paid on ordinary shares		**-**	**-**	**-**	(174)	-	(174)
Dividends paid on perpetual securities	a	**(20)**	**-**	**(20)**	(20)	-	(20)
Net cash used in financing activities		**(788)**	**(1)**	**(789)**	(583)	(1)	(584)
Intra group funding							
Bank capital injections		**-**	**-**	**-**	(35)	35	-
Net cash (used in)/generated from intra group funding		**-**	**-**	**-**	(35)	35	**-**
Net increase/(decrease) in cash and cash equivalents		**398**	**61**	**459**	365	(18)	347

4. Segment reporting continued

b. Segmented cash flow statement continued

	APM reference	52 weeks to 7 March 2020 Retail £m	Financial Services £m	Group £m
Profit before tax		235	20	255
Net finance costs		363	3	366
Share of post-tax loss from joint ventures and associates		29	-	29
Operating profit		627	23	650
Adjustments for:				
Depreciation and amortisation expense		1,225	31	1,256
Net impairment charge on property, plant and equipment, right-of-use asset, investment property and intangible assets		257	6	263
Non-cash adjustments arising from acquisitions		(2)	-	(2)
Financial Services impairment losses on loans and advances		-	80	80
(Profit)/loss on sale of properties and early termination of leases		(56)	-	(56)
Loss on disposal of intangibles		-	-	-
Share-based payments expense		34	3	37
Non-cash defined benefit scheme expenses		9	-	9
Cash contributions to defined benefit scheme		(52)	-	(52)
Operating cash flows before changes in working capital		2,042	143	2,185
Changes in working capital				
Decrease/(increase) in working capital		(71)	(248)	(319)
Cash generated from operations		1,971	(105)	1,866
Interest paid	a	(384)	-	(384)
Corporation tax paid		(113)	3	(110)
Net cash generated/(used) from operating activities		1,474	(102)	1,372
Cash flows from investing activities				
Purchase of property, plant and equipment excluding strategic capital expenditure		(517)	(2)	(519)
Strategic capital expenditure		-	-	-
Purchase of property, plant and equipment		(517)	(2)	(519)
Initial direct costs on new leases		(13)	-	(13)
Purchase of intangible assets		(82)	(38)	(120)
Proceeds from disposal of property, plant and equipment		81	-	81
Interest received	a	2	-	2
Dividends and distributions received	e	143	-	143
Net cash used in investing activities		(386)	(40)	(426)
Cash flows from financing activities				
Proceeds from issuance of ordinary shares	d	15	-	15
Proceeds from borrowings	c	250	-	250
Repayment of borrowings	c	(169)	-	(169)
Repayment upon maturity of convertible bonds	c	(450)	-	(450)
Purchase of own shares	d	(18)	-	(18)
Repayment of capital element of obligations under lease liabilities	b	(419)	(1)	(420)
Repayment of capital element of obligations under hire purchase agreements	c	(10)	-	(10)
Dividends paid on ordinary shares		(247)	-	(247)
Dividends paid on perpetual securities	a	(23)	-	(23)
Net cash used in financing activities		(1,071)	(1)	(1,072)
Intra group funding				
Bank capital injections		(35)	35	-
Net cash (used in)/generated from intra group funding		(35)	35	**-**
Net decrease in cash and cash equivalents		(18)	(108)	(126)

5. Supplier arrangements

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

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

- Fixed amounts – these are agreed with suppliers primarily to support in-store activity including promotions, such as utilising specific space.
- Supplier rebates – these are typically agreed on an annual basis, aligned with the Group’s financial year. The rebate amount is linked to pre-agreed targets such as sales volumes.
- Marketing and advertising income – advertising income from suppliers through the Group’s subsidiary Nectar 360 Services LLP.

5. Supplier arrangements continued

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

	28 weeks to 19 September 2020 £m	28 weeks to 21 September 2019 £m	52 weeks to 7 March 2020 £m
Fixed amounts	**89**	108	278
Supplier rebates	**32**	34	68
Marketing and advertising income	**34**	58	105
Total supplier arrangements	**155**	200	451

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

	28 weeks to 19 September 2020 £m	28 weeks to 21 September 2019 £m	52 weeks to 7 March 2020 £m
Within inventory	**(7)**	(7)	(7)
Within current trade receivables			
Supplier arrangements due	**32**	31	44
Accrued supplier arrangements	**45**	53	38
Within current trade payables			
Supplier arrangements due	**8**	12	12
Accrued supplier arrangements	**3**	2	-
Deferred income due	**(1)**	(4)	(2)
Total supplier arrangements	**80**	87	85

6. Finance income and finance costs

	28 weeks to 19 September 2020			28 weeks to 21 September 2019			52 weeks to 7 March 2020		
	Underlying £m	**Non-Underlying £m**	**Total £m**	Underlying £m	Non-Underlying £m	Total £m	Underlying £m	Non-Underlying £m	Total £m
Interest on bank deposits and other financial assets	**1**	**-**	**1**	1	-	1	2	-	2
Fair value measurements	**-**	**3**	**3**	-	1	1	-	-	-
IAS 19 pension financing income	**-**	**11**	**11**	-	15	15	-	28	28
Finance income on net investment in leases	**1**	**-**	**1**	1	-	1	2	-	2
Finance Income	**2**	**14**	**16**	2	16	18	4	28	32
Borrowing costs:									
Secured borrowings	**(29)**	**-**	**(29)**	(26)	-	(26)	(50)	-	(50)
Unsecured borrowings	**(1)**	**-**	**(1)**	(9)	-	(9)	(12)	-	(12)
Lease liabilities	**(163)**	**(5)**	**(168)**	(175)	(5)	(180)	(323)	(9)	(332)
Fair value measurements	**-**	**-**	**-**	-	-	-	-	(8)	(8)
	(193)	**(5)**	**(198)**	(210)	(5)	(215)	(385)	(17)	(402)
Other finance costs:									
Interest capitalised - qualifying assets	**2**	**-**	**2**	2	-	2	4	-	4
Fair value measurements	**-**	**-**	**-**	-	(4)	(4)	-	-	-
Perpetual securities coupon	**(10)**	**10**	**-**	(13)	13	-	(23)	23	-
	(8)	**10**	**2**	(11)	9	(2)	(19)	23	4
Finance costs	**(201)**	**5**	**(196)**	(221)	4	(217)	(404)	6	(398)

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

7. Income tax expense

	28 weeks to 19 September 2020 £m	28 weeks to 21 September 2019 £m	52 weeks to 7 March 2020 £m
Current tax expense	**5**	55	88
Deferred tax expense/(credit)	**37**	(8)	15
Total income tax expense in income statement	**42**	47	103
Underlying tax rate	**27.6%**	26.5%	25.4%
Effective tax rate	**(30.7)%**	522.2%	40.4%
	£m	£m	£m
Income tax expense on underlying profit	**83**	63	149
Income tax credit on non-underlying items	**(41)**	(16)	(46)
Total income tax expense in income statement	**42**	47	103

The interim tax charge is calculated in accordance with IAS 34. The annual effective tax rate (excluding discrete items) is calculated and applied to the interim profit before tax. The tax effect of discrete items in the reporting period is then included to calculate the reported tax expense. Discrete items include non-underlying items (see note 3) and prior year deferred tax adjustments.

The effective tax rate of (30.7) per cent (28 weeks to 21 September 2019: 522.2 per cent) is lower than the standard rate of corporation tax in the UK of 19 per cent and results in a tax charge, rather than a tax credit, on the interim loss before tax. This is largely a result of the amount of non-deductible expenses, particularly in respect of non-underlying discrete items, the de-recognition of previously recognised deferred tax assets on capital losses, and prior year adjustments.

The main rate of UK corporation tax reduced from 20 per cent to 19 per cent from 1 April 2017. A further reduction in the corporation tax rate to 17 per cent, effective from 1 April 2020, was substantively enacted in a prior period, so its effect was reflected in the Group's balance sheet as at 7 March 2020. Deferred tax on temporary differences and tax losses as at the balance sheet date is calculated at the substantively enacted rates at which the temporary differences and tax losses are expected to reverse. A change to the corporation tax rate, so that it remains at 19 per cent rather than reducing to 17 per cent from 1 April 2020, was announced in the 2020 Budget and substantively enacted prior to 19 September 2020. Therefore, its effect is recognised in the current period.

Finance Act 2020 also includes legislation restricting the amount of chargeable gains that a company can relieve with its carried-forward capital losses from previous accounting periods. Broadly, from 1 April 2020 a company is only able to offset up to 50 per cent of chargeable gains using carried forward capital losses. The Group's carried forward capital losses were fully recognised at 7 March 2020. The Group has considered the expected impact of these changes in tax law in respect of the utilisation of carried-forward tax losses in future accounting periods. Accordingly approximately £178 million of the Group's carried forward capital losses have not been recognised as at 19 September 2020.

8. (Loss)/Earnings per share

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

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

8. (Loss)/Earnings per share continued

Underlying earnings per share is provided by excluding the effect of any non-underlying items as defined in note 3. This alternative measure of earnings per share is presented to reflect the Group's underlying trading performance. All operations are continuing for the periods presented.

	28 weeks to 19 September 2020 million	28 weeks to 21 September 2019 million	52 weeks to 7 March 2020 million
Weighted average number of shares in issue[1]	**2,211.7**	2,207.4	2,207.6
Weighted average number of dilutive share options[1]	**18.7**	16.5	24.1
Weighted average number of dilutive senior convertible bonds[1]	**-**	153.6	153.7
Weighted average number of dilutive subordinated perpetual convertible bonds	**86.7**	83.8	84.6
Total number of shares for calculating diluted (loss)/earnings per share	**2,317.1**	2,461.3	2,470.0

	£m	£m	£m
(Loss)/profit for the financial period (net of tax)	**(179)**	(38)	152
Less profit attributable to:			
Holders of perpetual capital securities	**-**	(8)	(16)
Holders of perpetual convertible bonds	**(4)**	(3)	(7)
(Loss)/profit for the financial period attributable to ordinary shareholders	**(183)**	(49)	129

	£m	£m	£m
(Loss)/profit for the financial period attributable to ordinary shareholders	**(183)**	(49)	129
Add interest on senior convertible bonds (net of tax)[1]	**-**	-	9
Add coupon on subordinated perpetual convertible bonds (net of tax)[1]	**-**	-	6
Diluted (loss)/earnings for calculating diluted (loss)/earnings per share	**(183)**	(49)	144

	£m	£m	£m
(Loss)/profit for the financial period attributable to ordinary shareholders of the parent	**(183)**	(49)	129
Adjusted for non-underlying items (note 3)	**438**	229	331
Tax on non-underlying items	**(41)**	(16)	(46)
Add back perpetual securities coupons (net of tax)[2]	**10**	11	23
Underlying profit after tax attributable to ordinary shareholders of the parent	**224**	175	437
Add interest on convertible bonds (net of tax)	**-**	6	9
Add coupon on subordinated perpetual convertible bonds (net of tax)	**3**	3	6
Diluted underlying profit after tax attributable to ordinary shareholders of the parent	**227**	184	452

	Pence per share	Pence per share	Pence per share
Basic (loss)/earnings	**(8.3)**	(2.2)	5.8
Diluted (loss)/earnings	**(8.3)**	(2.2)	5.8
Underlying basic earnings	**10.1**	7.9	19.8
Underlying diluted earnings	**9.8**	7.5	18.3

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

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

9. Dividends

	28 weeks to 19 September 2020	28 weeks to 21 September 2019	52 weeks to 7 March 2020
Amounts recognised as distributions to equity holders in the period:			
Dividend per share (pence)	**-**	7.9	11.2
Total dividend charge (£m)	**-**	174	247

In April the Board chose, due to limited visibility at the time on the potential impact of COVID-19 on the business, to defer dividend payment decisions and did not pay a final dividend for the 2019/20 financial year. In the light of improved visibility, strong trading and a strong balance sheet position, the Board has chosen to pay a special dividend in lieu of a final dividend for the 2019/20 financial year. The dividend of 7.3p was approved by the Board of Directors on 4 November 2020.

An interim dividend of 3.2 pence per share (21 September 2019: 3.3 pence per share), has been approved by the Board of Directors for the financial year ending 6 March 2021, resulting in an interim dividend of £71 million (21 September 2019: £73 million). The interim dividend was approved by the Board on 4 November 2020 and as such has not been included as a liability at 19 September 2020.

10. Property, plant and equipment

	28 weeks to 19 September 2020 £m	28 weeks to 21 September 2019 £m	52 weeks to 7 March 2020 £m
Net book value			
At the beginning of the period	**8,911**	9,193	9,193
Additions	**230**	210	528
Disposals	**(20)**	(6)	(17)
Transfer to assets held for sale	**-**	-	1
Depreciation charge	**(331)**	(334)	(634)
Impairment charge	**(69)**	(120)	(160)
At the end of the period	**8,721**	8,943	8,911

The net book value of property, plant and equipment comprises land & buildings of £6,937 million (21 September 2019: £7,108 million; 7 March 2020: £7,022 million) and fixtures & fittings of £1,784 million (21 September 2019: £1,835 million; 7 March 2020: £1,889 million).

At 19 September 2020, capital commitments contracted, but not provided for by the Group, amounted to £113 million (21 September 2019: £174 million; 7 March 2020: £112 million), and £nil for the property joint ventures (21 September 2019: £2 million; 7 March 2020: £nil).

11. Leases

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

	28 weeks to 19 September 2020 £m	28 weeks to 21 September 2019 £m	52 weeks to 7 March 2020 £m
Net book value			
At the beginning of the period	**4,826**	4,993	4,993
New leases and modifications	**363**	187	406
Depreciation charge	**(265)**	(263)	(493)
Impairment charge	**(128)**	(39)	(80)
At the end of the period	**4,796**	4,878	4,826

Included within the above are land and buildings with a net book value of £4,496 million (21 September 2019: £4,650 million; 7 March 2020: £4,536 million), and equipment with a net book value of £300 million (21 September 2019: £228 million; 7 March 2020: £290 million).

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

	28 weeks to 19 September 2020 £m	28 weeks to 21 September 2019 £m	52 weeks to 7 March 2020 £m
At the beginning of the period	**5,774**	5,831	5,831
New leases and modifications	**357**	186	373
Interest expense	**168**	180	332
Payments	**(392)**	(421)	(762)
At the end of the period	**5,907**	5,776	5,774

Current	**538**	536	510
Non-current	**5,369**	5,240	5,264

The Group presents additions to lease liabilities and right of use assets in line with the disclosure requirements of IFRS 16 ‘Leases’. In doing so, additions to right of use assets and lease liabilities above include the net impact of new leases, lease extensions, terminations and the exercise of lease breaks.

11. Leases continued

Right-of-use assets are measured at cost (which includes the amount of any corresponding lease liability), less any accumulated depreciation and impairment losses, and adjusted for any subsequent remeasurement of lease liabilities. Lease liabilities are measured at the present value of lease payments to be made over the lease term, discounted using the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date of the lease, the lease liability is subsequently measured at amortised cost using the effective interest rate method, increasing to reflect the accretion of interest and reducing for the lease payments made.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The inclusion of a lease extension period or lease break period in the lease term is a key judgement for the Group and considers all relevant factors that create an economic incentive for it to exercise them. For leased properties, this includes the current and expected profitability of the respective site, as well as the length of time until the option can be exercised. Any changes to the Group's judgement over lease terms will impact both the right of use asset and lease liability.

The accelerated structural integration of Sainsbury's and Argos which commenced in the prior year has led to changes in the IFRS 16 right of use asset and lease liability balances.

The judgements applied in the exercising of lease breaks have changed. The store rationalisation programme is deemed a change in circumstances within the control of the Group and means that lease breaks will be exercised, whereas the judgement applied to these in FY 2020 was that the break would not be exercised. The Group has also revisited its assumptions about the way that lease breaks will be exercised across the portfolio and made it more specific for each part of the store estate. This acts to decrease the lease liability and right of use asset by circa £200m. With hindsight, the trigger for the recognition of this modification should have been the Capital Markets Day in September 2019.

In conjunction with store rationalisation, the Group has been actively pursuing lease extension opportunities across well-performing supermarket sites. This ensures key stores remain in the portfolio as the Group seeks to open more Argos store-in-stores, as well as increasing its online capacity through its in-store picking model. The extensions act to increase the lease liability and right of use asset as a result of committing to future additional rental payments, as well as reflecting updated discount rates which are typically lower than those previously used. Certain extensions agreed in the prior year were not reflected in lease modifications in the prior year. This acts to increase the lease liability and right of use asset by circa £375m.

The net impact of these items is an increase to lease liability and right of use assets of circa £175m. Since the impact on the 2020 income statement was less than £2m and considering a number of other qualitative factors, the Group has concluded this is not material and has therefore been reported within the £357m new leases and modifications in the current period above.

Income statement disclosures

The following are the amounts recognised in profit or loss:

	28 weeks to 19 September 2020 £m	28 weeks to 21 September 2019 £m	52 weeks to 7 March 2020 £m
Depreciation of right-of-use assets	**(265)**	(263)	(493)
Interest on lease liabilities	**(168)**	(180)	(332)
Variable lease payments not included in the measurement of lease liabilities	**(1)**	(1)	(1)
Finance income from sub-leasing of right-of-use assets	**1**	1	2
Operating sublet income	**17**	23	47
Expenses relating to short term leases	**(19)**	(15)	(28)
Expenses relating to leases of low value assets	**(1)**	(4)	(8)
At the end of the period	**(436)**	(439)	(813)
Total cash outflow for leases	**(412)**	(439)	(798)

12. Intangible assets

	28 weeks to 19 September 2020 £m	28 weeks to 21 September 2019 £m	52 weeks to 7 March 2020 £m
Net book value			
At beginning of the period	**1,012**	1,043	1,043
Additions	**64**	54	124
Disposals	**(20)**	(1)	(3)
Amortisation charge	**(65)**	(70)	(129)
Impairment charge	**(95)**	(18)	(23)
At the end of the period	**896**	1,008	1,012

The net book value of goodwill and intangible assets predominantly comprises goodwill of £367 million (21 September 2019: £378 million; 7 March 2020: £378 million), software assets of £412 million (21 September 2019: £494 million; 7 March 2020: £506 million) and acquired brands of £111 million (21 September 2019: £130 million; 7 March 2020: £122 million).

13. Impairment of non-financial assets

Approach and identification of cash generating units

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss.

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit (CGU) or groups of CGUs to which the asset belongs. For Retail property, plant and equipment, the CGU is deemed to be each trading store, store pipeline development site or in certain cases for Argos, a cluster of stores. For non-store assets, including depots and IT assets, the CGU represents all depot and IT assets, combined with either the population of Sainsbury's or Argos stores that they support as this is the lowest identifiable group of assets that generate cash inflows.

Previously Argos stores have been clustered together and tested as CGUs comprising a hub store (that holds and distributes inventory) and spoke stores (that hold smaller amounts of inventory). Argos clusters relate to its multi-channel network that enables customers to source the most convenient pick-up point for a product from a number of local stores. If unavailable at their chosen store, a customer can be directed to an alternative nearby store that holds the necessary inventory, or it can be delivered to their chosen store from another within the same catchment area. As a result, customers regularly switch between stores for their benefit and convenience. Clusters are created using store location, proximity to other stores and postcode catchment areas.

Typically, inventory would be moved between stores within a cluster, and hence they were assessed together. As a result of the Group's restructuring programme as detailed in note 3, this model has been re-assessed. In particular, to support the streamlined Argos infrastructure, a total of 32 Local Fulfilment Centres will be built across the UK that will operate the Group's fast track delivery operations, delivering to customers' homes and to Argos stores and collection points across the country. Consequently it has been concluded that spokes will now be considered based on their individual cash flows. The clustering approach is deemed appropriate for hubs only which will hold and transfer inventory to spokes as required.

For Financial Services, the CGU is deemed to be each respective product or product group that is capable of generating cash flows independent of other products. Non-product assets are reviewed separately as collective CGUs with the products that they support.

Any impairment loss is recognised in the income statement in the year in which it occurs. Where an impairment loss subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, or its original carrying value less notional accumulated depreciation if lower.

13. Impairment of non-financial assets

Identification of a triggering event

As detailed in note 3, the COVID-19 pandemic has resulted in changes to customer shopping habits, patterns and sources of finance. Despite this, the Group has proved resilient through the pandemic, with additional in-store costs mostly offset by the grocery sales growth and business rates relief. However the changes in customer behaviour have led to an acceleration of the Group's structural integration of Sainsbury's and Argos during the period and through this, a review of the economic performance of the Group's assets has been performed as a result of store rationalisation, changes in channel mix, and changes in customer borrowing and cash usage behaviour. This has been deemed an indicator of impairment and a full impairment review has therefore been performed covering both Retail and Financial Services non-financial assets.

Approach and assumptions

The recoverable amounts for CGUs have been determined using value in use calculations which are based on the cash flows expected to be generated, derived from the latest budget and forecast data 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:

Assumption	Retail segment	Financial Services segment
Composition of CGU	**Stores including Argos spokes / pipeline developments** • 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. **Depots and IT and other assets** • Combined with the respective Sainsbury's or Argos stores that they support **Argos hubs** • Combined with the cluster of local stores that they support	• Property, plant and equipment and intangible assets attributable to each product (or group of products capable of generating independent cash flows).
Cash flow years / assumptions	• Derived from Board approved cash flow projections for five years 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. • In the case of properties identified for closure, cash flows years relate to the remaining period that the store will trade for.	• Derived from Board approved cash flow projections for five years and then extrapolated over the remaining useful lives of the assets being tested for impairment.

13. Impairment of non-financial assets continued

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.	• No terminal value is applied within the Financial Services segment, as cashflows are limited to the period of the remaining useful lives of the assets being tested for impairment.
Discount rate	• A post-tax discount rate representing the Retail segment's weighted average cost of capital (WACC), subsequently grossed up to a pre-tax rate of 7.7 per cent. • 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.	• A post-tax discount rate representing the Financial Services segment's weighted average cost of capital (WACC), subsequently grossed up to a pre-tax rate of 12.8 per cent. • The post-tax WACC has been calculated using a combination of adjusted market analysis and the actual cost of debt on Tier 2 capital instruments.

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.

Outputs and sensitivities

Impairment charges recognised in the Retail segment relate to both sites identified for closure as part of the restructuring programme, as well as other impairments on stores that will continue to trade, but for which the cash flows no longer support the carrying amount of assets. Impairment charges recognised in the Financial Services segment are a result of forecast cashflows reflecting the uncertain macro-economic environment and changes to customer behaviour no longer supporting the carrying amount of underlying IT systems and ATM assets. The overall charges are as follows:

	Restructuring programme £m	Other impairments £m	Total £m
Impairment of property, plant and equipment	9	60	**69**
Impairment of leased assets	66	62	**128**
Impairment of intangible assets	3	92	**95**
	78	**214**	**292**

Of the total impairment charge of £(292) million, £(187) million is in relation to assets within the Retail segment, with the remaining £(105) million within the Financial Services segment.

13. Impairment of non-financial assets continued

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 tables below set out the key sensitivities performed on the value-in-use models. The sensitivity analysis performed considers the reasonably possible changes in these assumptions, which incorporates increased uncertainty caused by the COVID-19 pandemic.

Retail segment

Sensitivity area	**Sensitivity**	**Increase / (decrease) in impairment £m**
Discount rate	Increase of 1%	15
	Decrease of 1%	(3)
Cash flows	Increase of 5%	(3)
	Decrease of 5%	6
Rental yield (input for terminal values)	Increase of 1%	2
	Decrease of 1%	(3)

Financial Services segment

Sensitivity area	**Sensitivity**	**Increase / (decrease) in impairment £m**
Discount rate	Increase of 1%	10
	Decrease of 1%	(10)
Cash flows	Increase of 5%	(18)
	Decrease of 5%	18

14. Financial instruments

a. Financial assets and liabilities by category

Set out below are the accounting classification of each class of financial assets and liabilities:

Group	**Amortised cost £m**	**Fair value through OCI £m**	**Fair value through profit or loss £m**	**Total £m**
At 19 September 2020				
Cash and cash equivalents	**1,342**	**–**	**111**	**1,453**
Trade and other receivables	**453**	**–**	**190**	**643**
Amounts due from Financial Services customers	**6,192**	**–**	**–**	**6,192**
Financial assets at fair value through other comprehensive income	**–**	**924**	**–**	**924**
Trade and other payables	**(4,332)**	**–**	**–**	**(4,332)**
Current borrowings	**(257)**	**–**	**–**	**(257)**
Non-current borrowings	**(772)**	**–**	**–**	**(772)**
Amounts due to Financial Services customers and other deposits	**(6,810)**	**–**	**–**	**(6,810)**
Derivative financial instruments	**–**	**–**	**(66)**	**(66)**
Lease liabilities	**(5,907)**	**–**	**–**	**(5,907)**
	(10,091)	**924**	**235**	**(8,932)**

14. Financial instruments continued

Group	Amortised cost £m	Fair value through OCI £m	Fair value through profit or loss £m	Total £m
At 21 September 2019				
Cash and cash equivalents	1,296	–	172	1,468
Trade and other receivables	375	–	182	557
Amounts due from Financial Services customers	7,401	–	–	7,401
Financial assets at fair value through other comprehensive income	–	1,020	–	1,020
Trade and other payables	(4,437)	–	–	(4,437)
Current borrowings	(495)	–	–	(495)
Non-current borrowings	(1,023)	–	–	(1,023)
Amounts due to Financial Services customers and other deposits	(8,167)	–	–	(8,167)
Derivative financial instruments	–	–	(4)	(4)
Lease liabilities	(5,776)	-	-	(5,776)
	(10,826)	1,020	350	(9,456)

Group	Amortised cost £m	Fair value through OCI £m	Fair value through profit or loss £m	Total £m
At 7 March 2020				
Cash and cash equivalents	841	–	153	994
Trade and other receivables	506	–	169	675
Amounts due from Financial Services customers	7,404	–	–	7,404
Financial assets at fair value through other comprehensive income	–	1,054	–	1,054
Trade and other payables	(3,835)	–	–	(3,835)
Current borrowings	(48)	–	–	(48)
Non-current borrowings	(1,248)	–	–	(1,248)
Amounts due to Financial Services customers and other deposits	(8,094)	–	–	(8,094)
Derivative financial instruments	–	–	(71)	(71)
Lease liabilities	(5,774)	-	-	(5,774)
	(10,248)	1,054	251	(8,943)

b. Carrying amount versus fair value

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

At 19 September 2020	**Carrying amount £m**	**Fair value £m**
Financial assets		
Amounts due from Financial Services customers[1]	**6,192**	**6,235**
Financial liabilities		
Loans due 2031	**(649)**	**(791)**
Bank loans due 2021	**(200)**	**(200)**
Tier 2 Capital due 2023	**(180)**	**(179)**
Lease liabilities	**(5,907)**	**(5,907)**
Amounts due to Financial Services customers and banks	**(6,810)**	**(6,820)**

[1] Includes £3,685 million of interest rate swaps in a portfolio fair value hedging relationship.

14. Financial instruments continued

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

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

At 7 March 2020	Carrying amount £m	Fair value £m
Financial assets		
Amounts due from Financial Services customers[1]	7,405	7,455
Financial liabilities		
Loans due 2031	(667)	(888)
Bank loans due 2019	(199)	(199)
Bank loans due 2024	(250)	(250)
Tier 2 Capital due 2023	(180)	(177)
Lease liabilities	(5,774)	(5,774)
Amounts due to Financial Services customers and banks	(8,093)	(8,100)

[1] Includes £4,512 million of interest rate swaps in a portfolio fair value hedging relationship.

c. Fair value measurements recognised in the balance sheet

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

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

At 19 September 2020	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Cash & cash equivalents	**111**	**-**	**-**	**111**
Trade & other receivables	**190**	**-**	**-**	**190**
Financial instruments at fair value through other comprehensive income				
Interest bearing financial assets	**-**	**1**	**-**	**1**
Other financial assets	**-**	**14**	**265**	**279**
Investment securities	**644**	**-**	**-**	**644**
Derivative financial assets	**-**	**30**	**2**	**32**
Derivative financial liabilities	**-**	**(98)**	**-**	**(98)**

14. Financial instruments continued

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

At 7 March 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Cash & cash equivalents	153	-	-	153
Trade & other receivables	169	-	-	169
Financial instruments at fair value through other comprehensive income				
Interest bearing financial assets	-	1	-	1
Other financial assets	-	14	237	251
Investment securities	802	-	-	802
Derivative financial assets	-	18	-	18
Derivative financial liabilities	-	(86)	(3)	(89)

Level 3 Financial assets

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

28 weeks to 19 September 2020	**Financial instruments at FVOCI £m**	**Commodity derivatives £m**	**Total £m**
Opening balance	**237**	**(3)**	**234**
Included in finance income in the income statement	**-**	**5**	**5**
Included in other comprehensive income	**28**	**-**	**28**
Total Level 3 financial assets and liabilities	**265**	**2**	**267**

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

52 weeks to 7 March 2020	Financial instruments at FVOCI £m	Commodity derivatives £m	Total £m
Opening balance	220	1	221
Included in finance income in the income statement	-	(4)	(4)
Included in other comprehensive income	17	-	17
Total Level 3 financial assets and liabilities	237	(3)	234

Other financial assets relate to the Group’s beneficial interest in a property investment pool. The net present value of the Group’s interest in the various freehold reversions owned by the property investment pool has been derived by assuming a property growth rate of zero per cent per annum (21 September 2019: 0.6 per cent; 7 March 2020: 0.6 per cent) and a discount rate of 7.7 per cent (21 September 2019: nine per cent; 7 March 2020: nine per cent). The sensitivity of this balance to changes of one per cent in the assumed rate of property rental growth and one per cent in the discount rate holding other assumptions constant is shown below:

14. Financial instruments continued

	19 September 2020		21 September 2019	
	Change in discount rate +/- 1.0%	**Change in growth rate +/- 1.0%**	Change in discount rate +/- 1.0%	Change in growth rate +/- 1.0%
	£m	**£m**	£m	£m
Financial assets	**(7)/7**	**10/(10)**	(7)/7	11/(10)

	7 March 2020	
	Change in discount rate +/- 1.0%	Change in growth rate +/- 1.0%
	£m	£m
Financial assets	(7)/7	11/(10)

Level 3 derivative financial liabilities – power purchase agreement

The Group has entered into several long-term fixed-price power purchase agreements with independent producers. Included within derivative financial instruments is a net asset of £2 million relating to these agreements at 19 September 2020 (at 21 September 2019: £2 million; at 7 March 2020: £(4) million). The Group values its power purchase agreements as the net present value of the estimated future usage at the contracted fixed price less the market implied forward energy price discounted back at the prevailing swap rate. The Group also makes an assumption regarding expected energy output based on the historical performance and the producer's estimate of expected electricity output. The sensitivity of this balance to changes of 20 per cent in the assumed rate of energy output and 20 per cent in the implied forward energy prices holding other assumptions constant is shown below:

	19 September 2020		21 September 2019	
	Change in volume +/- 20.0%	**Change in electricity forward price +/- 20.0%**	Change in volume +/- 20.0%	Change in electricity forward price +/- 20.0%
	£m	**£m**	£m	£m
Derivative financial instruments	**0/(1)**	**6/(8)**	0/(0)	9/(9)

	7 March 2020	
	Change in volume +/- 20.0%	Change in electricity forward price +/- 20.0%
	£m	£m
Derivative financial instruments	(1)/1	6/(8)

d. Financial risk management activities

IBOR reform

The Group has adopted the 'Interest rate benchmark reform' amendments to IFRS 9 'Financial Instruments' in the current financial year. These allow the Group to continue hedge accounting for its benchmark interest rate exposures during the period of uncertainty arising from interest rate benchmark reforms. The Group will continue to apply these amendments until the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and amount of the interest rate benchmark cash flows.

The Group initiated its London Interbank Offered Rate (LIBOR) transition plan in the prior financial year and, from August 2019, hedged balance sheet interest rate exposures within the Financial Services business using swaps referencing the Sterling Overnight Index Average (SONIA) index, being a risk-free rate. At 19 September 2020, the Group (within Financial Services) had remaining exposures to LIBOR impacted by the reform with a notional amount of £2,856 million, of which £2,847 million were designated in fair value hedge accounting relationships and £9 million not in a hedge relationship. Of these, £1,723 million are due to mature by December 2021. The Group expects to transition the remaining £1,133 million to SONIA by 31 December 2021. Further clarifications on hedge accounting implications for the financial statements are expected to be provided by IASB following endorsement of Phase 2 of the IASB IBOR Reform project.

14. Financial instruments continued

Details of the hedging relationships for which the Group has applied the 'Interest rate benchmark reform' amendments are given below. These relate to the utilisation of derivatives to achieve the desired mix of fixed and floating debt. The following table sets out the extent of the risk exposure associated with managing the fixed and floating debt mix as at 19 September 2020.

		Carrying amount				
	Notional £m	**Asset £m**	**Liability £m**	**Interest rate benchmark**	**Hedge relationship**	**Line item in financial statements**
Interest rate swaps	2,784	-	(39)	LIBOR	Fair Value	Amounts due from Financial Services customers
Interest rate swaps	63	-	(2)	LIBOR	Fair Value	Financial assets at fair value through OCI

The Group's Retail cash flow hedge interest rate swaps, that are in a hedging relationship, mature prior to the transition, therefore the Group continues to apply hedge accounting for these.

e. Financial Services expected credit loss

Loans and advances are initially recognised at fair value and subsequently held at amortised cost, using the effective interest method, less provision for impairment and recognised on the balance sheet when cash is advanced:

	19 September 2020 £m	21 September 2019 £m	7 March 2020 £m
Non-current			
Loans and advances to customers	**2,890**	3,670	3,528
Impairment of loans and advances	**(78)**	(77)	(75)
	2,812	3,593	3,453
Current			
Loans and advances to customers	**3,608**	4,004	4,143
Impairment of loans and advances	**(228)**	(196)	(192)
	3,380	3,808	3,951
Loan commitment provisions	**(22)**	(20)	(20)
Total impairment provisions for loans and advances to customers and loan commitments	**(328)**	(293)	(287)
Impairment provisions as a percentage of loans and advances to customers	**5.05%**	3.82%	3.74%

During the reporting period there has been a deterioration in the economic outlook in the UK as a consequence of the COVID-19 pandemic and the measures taken by the government to control the spread of the virus. A significant reduction in UK economic output has begun to be observed and is expected to continue over an uncertain period, with a subsequent rise in unemployment expected to be a key driver of increased expected credit losses.

The full impact of the COVID-19 pandemic is unlikely to be known until a vaccine is widely available and government support has been withdrawn. For instance, the effects of the initial rollback of the Coronavirus Job Retention Scheme and the ending of initial Emergency Payment Freezes were only beginning to be observed as at 19 September 2020, and it is too early to understand the impact of further social restrictions imposed in Autumn 2020.

14. Financial instruments continued

Due to the unprecedented nature of the COVID-19 pandemic and the UK government actions to support businesses and employees, the decision was made to overlay the impact of COVID-19 on top of the existing modelled outputs. The modelled outputs apply multiple economic scenarios which include an assessment of downside risk reflective of economic uncertainty prior to COVID-19. When the latest economic scenarios were applied to existing models they did not respond appropriately due to the unique nature of the current economic environment.

In order to estimate the increased credit losses resulting from COVID-19, the Group has developed 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 and have been triangulated with third-party data.

During the period expectations of a potential increase in peak unemployment and additional uncertainty involved in the nature of the recovery has resulted in an increase of approximately 50 per cent to the provision uplift of £30 million reported in note 41 of the Annual Report and Financial Statements 2020. Including risks to the economic outlook driven by the United Kingdom’s departure from the European Union, the total economic overlay as at 19 September 2020 was £50 million.

15. Analysis of net debt

The Group’s definition of net debt includes the capital injections to Sainsbury’s Bank, but excludes the net debt of Sainsbury’s Bank and its subsidiaries. Sainsbury’s Bank’s net debt balances are excluded because they are required for business as usual activities. The Group’s definition of net debt includes lease liabilities as recognised under IFRS 16 and perpetual securities, and excludes derivatives that are not used to hedge borrowings.

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.

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.

15. Analysis of net debt continued

		Cash Movements		Non-Cash Movements			
	8 March 2020 £m	Cash flows excluding interest £m	Interest (received)/ paid £m	Accrued Interest £m	Other non-cash movements £m	Changes in fair value £m	19 September 2020 £m
Retail							
Financial assets at fair value through other comprehensive income	1	-	-	-	-	-	1
Net derivative financial instruments	(15)	-	3	(3)	2	(3)	(16)
Cash and cash equivalents	447	398	-	-	-	-	845
Borrowings (excluding overdrafts)	(1,116)	269	22	(24)	-	-	(849)
Lease liabilities	(5,768)	223	168	(168)	(356)	-	(5,901)
Retail net debt (excluding perpetual securities)	(6,451)	890	193	(195)	(354)	(3)	(5,920)
Financial Services							
Financial assets at fair value through other comprehensive income	802	(159)	-	-	-	1	644
Net derivative financial instruments	4	-	-	-	-	(6)	(2)
Cash and cash equivalents	547	61	-	-	-	-	608
Borrowings (excluding overdrafts)	(180)	-	-	-	-	-	(180)
Lease liabilities	(6)	1	-	-	(1)	-	(6)
Financial Services net debt	1,167	(97)	-	-	(1)	(5)	1,064
Group							
Financial assets at fair value through other comprehensive income	803	(159)	-	-	-	1	645
Net derivative financial instruments	(11)	-	3	(3)	2	(9)	(18)
Cash and cash equivalents	994	459	-	-	-	-	1,453
Borrowings (excluding overdrafts)	(1,296)	269	22	(24)	-	-	(1,029)
Lease liabilities	(5,774)	224	168	(168)	(357)	-	(5,907)
Group net debt (excluding perpetual securities)	(5,284)	793	193	(195)	(355)	(8)	(4,856)
Retail net debt (excluding perpetual securities)	(6,451)	890	193	(195)	(354)	(3)	(5,920)
Perpetual capital securities	(248)	250	-	-	(2)	-	-
Perpetual convertible bonds	(248)	-	-	-	-	-	(248)
Retail net debt (including perpetual securities)	(6,947)	1,140	193	(195)	(356)	(3)	(6,168)
Of which:							
Leases	(5,768)						(5,901)
Net debt excluding lease liabilities	(1,179)						(267)

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

15. Analysis of net debt continued

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

		Cash Movements		Non-Cash Movements			
	9 March 2019 £m	Cash flows excluding interest £m	Net interest (received) / paid £m	Accrued Interest £m	Other non-cash movements £m	Changes in fair value £m	7 March 2020 £m
Retail							
Financial assets at fair value through other comprehensive income	1	-	-	-	-	-	1
Net derivative financial instruments	(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	(5,824)	429	332	(332)	(373)	-	(5,768)
Retail net debt (excluding perpetual securities)	(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	-	-	-	-	-	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	(7)	1	-	-	-	-	(6)
Financial Services net debt	1,094	70	-	-	-	3	1,167
Group							
Financial assets at fair value through other comprehensive income	623	177	-	-	-	3	803
Net derivative financial instruments	(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	(5,831)	430	332	(332)	(373)	-	(5,774)
Group net debt (excluding perpetual securities)	(5,756)	850	382	(385)	(368)	(7)	(5,284)
Retail net debt (excluding perpetual securities)	(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)	(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)

15. Analysis of net debt continued

Reconciliation of net cash flow to movement in net debt

	28 weeks to 19 September 2020 £m	28 weeks to 21 September 2019 £m	52 weeks to 7 March 2020 £m
Opening net debt	**(6,947)**	(7,346)	(7,346)
Cash flow movements			
Net increase/(decrease) in cash and cash equivalents	**459**	347	(126)
Elimination of Financial Services movement in cash and cash equivalents	**(61)**	18	108
Repayment of perpetual capital securities	**250**	-	-
Decrease in Retail borrowings and overdrafts	**269**	150	369
Decrease in Retail lease obligations	**223**	240	429
Net interest paid on components of Retail net debt	**193**	206	382
Changes in net debt resulting from cash flow	**1,333**	961	1,162
Non-cash movements			
Accrued interest	**(195)**	(212)	(385)
Retail fair value and other non-cash movements	**(359)**	(181)	(378)
Changes in net debt resulting from non-cash movements	**(554)**	(393)	(763)
Movement in net debt	**779**	568	399
Closing net debt	**(6,168)**	(6,778)	(6,947)

16. Borrowings

	28 weeks to 19 September 2020			28 weeks to 21 September 2019		
	Current £m	**Non-current £m**	**Total £m**	Current £m	Non-current £m	Total £m
Loan due 2031	**53**	**596**	**649**	44	643	687
Bank overdrafts	**-**	**-**	**-**	1	-	1
Bank loans due 2021	**200**	**-**	**200**	-	200	200
Bank loans due 2024	**-**	**-**	**-**	-	-	-
Convertible bond due 2019	**-**	**-**	**-**	450	-	450
Sainsbury's Bank Tier 2 Capital due 2023	**4**	**176**	**180**	-	180	180
Total borrowings	**257**	**772**	**1,029**	495	1,023	1,518

	52 weeks to 7 March 2020		
	Current £m	Non-current £m	Total £m
Loan due 2031	45	622	667
Bank loans due 2021	-	199	199
Bank loans due 2024	-	250	250
Sainsbury's Bank Tier 2 Capital due 2023	3	177	180
Total borrowings	48	1,248	1,296

Available facilities

In September 2019 the maturity of part of the £1,450 million Revolving Credit Facility was extended by one year. The Revolving Credit Facility is split into two Facilities, a £300 million Facility (A) and a £1,150 million Facility (B). Facility A has a final maturity of April 2025 and Facility B has a final maturity of October 2024. As at 19 September 2020, the Revolving Facility was undrawn (21 September 2019: nil; 7 March 2020: nil).

The Revolving Credit Facility incurs commitment fees at market rates and drawdowns bear interest at a margin above LIBOR.

The Group maintains uncommitted facilities to provide additional capacity to fund short term working capital requirements. Drawdowns on these uncommitted facilities bear interest at a margin over LIBOR. The uncommitted facilities were undrawn at 19 September 2020 (21 September 2019: nil; 7 March 2020: nil).

In July 2020 the Group prepaid in full the secured £250m Bilateral Loan Facility due July 2024.

17. Cash and cash equivalents

Cash and cash equivalents comprise the following:

	28 weeks to 19 September 2020 £m	28 weeks to 21 September 2019 £m	52 weeks to 7 March 2020 £m
Cash in hand and bank balances	**461**	467	519
Money market funds and deposits	**580**	639	202
Deposits at central banks	**412**	362	273
Cash and bank balances	**1,453**	1,468	994
Bank overdrafts	**-**	(1)	-
Net cash and cash equivalents	**1,453**	1,467	994

Of the above balance, £22 million (21 September 2019: £18 million; 7 March 2020: £21 million) was restricted at half-year.

18. Retirement benefit obligations

All retirement benefit obligations relate to the Sainsbury’s Pension Scheme plus two unfunded pension liabilities relating to former senior employees of Sainsbury’s and Home Retail Group.

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

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

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

	19 September 2020			21 September 2019		
	Sainsbury's £m	**Argos £m**	**Group £m**	Sainsbury's £m	Argos £m	Group £m
Present value of funded obligations	**(9,043)**	**(1,457)**	**(10,500)**	(8,521)	(1,356)	(9,877)
Fair value of plan assets	**10,072**	**1,478**	**11,550**	9,856	1,441	11,297
Retirement benefit surplus	**1,029**	**21**	**1,050**	1,335	85	1,420
Present value of unfunded obligations	**(21)**	**(17)**	**(38)**	(23)	(15)	(38)
Retirement benefit surplus	**1,008**	**4**	**1,012**	1,312	70	1,382

	7 March 2020		
	Sainsbury's £m	Argos £m	Group £m
Present value of funded obligations	(8,914)	(1,421)	(10,335)
Fair value of plan assets	10,025	1,466	11,491
Retirement benefit surplus	1,111	45	1,156
Present value of unfunded obligations	(21)	(16)	(37)
Retirement benefit surplus	1,090	29	1,119

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

	19 September 2020 %	21 September 2019 %	7 March 2020 %
Discount rate	**1.60**	2.15	1.60
Inflation rate - RPI	**2.90**	3.10	2.70
Inflation rate - CPI	**1.90**	2.10	1.70
Future pension increases	**1.80 – 2.85**	1.90 - 3.00	1.65 - 2.70

18. Retirement benefit obligations continued

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

	28 weeks to 19 September 2020 £m	28 weeks to 21 September 2019 £m	52 weeks to 7 March 2020 £m
Excluded from underlying profit before tax:			
Interest cost on pension liabilities	**(88)**	(134)	(248)
Interest income on plan assets	**99**	149	276
Total included in finance income (note 6)	**11**	15	28
Defined benefit pension scheme expenses	**(3)**	(4)	(9)
Total income statement credit	**8**	11	19

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

	28 weeks to 19 September 2020 £m	28 weeks to 21 September 2019 £m	52 weeks to 7 March 2020 £m
As at the beginning of the period	**1,119**	959	959
Interest cost	**11**	15	28
Remeasurement (loss)/gains	**(175)**	364	89
Pension scheme expenses	**(3)**	(4)	(9)
Contributions by employer	**60**	48	52
As at the end of the period	**1,012**	1,382	1,119

Cash contributions

Cash contributions for the full-year are expected to be approximately £102 million.

Valuation of pension assets

The Pension Scheme has circa £2 billion of private market assets, split between private debt, private equity and property. These assets are held as they are expected to deliver a greater risk/return profile vs public market equivalents over the long term. The assets are illiquid (likely to be realised over 5+ years) but the Pension Scheme holds sufficient liquid assets (cash, gilts and other liquid securities) to be confident that it can meet its pension and collateral obligations over time.

The valuation of these assets is based on the audited accounts of the funds, where available, and net asset value statements from the investment managers where recent accounts are not available. For many of the investments the valuations provided are at 30 June. To reflect the high level of market volatility caused by the COVID-19 crisis, the Group has performed a roll-forward for these valuations using relevant liquid indices as follows:

Asset Class	**Return**
Global equity USD return	7.9%
Global High Yield Debt GBP return	1.0%
US loans GBP return	0.2%
Global High Yield Debt *local currency* return	5.6%
US loans USD return	4.8%
UK REITS return	0.3%

This has increased the asset valuations by £36 million.

Sensitivities

The following sensitivities are based on management's best estimate of a reasonably anticipated change. The sensitivities are calculated using the same methodology used to calculate the retirement benefit obligation, by considering the change in the retirement benefit obligation for a given change in assumption. The net retirement benefit obligation is the difference between the retirement benefit obligation and the fair value of plan assets. Changes in the assumptions may occur at the same time as changes in the fair value of plan assets. There has been no change in the calculation methodology since the prior period.

18. Retirement benefit obligations continued

	Sainsbury's £m	Argos £m	Total £m
An increase of 0.5% in the discount rate would decrease the present value of funded obligations by	841	145	**986**
A decrease of 0.5% in the discount rate would increase the present value of funded obligations by	968	168	**1,136**
An increase of 0.5% in the inflation rate would increase the present value of funded obligations by	642	146	**788**
A decrease of 0.5% in the inflation rate would decrease the present value of funded obligations by	579	130	**709**
An increase of one year to the life expectancy would increase the present value of funded obligations by	399	49	**448**

19. Related party transactions

The Group's related parties are its joint ventures as disclosed in its Annual Report and Financial Statements 2020.

Transactions with joint ventures and associates

For the 28 weeks to 19 September 2020, the Group entered into various transactions with joint ventures and associates as set out below:

	28 weeks to 19 September 2020 £m	28 weeks to 21 September 2019 £m	52 weeks to 7 March 2020 £m
Services and loans provided to joint ventures			
Dividends and distributions received	**4**	118	141
Disposal of joint ventures	**-**	-	(21)
Rental expenses paid	**(3)**	(4)	(14)

Balances arising from transactions with joint ventures and associates

	19 September 2020 £m	21 September 2019 £m	7 March 2020 £m
Receivables			
Other Receivables	**-**	**-**	18
Payables			
Other Payables	**(1)**	(1)	-

£18 million of dividends have been included within dividends and distributions in the cash flow statement in the current period for dividends which relate to the prior period but were received after 7 March 2020.

20. Contingent liabilities

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

Along with other retailers, the Group is currently subject to approximately 8,100 claims from current and ex-employees in the Employment Tribunal for equal pay under the Equality Act 2010 and/or the Equal Pay Act 1970. Typically, claims of this nature can take many years to be determined. Given that the claims against the Group are still at a relatively early stage and the outcome of such claims is highly uncertain at this stage, the Group considers the likelihood of a material pay-out to be remote.

21. Post balance sheet events

On 31 October 2020, the UK Government announced a four-week national lockdown, commencing 5th November. As this is after the Group's interim reporting date of 19 September 2020, it has been concluded that no adjustments are required to the Group's interim financial statements.

Further details of the Group's judgements and estimates in relation to COVID-19 are included in note 2 of the financial statements. As these already include COVID-related estimates, it is not expected that the additional lockdown will have a material effect on the Group's reported balances. Additionally, sensitivity analysis on the identified impairments during the period have been disclosed in note 13, and the COVID-19 impacts considered as part of the Group's going concern assessment are detailed in note 2.

Principal risks and uncertainties

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

- Brand perception
- Brexit
- Business continuity, operational resilience and major incidents response
- Business strategy and change
- Colleague engagement, attraction, retention and capability
- Data security
- Environment and sustainability
- Financial and treasury
- Health and safety – people and product
- Political and regulatory environment
- Sainsbury's Bank
- Trading environment and competitive landscape

The impact of COVID-19 on our customers, colleagues, business operations and supply chain continues to be actively monitored as the situation evolves, allowing ways of working and other mitigations to be flexed so that risks are managed.

The above Principal Risks remain unchanged from those reported in the Group's Annual Report and Financial Statements 2020. For more information on these risks, please refer to pages 36 to 45 of the J Sainsbury plc Annual Report and Financial Statements 2020, a copy of which is available on the Group's corporate website www.j-sainsbury.co.uk.

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

The Directors of J Sainsbury plc are listed in the J Sainsbury plc Annual Report and Financial Statements 2020.

A list of current directors is maintained on the Group's website: www.about.sainsburys.co.uk/about-us/our-management.

By order of the Board

Simon Roberts
Chief Executive
4 November 2020

Kevin O'Byrne
Chief Financial Officer
4 November 2020

INDEPENDENT REVIEW REPORT TO J SAINSBURY PLC

Introduction

We have been engaged by J Sainsbury plc (the company) to review the condensed consolidated set of financial statements in the interim financial report for the 28 weeks ended 19 September 2020 which comprises the Group income statement, the Group statement of comprehensive income, the Group balance sheet, the Group cash flow statement and the Group statement of changes in equity and the related explanatory notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated set of interim financial statements.

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

Directors' Responsibilities

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

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

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the interim financial report for the 28 weeks ended 19 September 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London
4 November 2020

Alternative performance measures (APMs)

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

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

APM	Closest equivalent IFRS measure	Definition/ Purpose	Reconciliation
Income statement - Revenue			
Underlying Group sales	Revenue	• Total sales less acquisition fair value unwinds on Argos Financial Services. • This is the headline measure of revenue for the Group. It shows the annual rate of growth in the Group's sales and is considered a good indicator of how rapidly the Group's core business is growing.	A reconciliation of the measure is provided in note 4 of the financial statements.
Underlying Retail sales	Revenue	• Underlying Group sales as above, less underlying Financial Services revenue. • Shows the annual rate of growth in the Group's Retail business sales.	A reconciliation of the measure is provided in note 4 of the financial statements.
Like-for-like sales	No direct equivalent	• Year-on-year growth in sales including VAT, excluding fuel, excluding Financial Services, for stores that have been open for more than one year. • The relocation of Argos stores into Sainsbury's supermarkets are classified as new space, while the host supermarket is classified like-for-like. • The impact on sales of stores which were temporarily closed due to COVID-19 have been included within LFL sales. Only permanently closed sites and those temporarily closed for non COVID-19 related reasons are treated as non LFL. • 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.	See reconciliation below

The reported retail like-for-like sales growth of 6.9 per cent is based on a combination of Sainsbury's like-for-like sales and Argos like-for-like sales for the 28 weeks to 19 September 2020. See movements below:	**28 weeks to 19 September 2020**	28 weeks to 21 September 2019
Underlying retail like-for-like (exc. fuel)	**6.9%**	(1.0)%
Underlying net new space impact	**0.2%**	0.4%
Underlying total retail sales growth (exc. fuel)	**7.1%**	(0.6)%
Fuel Impact	**(8.5)%**	0.3%
Underlying total retail sales growth (inc. fuel)	**(1.4)%**	(0.3)%

APM	Closest equivalent IFRS measure	Definition/ Purpose	Reconciliation
Income statement - Profit			
Retail underlying operating profit	Profit before tax	• Underlying earnings before interest, tax, Financial Services operating profit and Sainsbury's underlying share of post-tax profit from joint ventures and associates.	See reconciliation below

	28 weeks to 19 September 2020 £m	28 weeks to 21 September 2019 £m	52 weeks to 7 March 2020 £m
Group PBT (note 4a)	**(137)**	9	255
Add back Group non-underlying items (note 3)	**438**	229	331
Group UPBT (note 4a)	**301**	238	586
Less: Bank underlying operating loss/(profit) (note 4a)	**55**	(20)	(48)
Retail underlying operating profit (note 4a)	**356**	218	538
Net underlying finance costs (note 6)	**199**	219	400
Retail underlying operating profit (note 4a)	**555**	437	938

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><i>Underlying profit before tax</i></td><td>Profit before tax</td><td>• Profit or loss before tax before any items recognised which, by virtue of their size and/or nature, do not reflect the Group's underlying performance.</td><td>Underlying profit before tax is bridged to statutory profit before tax in the income statement and note 3 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/(loss) 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 interest and 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 restructuring programmes, impairment of non-financial assets and ATM business rates reimbursement.</td></tr>
<tr><td><i>Underlying basic earnings per share</i></td><td>Basic earnings per share</td><td>• Earnings per share using underlying profit as described above. This is a key measure to evaluate the performance of the business and returns generated for investors.</td><td>A reconciliation of the measure is provided in note 8 of the financial statements.</td></tr>
<tr><td><i>Retail underlying EBITDAR</i></td><td>No direct equivalent</td><td>• Retail underlying operating profit as above, before rent, depreciation, and amortisation.</td><td>
<table>
<tr><th></th><th>28 weeks to 19 September 2020 £m</th><th>28 weeks to 21 September 2019 £m</th></tr>
<tr><td>Retail underlying operating profit (note 4a)</td><td>555</td><td>437</td></tr>
<tr><td>Add: Retail depreciation and amortisation expense (note 4b)</td><td>647</td><td>653</td></tr>
<tr><td>Less: Non underlying depreciation and amortisation (note 3)</td><td>(12)</td><td>(17)</td></tr>
<tr><td>Add/Less: Net rental expense/(income) (note 11)</td><td>4</td><td>(3)</td></tr>
<tr><td>Other</td><td>-</td><td>(3)</td></tr>
<tr><td></td><td>1,194</td><td>1,067</td></tr>
</table>
</td></tr>
<tr><td><i>Underlying net finance costs</i></td><td>Finance income less finance costs</td><td>• Net finance costs before any non-underlying items as defined above that are recognised within finance income / expenses.</td><td>A reconciliation of this measure is included in note 6 of the financial statements.

The adjusted items are as follows:

• Fair value remeasurement 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.</td></tr>
<tr><td><i>Underlying tax rate</i></td><td>Effective tax rate</td><td>• 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.</td><td>The tax on non-underlying items is included in note 3 of the financial statements</td></tr>
</table>

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 colspan="4">Cash flows and net debt</td></tr>
<tr>
<td><i>Retail cash flow items in Financial Review</i></td>
<td>No direct equivalent</td>
<td>• To help the reader understand cash flows of the business a summarised cash flow statement is included within the Financial Review.
• As part of this a number of line items have been combined. The cash flow in note 4 of the financial statements includes a reference to show what has been combined in these line items.</td>
<td>
<table>
<tr><th></th><th>Ref</th><th>28 weeks to 19 September 2020
£m</th><th>28 weeks to 21 September 2019
£m</th><th>52 weeks to 7 March 2020
£m</th></tr>
<tr><td>Net interest paid</td><td>a</td><td>(213)</td><td>(226)</td><td>(405)</td></tr>
<tr><td>Repayment of lease liabilities</td><td>b</td><td>(223)</td><td>(230)</td><td>(419)</td></tr>
<tr><td>Repayment of borrowings</td><td>c</td><td>(519)</td><td>(160)</td><td>(379)</td></tr>
<tr><td>Other</td><td>d</td><td>(26)</td><td>1</td><td>(3)</td></tr>
<tr><td>Dividends and distributions received</td><td>e</td><td>22</td><td>118</td><td>143</td></tr>
</table>
</td>
</tr>
<tr>
<td><i>Retail free cash flow</i></td>
<td>Net cash generated from operating activities</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.
• This measures cash generation, working capital efficiency and capital expenditure of the retail business.</td>
<td>
<table>
<tr><th>Reconciliation of retail free cash flow</th><th>28 weeks to 19 September 2020
£m</th><th>28 weeks to 21 September 2019
£m</th><th>52 weeks to 7 March 2020
£m</th></tr>
<tr><td>Cash generated from retail operations</td><td>1,719</td><td>1,275</td><td>1,971</td></tr>
<tr><td>Net interest paid (ref (a) above)</td><td>(213)</td><td>(226)</td><td>(405)</td></tr>
<tr><td>Corporation tax</td><td>(88)</td><td>(8)</td><td>(113)</td></tr>
<tr><td>Retail purchase of property, plant and equipment</td><td>(257)</td><td>(213)</td><td>(517)</td></tr>
<tr><td>Retail purchase of intangible assets</td><td>(33)</td><td>(35)</td><td>(82)</td></tr>
<tr><td>Retail proceeds from disposal of property, plant and equipment</td><td>19</td><td>54</td><td>81</td></tr>
<tr><td>Initial direct costs on right-of-use assets</td><td>(3)</td><td>(2)</td><td>(13)</td></tr>
<tr><td>Repayments of obligations under leases</td><td>(223)</td><td>(230)</td><td>(419)</td></tr>
<tr><td>Dividends and distributions received</td><td>22</td><td>118</td><td>143</td></tr>
<tr><td>Bank capital injections</td><td>-</td><td>(35)</td><td>(35)</td></tr>
<tr><td>Retail free cash flow</td><td>943</td><td>698</td><td>611</td></tr>
</table>
</td>
</tr>
</table>

Alternative performance measures (APMs) continued

APM	Closest equivalent IFRS measure	Definition/Purpose
Underlying working capital movements	No direct equivalent	• To provide a reconciliation of the working capital movement in the Financial statements to the underlying working capital movement in the Financial review. • Removes working capital and cash movements relating to non-underlying items.

Reconciliation

	28 weeks to 19 September 2020 £m	28 weeks to 21 September 2019 £m	52 weeks to 7 March 2020 £m
Retail working capital movements per cash flow (note 4b)	**713**	289	(71)
Adjustments for:			
Retail non-underlying impairment charges (per note 4b)	**187**	177	257
Non-underlying restructuring and impairment charges (per note 3)	**(473)**	(228)	(328)
Less Bank impairment charges (per note 3)	**105**	-	-
ATM income (per note 3)	**42**	-	-
Other	**-**	(3)	(3)
Non-underlying working capital movements before cash movements	**(139)**	(54)	(74)
Non-underlying cash movements:			
Restructuring (per note 3)	**9**	4	34
ATM income (per note 3)	**(12)**	-	-
Argos integration costs (per note 3)	**-**	3	2
Transaction costs relating to the proposed merger with Asda (per note 3)	**-**	11	13
Other	**-**	(2)	(1)
	(3)	16	48
Total adjustments for non-underlying working capital	**(142)**	(38)	(26)
Underlying working capital movements	**571**	251	(97)

APM	Closest equivalent IFRS measure	Definition/Purpose
Net cash generated from retail operations (per Financial Review)	Cash generated from operations	• 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:

Reconciliation

	28 weeks to 19 September 2020 £m	28 weeks to 21 September 2019 £m	52 weeks to 7 March 2020 £m
Retail cash generated from operating activities (per note 4b)	**1,438**	1,059	1,474
Perpetual security coupons	**(20)**	(20)	(23)
Interest received	**-**	2	(2)
Net retail cash generated from operations in Financial Review	**1,418**	1,041	1,453

APM	Closest equivalent IFRS measure	Definition/Purpose
Core retail capital expenditure	No direct equivalent	• Capital expenditure excludes Sainsbury's Bank, after proceeds on disposals and before strategic capital expenditure. • This allows management to assess core retail capital expenditure in the period in order to review the strategic business performance. • The reconciliation from the cash flow statement is included here.

Reconciliation

	28 weeks to 19 September 2020 £m	28 weeks to 21 September 2019 £m
Purchase of property, plant and equipment	**(257)**	(213)
Purchase of intangibles	**(33)**	(35)
Cash capital expenditure before strategic capital expenditure (note 4b)	**(290)**	(248)

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 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 15 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:
<table>
<tr><th></th><th>28 weeks to 19 September 2020 £m</th><th>28 weeks to 21 September 2019 £m</th><th>52 weeks to 7 March 2020 £m</th></tr>
<tr><td>Financial instruments at FVTOCI per balance sheet</td><td>924</td><td>1,020</td><td>1,054</td></tr>
<tr><td>Less equity-related securities</td><td>(279)</td><td>(220)</td><td>(251)</td></tr>
<tr><td>Financial instruments at FVTOCI included in Group net debt</td><td>645</td><td>800</td><td>803</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>Net derivatives per balance sheet</td><td>(66)</td><td>(4)</td><td>(71)</td></tr>
<tr><td>Less derivatives not used to hedge borrowings</td><td>48</td><td>-</td><td>60</td></tr>
<tr><td>Derivatives included in Group net debt</td><td>(18)</td><td>(4)</td><td>(11)</td></tr>
</table></td></tr>
<tr><td colspan="4">Other</td></tr>
<tr><td>Net debt/ underlying EBITDAR</td><td>No direct equivalent</td><td>Net debt divided by Group underlying EBITDAR.
This helps management measure the ratio of the business’s debt to operational cash flow.</td><td>Net debt as provided in note 15. Group underlying EBITDAR is reconciled within the fixed charge cover analysis below.</td></tr>
<tr><td>Return on capital employed</td><td>No direct equivalent</td><td>Return on capital employed is calculated as return divided by average capital employed.
Return is defined as 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.</td><td>An explanation of the calculation is provided in the Financial Review on page 18.</td></tr>
<tr><td>Fixed charge cover</td><td>No direct equivalent</td><td>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.</td><td><table>
<tr><th></th><th>24 weeks to 7 March 2020 £m</th><th>28 weeks to 19 September 2020 £m</th><th>52 weeks to 19 September 2020 £m</th><th>52 weeks to 7 March 2020 £m</th></tr>
<tr><td>Group underlying operating profit (note 4a)</td><td>529</td><td>500</td><td>1,029</td><td>986</td></tr>
<tr><td>Add: Group depreciation and amortisation expense (note 4b)</td><td>589</td><td>661</td><td>1,250</td><td>1,256</td></tr>
<tr><td>Less: Non underlying depreciation and amortisation (note 3)</td><td>(11)</td><td>(12)</td><td>(23)</td><td>(28)</td></tr>
<tr><td>Add/Less: Net rental expense/(income) (note 11)</td><td>(7)</td><td>4</td><td>(3)</td><td>(10)</td></tr>
<tr><td>Other</td><td>-</td><td>-</td><td>-</td><td>(1)</td></tr>
<tr><td>Group underlying EBITDAR</td><td></td><td></td><td>2,253</td><td>2,203</td></tr>
<tr><td>Repayment of capital element of lease obligations (note 4b)</td><td>(189)</td><td>(224)</td><td>(413)</td><td>(420)</td></tr>
<tr><td>Underlying finance income (note 6)</td><td>2</td><td>2</td><td>4</td><td>4</td></tr>
<tr><td>Underlying finance costs (note 6)</td><td>(183)</td><td>(201)</td><td>(384)</td><td>(404)</td></tr>
<tr><td>Fixed charges</td><td></td><td></td><td>(793)</td><td>(820)</td></tr>
<tr><td>Fixed charge cover</td><td></td><td></td><td>2.8</td><td>2.7</td></tr>
</table></td></tr>
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