J Sainsbury plc

11 November 2015

Interim Results for the 28 weeks to 26 September 2015
Delivery of strategy on track in a highly competitive market

Financial summary

- Underlying Group sales[1] (inc VAT) down 2.0 per cent to £13,641 million (2014/15: £13,916 million)
- Retail sales (inc VAT, ex fuel) down 0.1 per cent
- Like-for-like sales (inc VAT, ex fuel) down 1.6 per cent
- Underlying profit before tax[2] down 17.9 per cent to £308 million (2014/15: £375 million)
- Underlying basic earnings per share[3] down 17.2 per cent to 12.0 pence (2014/15: 14.5 pence)
- Return on capital employed[4] of 9.1 per cent (2014/15: 11.1 per cent)
- Return on capital employed excluding pension fund deficit of 8.5 per cent (2014/15: 10.3 per cent)
- Interim dividend 4.0 pence per share, representing 30 per cent of last year's full year dividend (2014/15: 5.0 pence per share)

Statutory

- Group sales (ex VAT, inc fuel) down 2.0 per cent to £12,419 million (2014/15: £12,667 million)
- Items excluded from underlying deliver a profit of £31 million (2014/15: £665 million loss)
- Profit before tax of £339 million (2014/15: £290 million loss)
- Basic earnings per share 13.6 pence (2014/15: 18.0 pence loss per share)

Strategic performance

Great products and services at fair prices

- Customers continue to see us as a leader in quality and we are on track to improve the quality of 3,000 own-brand products
- £150 million investment in price has helped to drive transaction growth of almost three per cent and volume growth of one per cent. We will continue to remain competitive on price
- Customers like our lower regular prices and price satisfaction scores increased again this half
- Reduced promotional activity helped us improve our forecasting, driving better availability and reducing waste. This resulted in even better product freshness, supporting our quality commitment
- Although food sales have declined by nearly one per cent, our *Taste the Difference* range delivered over two per cent volume growth and continues to gain industry recognition, voted the best supermarket range by the Good Housekeeping Institute for the third year running
- Clothing performed strongly, with sales up nearly ten per cent and we successfully launched *Tu* online. Initial sales have exceeded management expectations
- Sainsbury's Bank continues to deliver good operational performance, with total income up over six per cent. Transition costs are now expected to be at the top end of the £340 million – £380 million range driven by a six to nine month delay in programme delivery

There for our customers

- Sales at supermarkets declined just over two per cent driven by food deflation, lower like-for-like volumes and customers shopping across multiple channels
- We are trialling new formats in six supermarkets and our micro convenience store layout in response to changing customer shopping missions
- Convenience stores delivered sales growth of nearly 11 per cent and we opened 37 new stores, taking the total to 741 stores at the half
- Groceries online delivered sales growth of seven per cent, with orders up nearly 14 per cent
- New one million sq ft general merchandise depot opened at the Daventry International Rail Freight terminal, creating 900 jobs and supporting the growth of our general merchandise business

Colleagues making the difference

- Announced a four per cent pay increase for 137,000 colleagues who work in our stores, including those under 25, in recognition of the great service they provide to our customers

- Our colleagues continue to deliver great service, winning the Grocer Gold Customer Service Award and the Grocer Gold Availability Award for the third year running
- Named Convenience Retailer of the Year for the sixth consecutive year at the Retail Industry Awards

Our values make us different

- Launched an ambitious £10 million, five-year project, *Waste Less, Save More,* to tackle food waste
- Continue to reformulate our products to improve quality and taste and to reduce sugar
    - We have reformulated *by* Sainsbury's yoghurts, saving 37 tonnes of sugar, equivalent to over 147 million calories from our customers' baskets each year
    - Nearly 35 tonnes of sugar removed from our own-brand juices and juice drinks
- Participated in 25 Pride events across the UK to support our ambition to be the most inclusive retailer where people love to work and shop
- Co-sponsored the BITC survey of race at work in the UK, surveying 24,000 people to better understand the experience of ethnic minorities at work

Financial performance

- The market remains particularly challenging. Overall market share declined marginally, by 17 basis points, to 16.5 per cent[(5)], driven in particular by the growth of the discounters
- Delivered operating cost savings of £115 million in the first half; full year cost savings are now expected to be around £225 million. We are on track to deliver £500 million cost savings over the next three years
- Improved liquidity and financial flexibility through the issuance of £500 million of perpetual securities
- Pension deficit reduced to £473 million, down £178 million since March 2015
- Announced a strategic partnership that will see LloydsPharmacy acquire Sainsbury's pharmacy business for a consideration of around £125 million[(6)]
- Mobile *by* Sainsbury's will close on 15 January 2016. Mobile is important to our customers and we are looking at other network options

Mike Coupe, Chief Executive, said:

"We are making good progress against the strategy we outlined last November. We are delivering volume and transaction growth as customers value our quality improvements and our clearer, simpler message of lower regular prices.

"To complement our core food offer of great quality and inspiring food, sold at fair prices, we are delivering on our strategy to expand our non-food businesses with further growth in clothing, general merchandise and Sainsbury's Bank. Our strategy of investing to ensure customers can shop with us across multiple channels remains a strategic advantage. Shopping at Sainsbury's is now more convenient than ever for our customers and we are able to reward them for their loyalty.

"We continue to run the business efficiently and our cost savings programme is ahead of plan. We now expect savings of around £225 million by the end of this financial year and we are on track to deliver our target of £500 million cost savings over the next three years.

"The grocery retail marketplace remains challenging but Sainsbury's is a great business, run by an experienced management team, supported by talented colleagues and strong values. I am confident we are making progress and we are looking forward to a successful Christmas, offering our customers fantastic products and great value. We think our Orkney Island dressed crab, our *Taste the Difference* 18 Month Mature Cognac Laced Christmas Pudding, which recently won the Good Housekeeping 2015 taste test, and our stunning hand-finished *Taste the Difference* Golden Bow Fruit Cake will be customer favourites."

Notes:

1. Underlying Group sales excludes a £5 million adjustment (2014/15: £11 million) for fair value unwind relating to the acquisition of Sainsbury's Bank.
2. Underlying profit before tax: Profit before tax before any profit or loss on the disposal of properties, investment property fair value movements, retail financing fair value movements, IAS 19 pension financing

element and defined benefit pension scheme expenses, acquisition adjustments and one-off items that are material and infrequent in nature, but after the coupons on the perpetual subordinated capital securities and perpetual subordinated convertible bonds.

3. Underlying basic earnings per share: Underlying profit attributable to ordinary shareholders, net of attributable taxation, divided by the weighted average number of ordinary shares in issue during the period, excluding those held by the Employee Share Ownership Plan ('ESOP') trusts, which are treated as cancelled.

4. Return on capital employed: Underlying profit before interest and tax, divided by the average of opening and closing capital employed (net assets before net debt).

5. Total Grocers Kantar till roll on a 52 week basis to 13 September 2015.

6. Subject to a working capital adjustment

7. 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.

8. Sainsbury's will report its 2015/16 Third Quarter Trading Statement at 07:00 (GMT) on 13 January 2016.

A results presentation for analysts and investors will be held at 09:30 on 11 November 2015.

To view the slides of the results presentation and the webcast: We recommend that you register for this event in advance. To do so, visit www.j-sainsbury.co.uk and follow the on-screen instructions. To participate in the live event, please go to the website from 09:00 on the day of the announcement, where there will be further instructions. An archive of the webcast will be available later in the day.

To listen to the results presentation: To listen to the live results presentation by telephone, please dial 0800 6781161 (or +44 (0)1296 311600 if you are unable to use the primary number). The pass code for the event is 752 570. A transcript of the presentation and an archive recording of this event will be available later in the day at www.j-sainsbury.co.uk.

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Strategic Report

Market context

UK consumers are continuing to see an increase in their disposable income through a combination of food deflation, lower food and oil prices and real wage growth. Whilst people have more money in their pockets, they are not yet choosing to spend it on groceries. This means that mainstream grocers continue to see lower like-for-like sales and profits.

Excellent harvests and high yields, particularly in Europe, have led to a drop in commodity prices. Fresh foods such as meat, fish, poultry and produce have seen the biggest reductions year-on-year as food retailers pass on the resulting lower prices to customers.

There has been considerable price investment activity in response to the changing competitive dynamics in the food retail sector. The discounters have grown their market share to over nine per cent[1], charging lower prices on a limited selection of products, with a focus on selling their own brands. Their growth continues to be a challenge to the established players. This proposition has resonated well with UK consumers and the larger established operators have been lowering prices to win back customers and regain their competitive position.

There are some signs of improvement in the sector, however it is too early to say whether the sector is starting to recover. Customers are buying more items, driving an increase in volume growth but this is currently being offset by price deflation, ensuring overall grocery expenditure remains relatively neutral. At the same time, consumers are spending a growing proportion of their additional disposable income on clothing, holidays and eating out.

Since the recession, customers are shopping smarter. Customers are now managing their food waste by shopping for fewer items more frequently. This has supported the growth of both convenience stores and online grocery shopping, which are expanding in space and capacity to meet demand. This expansion, coupled with the growth of the discounters, has put pressure on supermarket volumes. Consequently, retailers are opening fewer large new supermarkets and closing unprofitable stores.

Supermarkets will remain the dominant channel for grocery shopping, but they need to adapt their product and service proposition. Against this backdrop, grocers who run efficient operations across a broad range of channels will be the most successful and best-equipped to deal with the current sector turbulence.

1 Total Grocers Kantar till roll on a 52 week basis to 13 September 2015

Great products and services at fair prices

We are focused on maximising the strength of both our food and non-food businesses. As well as being the grocer of choice, there is a great opportunity to grow our clothing, general merchandise and financial services businesses.

Leading on quality

Providing great quality, inspiring food is our passion and our core purpose. The quality, range and provenance of our food make us different from our competitors and we continue to lead on quality perception.[2]

In our Strategic Review last November, we committed to invest in the quality of 3,000 own-brand lines, focusing on products where quality is particularly important to our customers. Investing in quality where it matters most to customers means we need to understand our customers better than anyone else – here we are well placed with our Nectar data. We are well on track with our improvement programme which, together with our £150 million investment in price, helped drive volume growth of one per cent and transaction growth of almost three per cent this half.

Customers like our in-store bakeries and we have invested in both the quality and value of our in-store bakery products. We have extended and improved our core *by* Sainsbury's bread range, introducing a selection of *Taste the Difference* loaves that are freshly baked in store every day and adding new lines made from grains such as spelt, rye and quinoa. The vast majority of wheat for these lines is sourced from the UK. Through investment in our in-store bakeries we have grown volumes by ten per cent since March 2015 and increased our bakery volume market share by one and a half per cent to 19.2 per cent[3]. We also won the Bakery Industry Awards (BIA) Bakery In-store Retailer of the Year for the second year in a row.

We know that our customers care about health and nutrition. Through our quality improvement programme, we have removed nearly 35 tonnes of sugar from our juice ranges as well as improving their freshness. Working closely with our suppliers, we have also been able to develop bespoke juice blends, with improved flavours, offering customers more variety and choice.

This half, we launched almost 70 improved lines across our fish category, adding new 'Fish for Tonight' products and speciality fish. We have introduced new recipes with delicious cuts of fish paired with new sauces and upgraded our packaging by introducing vacuum pack technology to improve freshness and reduce waste. We have introduced new party food lines such as mini dressed crabs in time for Christmas. Our crab has been improved by sourcing all the meat from the Orkney Islands and by making improvements to how we source the crabs.

New ripening techniques have improved our Ripe & Ready avocados, leading to an increase in sales in the half. We are now looking at how we can roll this technology out across other fruit such as pears, mangoes and nectarines.

Our own-brand ranges account for 49 per cent of food sales. Our premium *Taste the Difference* range delivered over two per cent volume growth and continues to gain industry recognition, voted the Best

Supermarket Range by the Good Housekeeping Institute for the third year running. Our core *by* Sainsbury's range achieved volume growth of over three per cent in response to our lower, regular pricing strategy.

2 According to data for the year to 26 September, from the HPI Brand & Communications Tracker that ranks product quality perceptions across key competitors
3 Nielsen volume data from 15 March 2015 to 17 October 2015

Strong value proposition
Last year we reduced prices by £150 million; our prices are as competitive as ever and our price satisfaction scores have increased again this year. Investment in every day value is driving volume and transaction growth and is a key factor in helping to stabilise the decline in basket spend in supermarkets.

We have simplified our offers and reduced promotional activity in favour of regular lower prices and customers like this clearer, simpler message. Reduced promotional activity also helps us improve our forecasting, drives better availability and reduces waste. This results in even better product freshness, supporting our quality commitment.

We will continue to remain competitive on price and will invest in quality to ensure that we are well positioned within this challenging marketplace.

Growth opportunities in non-food and services
We have clothing, general merchandise and financial services businesses of scale. Our strategy for growth focuses on increasing our non-food presence in stores, changing visual merchandising more frequently and emphasising our quality and design-led approach in clothing, cookware, homeware and seasonal products – categories that customers tell us matter most to them. At present, there are only 126 stores that offer our full non-food range, so the opportunities for growth are significant.

Non-food – We continue to increase our market share in clothing and sales have grown by nearly ten per cent this half. Our *Tu* clothing brand offers our customers high street style at supermarket prices and we are the UK's seventh largest clothing retailer by volume and tenth largest by value. Our long-standing partnership with Gok Wan and the more recent collaboration with the Admiral men's sportswear brand are proving popular. Our successful Back to School campaign, during which we sold 640,000 pairs of boys' trousers, consolidated our position as the fourth biggest schoolwear retailer by volume. After a successful regional trial, *Tu* online was rolled out nationwide this summer. Initial sales exceeded our estimates and over 80 per cent of customers are collecting their orders from more than 700 in-store collection points.

General merchandise grew sales by 1.4 per cent this half. Our bedroom range grew 23 per cent due to the strength of the designer bedding offer, with dinnerware, mugs and glassware also performing well.

Financial Services – Sainsbury's Bank continues to deliver a good trading performance. Loan volumes increased by 18 per cent year-on-year, with a 23 per cent year-on-year increase in car loans and a 14 per cent increase in home improvement loans. Despite an increasingly competitive market, our insurance portfolio produced year-on-year sales growth of 11 per cent. We opened our 200th Travel Money bureau this half and had our best month for Travel Money sales in July. Optimising our Travel Money web pages for mobile resulted in a 300 per cent increase in sales conversion across these devices. Travel Money continues to perform well, with a 49 per cent growth in customer transactions in the half.

We are able to reward our most loyal customers who shop in our stores and with the Bank. We continue to offer Bank customers double Nectar points on Sainsbury's shopping and, more recently, helped Sainsbury's Car Insurance customers save money for a whole year when buying fuel at Sainsbury's. We continue to offer reward credit cards with no annual fee at a time when other credit card providers have cut their reward schemes.

We installed 49 ATMs in the half, taking our total estate to 1,622 which represents 2.3 per cent of all UK ATMs. Transactions increased by 3.9 per cent year-on-year and now £1 in every £11 from a LINK ATM is dispensed from a Sainsbury's Bank ATM. We continue to report low levels of customer complaint, consistently recording fewer than 1.3 complaints per 1,000 customer accounts over the last two years. We were recently named Best Telephone Customer Service for Credit Card Customer Satisfaction by uSwitch, Best Online Personal Loan Provider by Your Money and Best Personal Loan Provider by Moneyfacts.

The Bank Transition Programme continues to progress and we have recently taken delivery of the new technology platform, which is a key milestone in building a standalone bank and creating long-term shareholder value. Although the build of the platform is materially complete and testing continues, we now plan to migrate savings customers in Spring/Summer 2016 and Cards and Loans customers in Spring/Summer 2017, which is between six and nine months later than planned. As a result, transition costs are now expected to be towards the top end of the £340 million – £380 million range previously guided.

Update on strategic partnerships

Pharmacy – In July, we announced a strategic partnership that will see LloydsPharmacy acquire Sainsbury's pharmacy business for around £125 million[4]. In addition, we will receive commercial annual rent payments from LloydsPharmacy for each of the 277 in-store pharmacies. Sainsbury's and LloydsPharmacy customers will benefit from enhanced pharmacy services delivered from Sainsbury's stores with all the benefits of accessible parking, flexible opening hours and convenient locations. The transaction is expected to complete by the end of February 2016.

Mobile *by* Sainsbury's – In October we informed our customers that Mobile *by* Sainsbury's, our joint venture with Vodafone, will close on 15 January 2016. We know that mobile is important to our customers and we are looking at other network options. Customers can still buy phones and accessories and access other mobile operator contracts and pay as you go options in our 38 Phone Shops and online.

4 Subject to a working capital adjustment

There for our customers

We know that when customers shop with us across more than one channel, they become more loyal and spend more money. We have developed our multi-channel credentials over a number of years and, as well as our core supermarket offer, we now have growing convenience and online businesses of significant scale. Ensuring the size and format of our estate meets our customers' varied shopping needs is a fundamental part of our strategy for growth and we will continue to invest strategically so that we can serve our customers whenever, wherever and however they want.

We are also investing in infrastructure to support the growth of our stores and to help us serve our customers better. We opened a new one million sq ft general merchandise depot at Daventry International Rail Freight Terminal, creating 900 jobs, and have upgraded our Basingstoke distribution centre.

Supermarkets

We believe that the size and locations of our shops gives us a structural advantage and enables us to meet our customers' varied and changing shopping needs. Most people still do their food shopping in supermarkets and we opened four supermarkets (of which two were replacement stores in Fulham and Charlton Riverside) during the half.

Sales in our supermarkets were down just over two per cent this half, reflecting the impact of food deflation and changing customer shopping habits. However, we believe there is great potential in tailoring formats and product ranges to meet these trends and in six of our supermarkets we are trialling new formats in response to changing customer shopping missions. The changes being tested, including a radically different store layout and more checkout options, are designed to make it quicker and easier to shop in our stores and to offer customers more choice where they most want it.

We are making the best use of our supermarket space by putting our popular clothing and general merchandise ranges into more stores and increasing customer choice in the stores that already sell them. In addition, we offer customers complementary products and services through carefully chosen concession partners such as Timpsons, Jessops, Argos and Explore Learning.

The estimated market value of properties, including our 50 per cent share of properties held within property joint ventures, was £10.8 billion. The £0.3 billion decrease during the first half was mainly due to a reduction in market rental values and a yield movement. We continue to work with joint venture partners to look for residential, leisure and commercial opportunities. Earlier this year we opened a 72,000 sq ft replacement supermarket in Fulham Wharf, increasing the size of the store by 50 per cent and creating space to build 463 new homes. We expect to open a replacement supermarket at Nine Elms in London in summer 2016 and this development will include 737 new homes, local shops, restaurants and office space.

These mixed-use developments will generate property profits of around £200 million split over this financial year and next.

Convenience stores
Customers continue to top up their shopping locally and more often. We opened 37 convenience stores in the half and sales grew by nearly 11 per cent, despite these stores selling a higher proportion of categories that are experiencing food deflation. We will continue to open one to two stores per week this year and will look at both smaller and larger sites than our standard convenience stores. The new trial format 'micro' store, opposite our store support centre in Holborn, central London, is just under 1,000 sq ft and is the smallest Sainsbury's Local to date. It is designed to meet the needs of people working in the area who want to buy 'food for now'.

We were delighted to be named Convenience Retailer of the Year for the sixth consecutive year at the Retail Industry Awards.

Online
Our online business continues to grow, in both food and other categories like clothing. Groceries online grew by seven per cent and orders grew by nearly 14 per cent. This included a record week for online, where we delivered 256,000 orders. At the end of the half we had 52 grocery Click & Collect sites and we are on track to have 100 sites by the end of 2015. To ensure we offer customers great value on grocery brands online as well as in store, we extended our Brand Match scheme to online orders, and to give customers more flexibility, we increased the number of delivery slot times we offer.
Picking grocery online orders from our stores makes good commercial sense as we can use stores that are already open. As Click & Collect grows in popularity, it also makes commercial and operational sense to pick orders as close as possible to the collection point, minimising additional transport and handling costs.

To further encourage the reduction in the use of carrier bags, in August we introduced a bag-less delivery option for online shopping. Around twenty per cent of customers who made an order online opted for bag-less delivery. Since the introduction of the bag levy on 5 October 2015, over 50 per cent of customers have chosen this option.

Netto
Our joint venture with Dansk Supermarked is on track to open 15 stores by the end of this financial year. At the half we had six stores open and we are learning about the growing discount market. The in-store bakery products and British meat offer are particularly popular.

<u>Colleagues making the difference</u>
We continue to deliver industry leading customer service. Our colleagues provide great service to our customers each and every day and we are committed to rewarding them well for their hard work. In August, we announced a four per cent pay increase for 137,000 colleagues who work in our stores across the country. Their new hourly rate of £7.36 is well above the Government's National Living Wage and will also apply to more than 40,000 colleagues under the age of 25.

Our work to restructure our stores and store support centres is complete and it is testament to the talent and dedication of our colleagues that we continue to win awards for our customer service. We have won the Grocer Gold Customer Service Award and the Grocer Gold Availability Award for the third year running. Our Heyford Hill and Dulwich store managers were named Store Manager of the Year by The Grocer and Retail Industry Awards respectively.

We provide colleagues with extensive skills training, which helps them to serve our customers better. We have seven food colleges for colleagues who work on our fresh food counters and in our cafés. Since it opened in March 2014, our Convenience College in Brixton has provided training to over 5,000 attendees in management skills, coaching and operations.

To support our commitment to make shopping easier and more convenient for our customers, we have strengthened our in-house digital and technology team, creating over 470 specialist roles in London and Coventry. We have recruited around half of these colleagues to date.

We know our customers better than anyone else
Our ambition is to be the most trusted retailer and to make our customers' lives easier every day by offering great quality products at fair prices. Knowing and understanding our customers is critical to achieving this goal.

A key source of customer insight is our Nectar loyalty scheme. This not only helps us to know our customers better than anyone else, but also enables us to tell our customers about products and services that are most relevant to them. During the half, 13.8 million Nectar card holders shopped with us in stores, online and with Sainsbury's Bank. Through Nectar we can reward people for their loyalty across our different products and services. Our high-value bonus point events, such as 10x Nectar points on fuel, have been well received by our customers, with more customers taking part year on year. Our coupon-at-till technology also enables us to reward our customers with offers tailored specifically to them.

We know that many of our customers are confident cooks and that they want to be inspired. Our Twist Your Favourites campaign gave eight every day dishes a delicious new twist using store cupboard ingredients, such as adding horseradish to macaroni cheese and coffee granules to spaghetti bolognese. Customers responded well, with sales of horseradish nearly doubling since the launch of the campaign in September.

Values
Our values make us different and are important to our customers and colleagues. They form an integral part of our long-term strategy and vision for growth. We developed our *20x20 Sustainability Plan* in October 2011 and regularly monitor our progress across our five core values.

Best for food and health
In August we reformulated *by* Sainsbury's yoghurts, removing an average of one teaspoon of sugar per serving. Based on previous sales, we anticipate this will save 37 tonnes of sugar – equivalent to over 147 million calories – from our customers' baskets each year. Furthermore, as part of a project to improve the quality and taste of our own-brand juices and juice drinks, we estimate saving nearly 35 tonnes of sugar from our customers' baskets each year – equivalent to over 137 million calories.

Sourcing with integrity
We have a strong heritage in supporting British farmers and we have a close working relationship with the 2,000 farmers and growers in our eleven Sainsbury's Development Groups. This helps us to share best practice and build strong relationships with the farming community.

Parts of the British dairy industry continue to face difficulties with volatile pricing. We have continued to support our British milk farmers since 2007 through the Sainsbury's Dairy Development Group. Our own brand milk is supplied by 280 farmers and, since 2012, we have used a Cost of Production model which directly reflects our farmers' costs, building in a profit for them as well as rewarding them for outstanding animal welfare and environmental standards. We review the price paid to farmers every three months to take into account changes in their key costs on the farm - feed, fuel and fertiliser.

Respect for our environment
This half, we launched our ambitious *Waste Less, Save More* campaign, looking for one town to help launch a five year, £10 million project to trial innovations to discover which initiatives are most effective in reducing household food waste. The selected town will receive a £1 million investment in the first year and will be used as a blueprint so that communities across the country can benefit from the results.

Making a positive difference to our community
Stores, depots and store support centre divisions announced their Local Charity of the Year partners following colleague nominations and customer voting in June. Over 1,600 charities were shortlisted by colleagues, after 350,000 votes from customers.

A great place to work
We pride ourselves on being an inclusive employer and we recognise that there can be challenges to succeeding as a Black, Asian and Minority Ethnic person employed in the UK. We are proud to have co-sponsored the largest ever survey of race at work in the UK. Run by Business in the Community, the

survey was completed by 24,000 working people to better understand the experience of ethnic minorities at work in the UK. We want to help all of our colleagues fulfil their potential, so we'll be using the results of this survey to build on our own action plans and understand how we can help colleagues from all backgrounds progress in their careers with us. A number of our stores have supported Lesbian, Gay, Bisexual and Transgender community events. In total, we attended 25 Pride events across the UK to support our ambition to be the most inclusive retailer where people love to work and shop.

Financial Review

In the first half, the tough trading environment and food price deflation continued. Sainsbury's underlying Group sales (including VAT) declined by 2.0 per cent to £13,641 million (2014/15: £13,916 million) and underlying profit before tax ('UPBT') declined by 17.9 per cent to £308 million (2014/15: £375 million). On a 52 rolling week basis, our market share has declined marginally, by 17 basis points, to 16.5 per cent which is an improving trend as a result of volume and transaction growth. Our average trading intensity excluding fuel declined to £17.96 per sq ft per week (2014/15: £18.52 per sq ft per week). Profit before tax of £339 million (2014/15: £290 million loss) was £31 million higher than UPBT, mainly due to profits from property developments being excluded from underlying profit.

As a consequence of the price investment in 2014/15, we have seen volume growth, selling more items at lower prices. The total cost to UPBT, net of volume growth, remains in line with our original commitment to invest £150 million; £40 million having already occurred in the second half of 2014/15, £80 million in the first half of 2015/16 and £30 million due to impact the second half of 2015/16. Since November 2014, we have reduced the price of over 1,500 products and our price position against our main peers remains as competitive as it has ever been. We will continue to lower prices to remain competitive in the market. Our retail underlying operating profit decreased by 14.4 per cent to £332 million (2014/15: £388 million) and our retail underlying operating margin decreased by 39 basis points to 2.71 per cent (45 basis points at constant fuel prices to 2.65 per cent).

Growing our non-food and services businesses remains an important part of our strategy. This is demonstrated by clothing, which grew by nearly ten per cent, including the national launch of *Tu* Online, and general merchandise which grew by 1.4 per cent. Sainsbury's Bank increased its total income by over six per cent to £139 million, although underlying operating profit declined slightly to £34 million in the first half (2014/15: £35 million), as a result of a more even phasing of profit in 2015/16.

Despite an improvement in our LFL sales year-on-year, our supermarket sales declined by 2.1 per cent. At the same time, we saw good growth in our other channels: our convenience business grew by nearly 11 per cent, ahead of the market; and our groceries online business grew by seven per cent. Our joint venture ('JV') with Netto had six stores open by the end of the half, with a further nine expected to be opened in the second half.

Core retail capital expenditure was £301 million (2014/15: £557 million), reflecting the reduction announced within the Strategic Review. New space delivered a 1.5 per cent contribution to sales growth, with four new supermarkets (including two replacement stores) and 37 new convenience stores opened during the first half.

Our return on capital employed ('ROCE') decreased by 198 basis points to 9.1 per cent. ROCE excluding the pension fund deficit was 8.5 per cent, a decline of 173 basis points year-on-year. ROCE decline was driven by reduced profitability.

We achieved £115 million (2014/15: £75 million) of operational cost savings, which was ahead of our expectations. This significant step up year-on-year is due to an increase in the savings delivered from the core operational efficiency programme and one-off benefits relating to a review of our commercial expenditure and the organisational structure within our stores and store support centres. The Group is now expecting to deliver operational cost savings of around £225 million by the end of the financial year and we are on track to deliver the £500 million target over the next three years. The savings during the first half more than offset the impact of inflationary pressures on costs, however we expect this inflationary impact to step up by £13 million in the second half as a result of the four per cent wage increase for our store colleagues.

Throughout the first half, the Group has taken steps to ensure the continued financial flexibility of the Group and the strength of the balance sheet. On 5 May 2015, the unsecured Revolving Credit Facility ('RCF') was refinanced with a new secured recourse £1,150 million RCF, with no financial covenants. On 30 July 2015, the Group issued £250 million perpetual subordinated capital securities and £250 million perpetual subordinated convertible bonds (together £500 million of 'perpetual securities'), enabling a £125 million contribution to the Pension Fund in the first half and a further £125 million contribution which will take place next financial year. Including both the RCF, which was undrawn at the end of the first half, and the perpetual securities, which are accounted for as equity, the Group has total facilities in place of over £4.1 billion. Accounting for the perpetual securities as equity has led to a reduction in net debt of £486 million since the year-end, to £1,857 million. (Note that if the perpetual securities were treated as debt, net debt would be £2,351 million, £8 million higher than year-end, but £31 million lower than last year). The coupons associated with the perpetual securities, together with lower capitalised interest, is expected to increase full year underlying net finance costs by around £10 million.

Underlying basic earnings per share decreased to 12.0 pence (2014/15: 14.5 pence), a 17.2 per cent decline year-on-year. Basic earnings per share was 13.6 pence for the first half (2014/15: 18.0 pence loss per share), higher than the underlying basic earnings per share mainly due to the profit on disposal of properties.

The Board has approved an interim dividend of 4.0 pence (2014/15: 5.0 pence), down 20 per cent year-on-year, in line with our long term policy of paying 30 per cent of the prior year's full-year dividend as an interim dividend.

Despite the market environment remaining challenging, we remain focused on our cost saving programme, improving operational cash flow and working capital management.

Summary income statement	**28 weeks to 26 September 2015 £m**	28 weeks to 27 September 2014 £m	Change %	52 weeks to 14 March 2015 £m
Underlying Group sales (including VAT)[1]	**13,641**	13,916	(2.0)	26,122
Retail sales (including VAT)	**13,475**	13,757	(2.0)	25,813
Underlying Group sales (excluding VAT)[1]	**12,414**	12,656	(1.9)	23,752
Retail sales (excluding VAT)	**12,248**	12,497	(2.0)	23,443
Underlying operating profit				
Retailing	**332**	388	(14.4)	720
Financial services – Sainsbury's Bank	**34**	35	(2.9)	62
Total underlying operating profit	**366**	423	(13.5)	782
Underlying net finance costs[2]	**(62)**	(54)	(14.8)	(107)
Underlying share of post-tax profit from JVs[3]	**4**	6	(33.3)	6
Underlying profit before tax	**308**	375	(17.9)	681
Items excluded from underlying results	**31**	(665)	(104.7)	(753)
Profit/(loss) before tax	**339**	(290)	(216.9)	(72)
Income tax expense	**(75)**	(54)	(38.9)	(94)
Profit/(loss) for the financial period	**264**	(344)	(176.7)	(166)
Underlying basic earnings per share	**12.0p**	14.5p	(17.2)	26.4p
Basic earnings/(loss) per share	**13.6p**	(18.0)p	(175.6)	(8.7)p
Dividend per share	**4.0p**	5.0p	(20.0)	13.2p

1 Underlying Group sales excludes a £5 million acquisition adjustment fair value unwind relating to Sainsbury's Bank (2014/15: £11 million).
2 Net finance costs including perpetual securities coupons before financing fair value movements and the IAS 19 pension financing charge.
3 The underlying share of post-tax profit from JVs is stated before investment property fair value movements, financing fair value movements and profit on disposal of properties.

Retail sales (including VAT) and space

Retail sales (including fuel) decreased by 2.0 per cent to £13,475 million (2014/15: £13,757 million). This includes a 1.5 per cent contribution from new space (excluding extensions and replacements) and a like-for-like ('LFL') sales decline of 3.5 per cent.

Retail sales growth (including VAT, including fuel)	**28 weeks to 26 September 2015 %**	28 weeks to 27 September 2014 %	52 weeks to 14 March 2015 %
Like-for-like sales	**(3.5)**	(3.4)	(3.6)
Net new space (excluding extensions and replacements)	**1.5**	2.0	1.6
Total sales growth	**(2.0)**	(1.4)	(2.0)

Retail sales (excluding fuel) decreased by 0.1 per cent, with a LFL decline of 1.6 per cent. This was a smaller decline than sales including fuel due to retail price deflation in fuel. LFL sales (excluding fuel) declined by 2.1 per cent in the first quarter and improved to a 1.1 per cent decline in the second quarter. The decline was due to the continued challenging market conditions and food price deflation. On a 52 week rolling basis, our market share has declined marginally, by 17 basis points, to 16.5 per cent which is an improving trend as a result of volume and transaction growth (as measured by Kantar).

The contribution from net new space (excluding extensions and replacements) of 1.5 per cent was in line with Sainsbury's expectations.

Our multi-channel strategy enables customers to shop whenever, wherever and however they want. The convenience business grew sales by nearly 11 per cent, ahead of the market. Groceries online grew by seven per cent year-on-year, lower than the previous year's growth reflecting smaller basket sizes, due to food deflation and a lower number of items per basket. Sainsbury's non-food offer continued to grow sales ahead of the market, supported by continued range development and the roll-out of new space.

Retail sales growth (including VAT, excluding fuel)	**28 weeks to 26 September 2015 %**	28 weeks to 27 September 2014 %	52 weeks to 14 March 2015 %
Like-for-like sales[1]	**(1.6)**	(2.1)	(1.9)
Net new space (excluding extensions and replacements)	**1.5**	2.1	1.7
Total sales growth	**(0.1)**	-	(0.2)

1 This includes a 0.1 per cent contribution from stores extended in 52 weeks to 26 September 2015, net of disruptions (HY 2014/15: 0.3 per cent, FY 2014/15: 0.2 per cent).

Average trading intensity ('TI') excluding fuel declined to £17.96 per sq ft per week (2014/15: £18.52 per sq ft per week) due to the challenging market conditions, in particular price deflation.

Sainsbury's added a gross 305,000 sq ft of selling space in the half (including replacements), an increase of 1.3 per cent (2014/15: 347,000 sq ft, an increase of 1.6 per cent). Including the impact of closures and refurbishments, this translated into net space growth of 230,000 sq ft, an increase of 1.0 per cent since the start of the year (2014/15: 320,000 sq ft, an increase of 1.4 per cent).

In the first half of 2015/16, Sainsbury's opened four new supermarkets, of which two were replacement stores (2014/15: three new supermarkets, of which one was a replacement) and completed four supermarket refurbishments (2014/15: five supermarket refurbishments and four extensions). Convenience continues to be a key area of growth, with 37 stores opened during the half (2014/15: 50 stores). Three convenience stores were closed (2014/15: one store) and four were refurbished (2014/15: 22 stores).

Net of replacements, closures and disposals, closing space of 23,049,000 sq ft was 2.5 per cent higher than last year (27 September 2014: 22,480,000 sq ft).

Store numbers and retailing space 28 weeks to 26 September 2015	**Supermarkets** Number	**Supermarkets** Area 000 sq ft	**Convenience** Number	**Convenience** Area 000 sq ft	**Total** **Number**	**Total** **Area 000 sq ft**
At 14 March 2015	597	21,190	707	1,629	**1,304**	**22,819**
New stores	4	210	37	95	**41**	**305**
Disposals/closures	(2)	(67)	(3)	(4)	**(5)**	**(71)**
Extensions/refurbishments/downsizes	-	(1)	-	(3)	-	**(4)**
At 26 September 2015	**599**	**21,332**	**741**	**1,717**	**1,340**	**23,049**
Memorandum:						
Extensions	-	-	-	-	**-**	**-**
Refurbishments/downsizes	4	(1)	4	(3)	**8**	**(4)**
Total projects	**4**	**(1)**	**4**	**(3)**	**8**	**(4)**

In the second half of 2015/16, Sainsbury's expects LFL sales to be similar to the first half. Contribution from net new space (excluding extensions and replacements) is expected to be slightly lower than 2014/15. Contribution from extensions is expected to be 0.1 per cent.

In 2015/16, Sainsbury's expects to deliver around 450,000 sq ft of gross new space, with one to two new convenience store openings per week.

Retail underlying operating profit

Retail underlying operating profit decreased by 14.4 per cent to £332 million (2014/15: £388 million), reflecting lower LFL sales and investment in the customer offer in order to remain competitive. This was partly offset by increased cost savings year-on-year of £115 million (2014/15: £75 million).

Retail underlying operating margin declined by 39 basis points year-on-year to 2.71 per cent (2014/15: 3.10 per cent), which resulted in a 45 basis points decline at constant fuel prices. Retail underlying EBITDAR margin decreased by 28 basis points to 7.58 per cent, or a 45 basis points decline to 7.41 per cent at constant fuel prices.

Retail underlying operating profit	**28 weeks to 26 September 2015**	28 weeks to 27 September 2014	Change	Change at constant fuel prices	52 weeks to 14 March 2015
Retail underlying operating profit (£m)[1]	**332**	388	(14.4)%		720
Retail underlying operating margin (%)[2]	**2.71**	3.10	(39)bps	(45)bps	3.07
Retail underlying EBITDAR (£m)[3]	**928**	982	(5.5)%		1,819
Retail underlying EBITDAR margin (%)[4]	**7.58**	7.86	(28)bps	(45)bps	7.76

1 Underlying earnings before interest, tax, Sainsbury's Bank underlying operating profit and Sainsbury's underlying share of post-tax profit from JVs.
2 Retail underlying operating profit divided by retail sales excluding VAT.
3 Retail underlying operating profit before rent, depreciation and amortisation.
4 Retail underlying EBITDAR divided by retail sales excluding VAT.

In 2015/16, Sainsbury's expects cost inflation at the lower end of the two to three per cent range, with a £13 million step up in the second half as a result of the four per cent wage increase for store colleagues effective from 30 August 2015. We have made good progress with efficiency savings and now expect around £225 million in 2015/16.

As previously communicated, the £150 million investment in price impacted UPBT year-on-year by £40 million in the second half of 2014/15. UPBT in the first half of 2015/16 has been impacted year-on-year by £80 million and will impact the second half of 2015/16 by £30 million. We will remain competitive on price in the market.

Financial services - Sainsbury's Bank

Sainsbury's Bank results	**6 months to 31 August 2015**	6 months to 31 August 2014	Change
Total income (£m)[1]	**139**	131	6.1%
Underlying operating profit (£m)	**34**	35	(2.9)%
Net interest margin (%)[2]	**3.9**	4.0	(10)bps
Bad debt as a percentage of lending (%)[3]	**0.3**	0.8	50bps
Tier 1 capital ratio (%)[4]	**14.0**	13.5	51bps

1 Net interest and net commission income.
2 Net interest receivable divided by average interest-bearing assets.
3 Bad debt expense divided by gross lending.
4 Tier 1 capital divided by risk-weighted assets.

Sainsbury's Bank delivered an underlying operating profit of £34 million, a 2.9 per cent decrease year-on-year. This decrease was as a result of a more even phasing of profit in 2015/16.

Net interest margin decreased by 10 basis points year-on-year to 3.9 per cent (31 August 2014: 4.0 per cent) driven by the diversification of the Bank's funding sources to include a greater mix of longer term wholesale funds. Bad debt levels as a percentage of lending improved to 0.3 per cent (31 August 2014: 0.8 per cent) as a result of continued improvement in recovery processes, low market interest rates and stable economic conditions. The Tier 1 capital ratio increased by 51 basis points year-on-year to 14.0 per cent (31 August 2014: 13.5 per cent), reflecting on-going capital injections in support of transitioning the Bank to a new, more flexible banking platform.

Due to a six to nine month delay, we now expect migration of our savings customers to take place in Spring/Summer 2016 and migration of our Cards and Loans customers to take place in Spring/Summer 2017. As a result, we anticipate our overall spend to be at the top end of the previously communicated £340 million to £380 million range. In 2015/16, Sainsbury's Bank is expected to deliver mid-single digit year-on-year growth in underlying operating profit. Capital injections to the Bank in 2015/16 are expected to be circa £160 million.

Property and other joint ventures ('JV')

Sainsbury's underlying share of post-tax profit from its JV with British Land was £8 million (2014/15: £6 million). Its underlying share of post-tax profit from the JV with Land Securities was £1 million (2014/15: £2 million).

An investment property fair value decrease of £14 million was recognised within the share of post-tax profit from the JVs in the income statement (2014/15: £18 million), mainly driven by average property yields of the JVs increasing to 5.1 per cent, or ten basis points higher than the prior year (2014/15: 5.0 per cent).

Sainsbury's recognised a net £5 million share of loss (2014/15: net £2 million share of loss) from the three start-up JVs: Netto, Mobile *by* Sainsbury's and I^{2}C. This loss was driven by start-up costs. On 14 October 2015, it was announced that Mobile *by* Sainsbury's, a joint venture with Vodafone, would close on 15 January 2016. Pay as You Go ('PAYG') customers will be able to top up until 14 November 2015, with service to pay-monthly customers continuing until 15 January 2016. Customers will still be able to buy phones, accessories and access other mobile operator contracts and PAYG options via our 38 Phone Shops and online.

In 2015/16, Sainsbury's expects the share of profit from the property JVs to be slightly lower year-on-year. Sainsbury's share of loss from the start-up JVs, including Netto, is expected to be similar to 2014/15.

Underlying net finance costs

Underlying net finance costs increased by £8 million year-on-year to £62 million (2014/15: £54 million), as a result of a reduction in capitalised interest and the perpetual securities coupons.

Underlying net finance costs[1]	**28 weeks to 26 September 2015 £m**	28 weeks to 27 September 2014 £m	52 weeks to 14 March 2015 £m
Underlying finance income	**9**	10	19
Interest costs	**(71)**	(76)	(143)
Perpetual securities coupons	**(4)**	-	-
Capitalised interest	**4**	12	17
Underlying finance costs	**(71)**	(64)	(126)
Underlying net finance costs	**(62)**	(54)	(107)

1 Finance income/costs before financing fair value movements and the IAS 19 pension financing charge.

Sainsbury's expects underlying net finance costs in 2015/16 to increase by around £10 million year-on-year as a result of lower capitalised interest and the perpetual securities coupons.

Items excluded from underlying results

Items excluded from underlying results totalled a profit of £31 million (2014/15: £665 million loss), mainly due to profit on disposal of properties.

Items excluded from underlying results	**28 weeks to 26 September 2015 £m**	28 weeks to 27 September 2014 £m	52 weeks to 14 March 2015 £m
Profit on disposal of properties	**94**	4	7
Investment property fair value movements	**(14)**	18	7
Retail financing fair value movements	**(4)**	(12)	(30)
IAS 19 pension financing charge and scheme expenses	**(15)**	(18)	(37)
Perpetual securities coupons	**4**	-	-
Acquisition adjustments	**1**	6	13
One-off items	**(35)**	(663)	(713)
Total items excluded from underlying results	**31**	(665)	(753)

One-off items

The charge to one-off items of £35 million (2014/15: £663 million) includes: costs of £25 million in relation to transitioning Sainsbury's Bank to a new, more flexible banking platform and £13 million of restructuring costs, partly offset by £3 million of impairment reversal.

One-off items	**28 weeks to 26 September 2015 £m**	28 weeks to 27 September 2014 £m	52 weeks to 14 March 2015 £m
Sainsbury's Bank costs	**(25)**	(23)	(53)
Impairment and onerous contract charge	**3**	(628)	(628)
Pension compensation payments	**-**	(12)	(17)
Other	**(13)**	-	(15)
Total one-off items	**(35)**	(663)	(713)

In 2015/16, Sainsbury's Bank costs for transitioning to a new, more flexible banking platform are expected to be around £50 million (capital costs relating to the transition are expected to be around £75 million).

Property profits, mainly from mixed-use developments, are expected to be around £200 million split over 2015/16 and 2016/17.

The sale of our pharmacy business to LloydsPharmacy is expected to complete in February 2016. We expect to receive cash of around £125 million[1] and recognise a profit on disposal of around £100 million.

1 Subject to a working capital adjustment

Taxation

The income tax charge was £75 million (2014/15: £54 million), with an underlying tax rate of 25.3 per cent (2014/15: 26.4 per cent) and an effective tax rate of 22.1 per cent (2014/15: (18.6) per cent). The underlying rate is lower than last year, mainly due to a one per cent fall in the statutory corporate tax rate.

Underlying tax rate 28 weeks to 26 September 2015	**Profit £m**	**Tax £m**	**Rate %**
Underlying profit before tax, and tax thereon	308	(78)	25.3
Adjustments (and tax thereon) for:			
Profit on disposal of properties	94	19	
Investment property fair values movements	(14)	-	
Retail financing fair value movements	(4)	(1)	
IAS 19 pension financing charge and scheme expenses	(15)	(4)	
Perpetual securities coupons	4	(2)	
Acquisition adjustments	1	-	
One-off items	(35)	(9)	
Profit before tax, and tax thereon	**339**	**(75)**	**22.1**

In 2015/16, Sainsbury's expects the full year underlying tax rate to be around 22 per cent, lower than previous guidance due to the corporation tax rate changes announced in the July 2015 Budget which are expected to be substantively enacted in the second half of the year.

Earnings per share

Underlying basic earnings per share decreased by 17.2 per cent to 12.0 pence (2014/15: 14.5 pence) reflecting the fall in underlying profits and the effect of additional shares issued during the year, partly offset by a lower underlying tax rate year-on-year.

The weighted average number of shares in issue was 1,920.0 million (2014/15: 1,909.4 million), an increase of 10.6 million shares or 0.6 per cent. Basic earnings per share was 13.6 pence (2014/15: 18.0 pence loss). The basic earnings per share was higher than the underlying basic earnings per share due to the items excluded from underlying results.

Underlying earnings per share	**28 weeks to 26 September 2015 pence per share**	28 weeks to 27 September 2014 pence per share
Basic earnings/(loss) per share attributable to ordinary shareholders	**13.6**	(18.0)
Adjustments (net of tax) for:		
Profit on disposal of properties	**(5.9)**	(0.2)
Investment property fair value movements	**0.7**	(0.9)
Retail financing fair value movements	**0.3**	0.5
IAS 19 Revised pension financing charge and scheme expenses	**1.0**	0.6
Acquisition adjustments	**(0.1)**	(0.2)
One-off items	**2.4**	32.6
Revaluation of deferred tax balances	**-**	0.1
Underlying basic earnings per share attributable to ordinary shareholders[1]	**12.0**	14.5

1 Underlying EPS calculation is based on underlying profit after tax attributable to ordinary shareholders. Therefore the coupons on the perpetual securities are not added back.

Dividends
The Board has approved an interim dividend of 4.0 pence per share (2014/15: 5.0 pence), equivalent to 30 per cent of the previous full year dividend. This will be paid on 4 January 2016 to shareholders on the Register of Members at the close of business on 20 November 2015.

Sainsbury's plans to maintain full year dividend cover at two times our underlying earnings for the full year.

Financing
The Group's key financing objectives are to diversify funding sources, to minimise refinancing risk and to maintain appropriate contingent liquidity. As at 26 September 2015, the Group had drawn debt facilities of £2.5 billion, undrawn but committed borrowing facilities of £1.15 billion at its disposal and £500 million of perpetual securities.

The principal elements of the Group's drawn debt facilities comprise two long-term loans of £808 million due 2018 and £797 million due 2031, both secured over property assets. In addition, the Group has further secured loans of £200 million due August 2019 and €50 million due September 2016, a five year £450 million Convertible Bond due November 2019, £111 million of hire purchase facilities and £77 million of finance lease obligations.

On 5 May 2015, the Group refinanced its unsecured Revolving Credit Facility ('RCF') with a new secured recourse £1,150 million RCF, with a final maturity of 2020. The new secured corporate facility is the same size as, and has substantially similar economic terms to the previous unsecured facility. The new facility is secured against supermarket properties and contains no financial covenants. The facility is split into two tranches, a £500 million Facility (A) maturing in April 2018 and a £650 million Facility (B) maturing in April 2020. As at 26 September 2015, £nil had been drawn from either Facility. As part of this transaction, two further bank loans totalling £244 million were secured on supermarket properties.

On 30 July 2015, the Group issued £250 million of perpetual subordinated capital securities and £250 million of perpetual subordinated convertible bonds. Costs of £6 million directly associated with the issue have been offset against the value of the proceeds. In line with accounting standards, both instruments have been accounted for as equity and the coupon cost as dividends. In addition, the coupon cost has been included within Sainsbury's definition of underlying finance costs and UPBT.

Since 14 March 2015, two bilateral bank loans, amounting to £95 million have matured and were repaid.

Net debt and cash flows
Group net debt includes the capital injections in to Sainsbury's Bank, but excludes Sainsbury's Bank's own net debt balances[1]. As at 26 September 2015, net debt was £1,857 million (14 March 2015: £2,343 million), a decrease of £486 million since year-end. This decrease was primarily driven by the issue of the perpetual securities, partly offset by a £125 million pension contribution. Net debt, treating the perpetual securities as debt, was £2,351 million, an increase of £8 million since the year-end.

Operating cash flows before changes in working capital decreased by 18.2 per cent to £507 million (2014/15: £620 million) and cash generated from operations decreased by 28.4 per cent to £375 million (2014/15: £524 million), mainly due to a lower underlying operating profit, a pension contribution of £125 million and an increase in Group working capital of £132 million.

The £132 million increase in Group working capital from 14 March 2015 was driven by a £323 million increase in Sainsbury's Bank working capital, partly offset by a £191 million improvement in retail working capital. The increase in Sainsbury's Bank working capital reflects positive steps taken by the Bank to increase customer lending. The £191 million improvement in retail working capital was mainly due to an increase in trade payables due to operational efficiencies.

The net cash used in investing activities of £313 million was £242 million lower year-on-year (2014/15: £555 million), driven by lower capital spend. The £494 million proceeds from the issue of the perpetual securities, net of fees, was partly offset by a repayment of borrowings of £293 million primarily driven by the repayment of the drawn element of the RCF at year-end.

1 Net debt balances within Sainsbury's Bank's balance sheet are required for business as usual activities and as such are excluded from Sainsbury's definition of Group Net debt.

Summary cash flow statement	28 weeks to 26 September 2015 £m	28 weeks to 27 September 2014 £m	52 weeks to 14 March 2015 £m
Operating cash flow before changes in working capital	**507**	620	1,123
Decrease in retail working capital	**191**	312	313
Increase in Sainsbury's Bank working capital	**(323)**	(408)	(300)
Cash generated from operations	**375**	524	1,136
Interest paid	**(65)**	(76)	(134)
Corporation tax paid	**(63)**	(50)	(91)
Net cash from operating activities	**247**	398	911
Net cash used in investing activities	**(313)**	(555)	(900)
Proceeds from issue of shares	**7**	8	19
Purchase of own shares	**-**	(3)	(18)
Receipt of new debt	**-**	530	674
Proceeds from issue of perpetual securities	**494**	-	-
Repayment of borrowings	**(293)**	(322)	(659)
Dividends paid	**(157)**	(234)	(330)
Decrease in cash and cash equivalents	**(15)**	(178)	(303)
Elimination of net decrease in Sainsbury's Bank cash and cash equivalents	**238**	385	343
Decrease/(increase) in debt	**280**	(213)	(31)
Fair value and other non-cash movements	**(17)**	8	32
Movement in net debt	**486**	2	41

Sainsbury’s expects 2015/16 year-end net debt to reduce significantly year-on-year due to the issue of the perpetual securities, partly offset by the £125 million contribution to the Pension Fund and capital injections into Sainsbury’s Bank. Sainsbury’s expects a small improvement in retail working capital.

Treating the perpetual securities as debt, Sainsbury’s still expects 2015/16 year-end net debt to reduce year-on-year.

Retail capital expenditure

Core retail capital expenditure decreased by £256 million year-on-year to £301 million (2014/15: £557 million). Core retail capital expenditure as a percentage of retail sales (including fuel, including VAT) was 2.2 per cent (2014/15: 4.0 per cent).

Supermarket openings increased by one during the first half to four (2014/15: three supermarkets). Sainsbury’s opened 37 new convenience stores in the half (2014/15: 50 convenience stores).

During the half, there were no extensions completed (2014/15: four extensions). Sainsbury’s also delivered eight refurbishments during the year (2014/15: 27 refurbishments) consisting of four supermarkets (2014/15: five supermarkets) and four convenience stores (2014/15: 22 convenience stores).

Net retail capital expenditure was £298 million (2014/15: £562 million).

Retail capital expenditure	28 weeks to 26 September 2015 £m	28 weeks to 27 September 2014 £m	52 weeks to 14 March 2015 £m
New store development (£m)	**149**	300	425
Extensions and refurbishments (£m)	**85**	134	284
Other – including supply chain and D&T (£m)	**67**	123	238
Core retail capital expenditure (£m)	**301**	557	947
Acquisition of freehold and trading properties (£m)[1]	**1**	(2)	(9)
Proceeds from sale and leasebacks (£m)[2]	**(4)**	7	3
Net retail capital expenditure	**298**	562	941
Capex/sales ratio (%)[3]	**2.2**	4.0	3.7

1 2014/15 balance includes income from Harvest, our JV with Land Securities, relating to the repayment of a loan.
2 Includes movement in timing of capital debtors and creditors.
3 Core retail capital expenditure divided by retail sales (including fuel, including VAT).

In 2015/16, Sainsbury's expects core retail capital expenditure (excluding Sainsbury's Bank) to be around £550 million.

In 2015/16, Sainsbury's expects £50 million of BAU property disposal proceeds.

Return on capital employed

The return on capital employed ('ROCE') over the 52 weeks to 26 September 2015 was 9.1 per cent (2014/15: 11.1 per cent), a decrease of 198 basis points year-on-year. ROCE is enhanced by the net pension deficit, which reduces capital employed.

ROCE excluding the net pension deficit over the 52 weeks to 26 September 2015 was 8.5 per cent (2014/15: 10.3 per cent), a year-on-year decrease of 173 basis points. ROCE decline was due to the fall in underlying operating profit.

Return on capital employed	52 weeks to 26 September 2015	52 weeks to 27 September 2014	52 weeks to 14 March 2015
Total underlying operating profit (£m)	**725**	862	782
Underlying share of post-tax profit from JVs (£m)	**4**	18	6
Underlying profit before interest and tax (£m)	**729**	880	788
Average capital employed[1] (£m)	**7,984**	7,924	8,136
Return on capital employed (%)	**9.1**	11.1	9.7
Return on capital employed (%) (excluding pension fund deficit)	**8.5**	10.3	9.0
52 week ROCE movement to 26 September 2015	**(198)bps**		
52 week ROCE movement to 26 September 2015 (excluding pension fund deficit)	**(173)bps**		

1 Average of opening and closing net assets before net debt.

Summary balance sheet

Net assets as at 26 September 2015 were £6,211 million (14 March 2015: £5,539 million), an increase of £672 million, mainly attributable to the issue of the perpetual securities, net of fees, of £494 million.

Net debt was £486 million lower than at 14 March 2015 driven by the issue of the perpetual securities.

Sainsbury's Bank net assets at 31 August 2015 of £613 million (28 February 2015: £504 million) have been consolidated and separately identified.

Accounting for the perpetual securities as equity, adjusted net debt to EBITDAR was 4.0 times (2014/15: 3.8 times) and interest cover reduced to 6.0 times (2014/15: 7.9 times). Fixed charge cover reduced to 2.7 times (2014/15: 3.0 times). Gearing decreased during the half to 29.9 per cent (14 March 2015: 42.3 per cent) as a result of the increase in equity. Excluding the pension deficit, gearing decreased to 27.8 per cent (14 March 2015: 37.9 per cent).

Treating the perpetual securities as debt, adjusted net debt to EBITDAR increases to 4.3 times. Gearing increases to 41.1 per cent and gearing excluding the pension deficit increases to 38.0 per cent. Excluding the coupons from underlying net finance costs, interest cover increases to 6.4 times and fixed charge cover remains the same at 2.7 times.

Summary balance sheet (Sainsbury's Bank separated)	**As at 26 September 2015**	Movement since 14 March 2015	As at 27 September 2014	As at 14 March 2015
	£m	£m	£m	£m
Land and buildings (Freehold & long leasehold)	**7,015**	125	6,916	6,890
Land and buildings (Short leasehold)	**799**	8	798	791
Fixtures and fittings	**1,910**	(31)	1,850	1,941
Property, plant and equipment	**9,724**	102	9,564	9,622
Other non-current assets	**772**	(56)	869	828
Inventories	**1,013**	16	1,055	997
Trade and other receivables	**373**	79	328	294
Sainsbury's Bank Assets[1]	**4,368**	101	3,993	4,267
Cash and cash equivalents	**622**	219	577	403
Debt	**(2,479)**	267	(2,959)	(2,746)
Net debt	**(1,857)**	486	(2,382)	(2,343)
Trade and other payables and provisions	**(3,954)**	(242)	(3,815)	(3,712)
Retirement benefit obligations, net of deferred tax	**(473)**	178	(634)	(651)
Sainsbury's Bank Liabilities[1]	**(3,755)**	8	(3,461)	(3,763)
Net assets	**6,211**	672	5,517	5,539

1 As at 31 August.

Key Financial ratios (with perpetual securities accounted for as equity)	As at 26 September 2015	As at 27 September 2014	As at 14 March 2015
Adjusted net debt to EBITDAR[1]	**4.0 times**	3.8 times	4.1 times
Interest cover[2]	**6.0 times**	7.9 times	7.4 times
Fixed charge cover[3]	**2.7 times**	3.0 times	2.9 times
Gearing[4]	**29.9%**	43.2%	42.3%
Gearing (excluding pension deficit)[5]	**27.8%**	38.7%	37.9%

Key Financial ratios (with perpetual securities treated as debt)[6]			
Adjusted net debt to EBITDAR	**4.3 times**	3.8 times	4.1 times
Gearing	**41.1%**	43.2%	42.3%
Gearing (excluding pension deficit)	**38.0%**	38.7%	37.9%

Key Financial ratios
(with perpetual securities coupons excluded from net underlying finance costs)[7]

Interest cover	**6.4 times**	7.9 times	7.4 times
Fixed charge cover	**2.7 times**	3.0 times	2.9 times

1 Net debt of £1,857 million plus capitalised lease obligations of £5,476 million (5.5 per cent discount rate), divided by Group underlying EBITDAR of £1,837 million, calculated for a 52 week period to 26 September 2015.
2 Underlying profit before interest and tax divided by underlying net finance costs.
3 Group underlying EBITDAR divided by net rent and underlying net finance costs.
4 Net debt divided by net assets.
5 Net debt divided by net assets, excluding pension deficit.
6 Treating the perpetual securities, net of transaction fees, as debt increases net debt to £2,351 million, and reduces net assets to £5,717 million
7 Excluding the perpetual securities coupons, underlying net finance costs reduces to £58 million

As at 26 September 2015, Sainsbury's estimated market value of properties, including our 50 per cent share of properties held within property JVs, was £10.8 billion (14 March 2015: £11.1 billion). The £0.3 billion decrease during the half was mainly due to a reduction in market rental values which has impacted the portfolio value by £0.2 billion and a yield movement of £0.1 billion. The summary balance sheet discloses Sainsbury's Bank assets and liabilities separately to aid interpretation. A summary balance sheet is also presented with Sainsbury's Bank consolidated by line.

Summary balance sheet (Sainsbury's Bank consolidated)	**As at 26 September 2015**	Movement since 14 March 2015	As at 27 September 2014	As at 14 March 2015
	£m	£m	£m	£m
Land and buildings (Freehold & long leasehold)	**7,017**	125	6,917	6,892
Land and buildings (Short leasehold)	**799**	8	798	791
Fixtures and fittings	**1,938**	(27)	1,869	1,965
Property, plant and equipment	**9,754**	106	9,584	9,648
Other non-current assets	**2,548**	137	2,385	2,411
Inventories	**1,013**	16	1,055	997
Trade and other receivables	**2,290**	220	1,945	2,070
Sainsbury's Bank cash and cash equivalents	**644**	(238)	840	882
Cash and cash equivalents	**622**	219	577	403
Debt	**(2,479)**	267	(2,959)	(2,746)
Net debt	**(1,857)**	486	(2,382)	(2,343)
Trade and other payables and provisions	**(7,708)**	(233)	(7,276)	(7,475)
Retirement benefit obligations, net of deferred tax	**(473)**	178	(634)	(651)
Net assets	**6,211**	672	5,517	5,539

Defined benefit pensions

As at 26 September 2015, the post-tax pension deficit was £473 million, an improvement of £178 million since the year-end (14 March 2015: £651 million). The reduction in the deficit was mainly driven by a contribution of £125 million to the Group's pension scheme and an increase in the discount rate, partly offset by lower fair value of plan assets.

Retirement benefit obligations	**26 September 2015**	27 September 2014	14 March 2015
	£m	£m	£m
Present value of funded obligations	**(7,470)**	(7,174)	(7,680)
Fair value of plan assets	**6,971**	6,500	6,988
Pension deficit	**(499)**	(674)	(692)
Present value of unfunded obligations	**(16)**	(13)	(16)
Retirement benefit obligations	**(515)**	(687)	(708)
Deferred income tax asset	**42**	53	57
Net retirement benefit obligations	**(473)**	(634)	(651)

Group income statement (unaudited)
for the 28 weeks to 26 September 2015

	Note	**28 weeks to 26 September 2015 £m**	28 weeks to 27 September 2014 £m	52 weeks to 14 March 2015 £m
Revenue	4	**12,419**	12,667	23,775
Cost of sales		**(11,662)**	(12,168)	(22,567)
Gross profit		**757**	499	1,208
Administrative expenses		**(428)**	(735)	(1,132)
Other income		**94**	2	5
Operating profit/(loss)		**423**	(234)	81
Finance income	5	**9**	10	19
Finance costs	5	**(82)**	(90)	(180)
Share of post-tax (loss)/profit from joint ventures and associates		**(11)**	24	8
Profit/(loss) before tax		**339**	(290)	(72)
Analysed as:				
Underlying profit before tax		**308**	375	681
Profit on disposal of properties	3	**94**	4	7
Investment property fair value movements	3	**(14)**	18	7
Retail financing fair value movements	3	**(4)**	(12)	(30)
IAS 19 pension financing charge and scheme expenses	3	**(15)**	(18)	(37)
Perpetual securities coupons	3	**4**	-	-
Acquisition adjustments	3	**1**	6	13
One-off items	3	**(35)**	(663)	(713)
		339	(290)	(72)
Income tax expense	6	**(75)**	(54)	(94)
Profit/(loss) for the financial period		**264**	(344)	(166)
Attributable to:				
Ordinary shareholders of the parent		**262**	(344)	(166)
Holders of perpetual securities	10	**2**	-	-
Profit/(loss) for the financial period		**264**	(344)	(166)

Earnings/(loss) per share	7	**Pence per share**	Pence per share	Pence per share
Basic		**13.6**	(18.0)	(8.7)
Diluted		**12.6**	(18.0)	(8.7)
Underlying basic		**12.0**	14.5	26.4
Underlying diluted		**11.1**	14.3	25.7

The notes form an integral part of these Condensed Consolidated Interim Financial Statements.

Group statement of comprehensive income (unaudited)
for the 28 weeks to 26 September 2015

	28 weeks to 26 September 2015 £m	28 weeks to 27 September 2014 £m	52 weeks to 14 March 2015 £m
Profit/(loss) for the financial period	**264**	(344)	(166)
Items that will not be reclassified subsequently to the income statement:			
Remeasurement on defined benefit pension schemes	**69**	51	(19)
Current tax relating to items not reclassified	**-**	2	6
Deferred tax relating to items not reclassified	**(10)**	(4)	(1)
	59	49	(14)
Items that may be reclassified subsequently to the income statement:			
Currency translation differences	**-**	-	3
Available-for-sale financial assets fair value movements			
Attributable to Group	**(1)**	13	(39)
Items reclassified from available-for-sale assets reserve	**-**	-	1
Cash flow hedges effective portion of fair value movements			
Attributable to Group	**(12)**	(4)	(13)
Attributable to Joint ventures and associates	**-**	1	3
Items reclassified from cash flow hedge reserve	**4**	17	21
Current tax relating to items that may be reclassified	**-**	-	-
Deferred tax relating to items that may be reclassified	**-**	(2)	9
	(9)	25	(15)
Total other comprehensive income/(expense) for the financial period (net of tax)	**50**	74	(29)
Total comprehensive income/(expense) for the financial period	**314**	(270)	(195)
Attributable to:			
Ordinary shareholders of the parent	**312**	(270)	(195)
Holders of perpetual securities	**2**	-	-
Total comprehensive income/(expense) for the financial period	**314**	(270)	(195)

The notes form an integral part of these Condensed Consolidated Interim Financial Statements.

Group balance sheet (unaudited)
at 26 September 2015

	Note	**26 September 2015 £m**	27 September 2014 £m	14 March 2015 £m
Non-current assets				
Property, plant and equipment		**9,754**	9,584	9,648
Intangible assets		**344**	303	325
Investments in joint ventures and associates		**353**	413	359
Available-for-sale financial assets	11	**182**	267	184
Other receivables		**85**	83	83
Amounts due from Sainsbury's Bank customers		**1,581**	1,338	1,412
Derivative financial instruments	11	**17**	22	21
		12,316	12,010	12,032
Current assets				
Inventories		**1,013**	1,055	997
Trade and other receivables		**600**	488	471
Amounts due from Sainsbury's Bank customers		**1,690**	1,457	1,599
Derivative financial instruments	11	**45**	47	69
Cash and bank balances	9b	**1,266**	1,417	1,285

	Note			
		4,614	4,464	4,421
Non-current assets held for sale		**38**	17	84
		4,652	4,481	4,505
Total assets		**16,968**	16,491	16,537
Current liabilities				
Trade and other payables		**(3,281)**	(3,065)	(2,961)
Amounts due to Sainsbury's Bank customers and other deposits		**(3,256)**	(3,155)	(3,395)
Borrowings		**(177)**	(374)	(260)
Derivative financial instruments	11	**(46)**	(54)	(75)
Taxes payable		**(125)**	(148)	(188)
Provisions		**(42)**	(70)	(44)
		(6,927)	(6,866)	(6,923)
Non-current liabilities held for sale		**(4)**	-	-
		(6,931)	(6,866)	(6,923)
Net current liabilities		**(2,279)**	(2,385)	(2,418)
Non-current liabilities				
Other payables		**(248)**	(257)	(265)
Amounts due to Sainsbury's Bank customers and other deposits		**(375)**	(216)	(266)
Borrowings		**(2,314)**	(2,615)	(2,506)
Derivative financial instruments	11	**(45)**	(27)	(38)
Deferred income tax liability		**(244)**	(229)	(215)
Provisions		**(85)**	(77)	(77)
Retirement benefit obligations	12	**(515)**	(687)	(708)
		(3,826)	(4,108)	(4,075)
Net assets		**6,211**	5,517	5,539
Equity				
Called up share capital		**550**	547	548
Share premium account		**1,114**	1,098	1,108
Capital redemption reserve		**680**	680	680
Other reserves		**133**	150	146
Retained earnings		**3,239**	3,042	3,057
Total equity attributable to ordinary shareholders of the parent		**5,716**	5,517	5,539
Perpetual securities	10	**495**	-	-
Total equity attributable to equity holders of the parent		**6,211**	5,517	5,539

The notes form an integral part of these Condensed Consolidated Interim Financial Statements.

Group cash flow statement (unaudited)
for the 28 weeks to 26 September 2015

	Note	**28 weeks to 26 September 2015 £m**	28 weeks to 27 September 2014 £m	52 weeks to 14 March 2015 £m
Cash flows from operating activities				
Cash generated from operations	9a	**375**	524	1,136
Interest paid		**(65)**	(76)	(134)
Corporation tax paid		**(63)**	(50)	(91)
Net cash generated from operating activities		**247**	398	911
Cash flows from investing activities				
Purchase of property, plant and equipment		**(360)**	(552)	(951)
Purchase of intangible assets		**(30)**	(34)	(78)
Proceeds from disposal of property, plant and equipment		**68**	5	40
Acquisition of subsidiaries net of cash acquired		**-**	(1)	(6)

	Note			
Investment in joint ventures		**(6)**	-	(12)
Proceeds from repayment of loan to joint venture		**-**	4	17
Interest received		**8**	9	20
Dividends received		**7**	14	70
Net cash used in investing activities		**(313)**	(555)	(900)
Cash flows from financing activities				
Proceeds from issuance of ordinary shares		**7**	8	19
Repayment of short-term borrowings		**(95)**	(255)	(381)
Proceeds from long-term borrowings		**-**	530	674
Repayment of long-term borrowings		**(176)**	(47)	(240)
Proceeds from issue of perpetual securities	10	**494**	-	-
Purchase of own shares		**-**	(3)	(18)
Repayment of capital element of obligations under finance lease payments		**(17)**	(15)	(29)
Interest elements of obligations under finance lease payments		**(5)**	(5)	(9)
Dividends paid on ordinary shares		**(157)**	(234)	(330)
Net cash generated from/(used in) financing activities		**51**	(21)	(314)
Net decrease in cash and cash equivalents		**(15)**	(178)	(303)
Net opening cash and cash equivalents		**1,276**	1,579	1,579
Closing cash and cash equivalents	9b	**1,261**	1,401	1,276

The notes form an integral part of these Condensed Consolidated Interim Financial Statements.

Group statement of changes in equity (unaudited)
for the 28 weeks to 26 September 2015

	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Retained earnings £m	Total attributable to Ordinary shareholders £m	Perpetual securities £m	Total equity £m
At 15 March 2015	**548**	**1,108**	**826**	**3,057**	**5,539**	**-**	**5,539**
Profit for the period	**-**	**-**	**-**	**262**	**262**	**2**	**264**
Other comprehensive income/(expense):							
Currency translation differences	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Remeasurements on defined benefit pension schemes (net of tax)	**-**	**-**	**-**	**59**	**59**	**-**	**59**
Available-for-sale financial assets fair value movements (net of tax):							
Attributable to Group	**-**	**-**	**(1)**	**-**	**(1)**	**-**	**(1)**
Items reclassified from available-for-sale financial asset reserve	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Cash flow hedges effective portion of changes in fair value (net of tax):							
Attributable to Group	**-**	**-**	**(12)**	**-**	**(12)**	**-**	**(12)**
Attributable to Joint ventures	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Items reclassified from cash flow hedge reserve	**-**	**-**	**4**	**-**	**4**	**-**	**4**
Total comprehensive (expense)/ income for the period ended 26 September 2015	**-**	**-**	**(9)**	**321**	**312**	**2**	**314**
Transactions with owners:							
Dividends paid	**-**	**-**	**-**	**(157)**	**(157)**	**-**	**(157)**
Issue of perpetual subordinated capital securities and perpetual subordinated convertible bonds	**-**	**-**	**-**	**-**	**-**	**495**	**495**

Distributions to holders of perpetual subordinated convertible bonds (net of tax)	**-**	**-**	**-**	**-**	**-**	**(2)**	**(2)**
Amortisation of convertible bond equity component	**-**	**-**	**(4)**	**4**	**-**	**-**	**-**
Share-based payment (net of tax)	**-**	**-**	**-**	**14**	**14**	**-**	**14**
Purchase of own shares	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Allotted in respect of share option schemes	**2**	**6**	**-**	**-**	**8**	**-**	**8**
At 26 September 2015	**550**	**1,114**	**813**	**3,239**	**5,716**	**495**	**6,211**

	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Non-controlling interests £m	Total equity £m
At 16 March 2014	**545**	**1,091**	**807**	**3,560**	**6,003**	**2**	**6,005**
(Loss) for the period	-	-	-	(344)	(344)	-	(344)
Other comprehensive (expense)/income:							
Remeasurements on defined benefit pension schemes (net of tax)	-	-	-	49	49	-	49
Available-for-sale financial assets fair value movements (net of tax):							
Attributable to Group	-	-	11	-	11	-	11
Cash flow hedges effective portion of changes in fair value (net of tax):							
Attributable to Group	-	-	(4)	-	(4)	-	(4)
Attributable to Joint ventures	-	-	1	-	1	-	1
Items reclassified from cash flow hedge reserve	-	-	17	-	17	-	17
Total comprehensive income/(expense) for the period ended 27 September 2014	-	-	25	(295)	(270)	-	(270)
Transactions with owners:							
Dividends paid	-	-	-	(234)	(234)	-	(234)
Amortisation of convertible bond equity component	-	-	(2)	2	-	-	-
Share-based payment (net of tax)	-	-	-	11	11	-	11
Purchase of own shares	-	-	-	(3)	(3)	-	(3)
Purchase of non-controlling interest	-	-	-	2	2	(2)	-
Allotted in respect of share option schemes	2	7	-	(1)	8	-	8
At 27 September 2014	**547**	**1,098**	**830**	**3,042**	**5,517**	**-**	**5,517**

	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Retained earnings £m	Total attributable to ordinary shareholders £m	Non-controlling interests £m	Total equity £m
At 16 March 2014	**545**	**1,091**	**807**	**3,560**	**6,003**	**2**	**6,005**
Loss for the year	-	-	-	(166)	(166)	-	(166)
Other comprehensive (loss)/income:							
Currency translation differences	-	-	3	-	3	-	3
Remeasurements on defined benefit pension schemes (net of tax)	-	-	-	(14)	(14)	-	(14)
Available-for-sale financial assets fair value movements (net of tax):							

Attributable to Group	-	-	(30)	-	(30)	-	(30)
Items reclassified from available-for-sale financial asset reserve	-	-	1	-	1	-	1
Cash flow hedges effective portion of changes in fair value (net of tax):							
Attributable to Group	-	-	(13)	-	(13)	-	(13)
Attributable to Joint ventures	-	-	3	-	3	-	3
Items reclassified from cash flow hedge reserve	-	-	21	-	21	-	21
Total comprehensive loss for the year ended 14 March 2015	-	-	(15)	(180)	(195)	-	(195)
Transactions with owners:							
Dividends paid	-	-	-	(330)	(330)	-	(330)
Convertible bond – equity component	-	-	39	-	39	-	39
Amortisation of convertible bond - equity component	-	-	(5)	5	-	-	-
Share-based payment (net of tax)	-	-	-	21	21	-	21
Purchase of own shares	-	-	-	(18)	(18)	-	(18)
Shares vested	-	-	-	9	9	-	9
Allotted in respect of share option schemes	3	17	-	(12)	8	-	8
Purchase of non-controlling interest	-	-	-	2	2	(2)	-
At 14 March 2015	**548**	**1,108**	**826**	**3,057**	**5,539**	**-**	**5,539**

The notes 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 43. The financial information presented herein does not amount to full statutory accounts within the meaning of Section 434 of the Companies Act 2006. The Annual Report and Financial Statements 2015 have been filed with the Registrar of Companies. The Independent Auditors' report on the Annual Report and Financial Statements 2015 was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

The financial period represents the 28 weeks to 26 September 2015 (comparative financial period 28 weeks to 27 September 2014; prior financial year 52 weeks to 14 March 2015). 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 grocery related retailing and retail banking.

2 Basis of preparation

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

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

The financial information contained in the Condensed Consolidated Interim Financial Statements should be read in conjunction with the Annual Report and Financial Statements 2015, which were prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

The accounting policies have remained unchanged since the prior financial year ended on 14 March 2015 other than the adoption of the accounting standards set out below which have not had any impact on the interim financial statements.

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

In preparing these Condensed Consolidated Interim Financial Statements, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements for the year ended 14 March 2015, with the exception of changes in estimates that are required in determining the provision for income taxes. Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Sainsbury's Bank plc has been consolidated for six months to 31 August 2015 (27 September 2014: six months to 31 August 2014, 14 March 2015: twelve months to 28 February 2015). Adjustments have been made for the effects of significant transactions or events that occurred between this date and the Group's balance sheet date.

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

The Group has considered the following amendments to published standards that are effective for the Group for the financial year beginning 15 March 2015 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. These standards and interpretations have been endorsed by the European Union.

- Amendments to IFRS 2, 'Share-based payments' on the definition of vesting conditions
- Amendments to IFRS 3, 'Business combinations' on scope exclusions for joint ventures and the subsequent measurement of contingent considerations
- Amendments to IFRS 8, 'Operating segments' on aggregation of operating segments and reconciliations of assets
- Amendments to IFRS 13, 'Fair value measurements' on application of the portfolio exception
- Amendments to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' on the proportionate restatement of accumulated depreciation/amortisation
- Amendments to IAS 19, 'Employee benefits' on the recognition of employee contributions to defined benefit plans
- Amendments to IAS 24, 'Related party disclosures' on entities providing key management personnel services
- Amendments to IAS 40, 'Investment property' on the interrelationship between IFRS 3 and IAS 40

3 Non-GAAP performance measures

Certain items recognised in reported profit or loss before tax can vary significantly from year to year and therefore create volatility in reported earnings which does not reflect the Group's underlying performance. Similarly, whilst defined benefit pension scheme expenses may not vary significantly, they no longer relate to the Group's ongoing activities given the closure of the defined benefit pension scheme to future accrual. The Directors believe that the 'underlying revenue', 'underlying profit before tax' ('UPBT') and 'underlying diluted and basic earnings per share' measures presented provide a clear and consistent presentation of the underlying performance of Sainsbury's ongoing business for shareholders. Underlying profit is not defined by IFRS and therefore may not be directly comparable with the 'adjusted' profit measures of other companies. The adjusted items are:

- Profit/loss on disposal of properties;
- 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;

- Retail financing fair value movements – these are fair value gains and losses on non-derivative financial assets and liabilities carried at amortised cost, on derivatives relating to financing activities and on hedged items in fair value hedges;
- Impairment of goodwill;
- The financing element of IAS 19 and defined benefit scheme expenses;
- Coupons on ‘perpetual securities’ (perpetual subordinated capital securities and perpetual subordinated convertible bonds) – the coupons on the perpetual securities are accounted for as equity in line with IAS 32 ‘Financial instruments: presentation’, however are accrued on a straight line basis and included as an expense within underlying profit (see note 10);
- Acquisition adjustments – these reflect the adjustments arising from the Sainsbury’s Bank acquisition including the fair value unwind and amortisation of acquired intangibles; and
- One-off items – these are items which are material and infrequent in nature and do not relate to the Group’s underlying performance.

The adjustments made to reported profit/(loss) before tax to arrive at underlying profit before tax are:

	28 weeks to 26 September 2015 £m	28 weeks to 27 September 2014 £m	52 weeks to 14 March 2015 £m
Underlying profit before tax	**308**	375	681
Profit on disposal of properties[1]	**94**	4	7
Investment property fair value movements	**(14)**	18	7
Retail financing fair value movements[2]	**(4)**	(12)	(30)
IAS 19 pension financing charge and scheme expenses[3]	**(15)**	(18)	(37)
Perpetual securities coupons[4]	**4**	-	-
Acquisition adjustments[5]	**1**	6	13
One-off items	**(35)**	(663)	(713)
Total adjustments	**31**	(665)	(753)
Profit/(loss) before tax	**339**	(290)	(72)

1 Profit on disposal of properties for the 28 weeks to 26 September 2015 comprised £94 million for the Group (27 September 2014: £2 million, 14 March 2015: £5 million) and £nil for the joint ventures (27 September 2014: £2 million, 14 March 2015: £2 million).

2 Retail financing fair value movements for the 28 weeks to 26 September 2015 comprised £(3) million for the Group (27 September 2014: £(10) million, 14 March 2015: £(23) million) and £(1) million for the joint ventures (28 September 2014: £(2) million, 14 March 2015: £(7) million).

3 Comprises pension financing charge for the 28 weeks to 26 September 2015 of £(12) million (27 September 2014: £(16) million, 14 March 2015: £(31) million) and defined benefit scheme expenses of £(3) million (27 September 2014: £(2) million, 14 March 2015: £(6) million)

4 The coupons on the ‘perpetual securities’ (perpetual subordinated capital securities and 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;

5 Acquisition adjustments for the 28 weeks to 26 September 2015 include £5 million (27 September 2014: £11 million, 14 March 2015: £23 million) fair value unwind included in revenue, £1 million (27 September 2014: £5 million, 14 March 2015: £8 million) fair value unwind included in cost of sales offset by (£5) million (27 September 2014: (£10) million, 14 March 2015: £(18) million) acquired intangible amortisation included in administrative expenses.

One-off items

One-off items of £(35) million for the 28 week period to 26 September 2015 includes: costs of £(25) million in relation to the Sainsbury’s Bank transition to a new, more flexible banking platform (27 September 2014: £(23) million); restructuring costs of £(13) million (27 September 2014: £nil), a net impairment and onerous contract reversal of £3 million (27 September 2014: £(628) million) and £nil of pension compensation payments (27 September 2014: £(12) million).

4 Segment reporting

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

- Retailing (Supermarkets and Convenience);
- Financial services (Sainsbury’s Bank); and
- Property investments (The British Land Company PLC joint venture and Land Securities Group PLC joint venture).

Management have determined the operating segments based on the information provided to the Operating Board (the Chief Operating Decision Maker for the Group) to make operational decisions on the management of the Group. All material operations and assets are in the UK. The business of the Group is not subject to highly seasonal fluctuations, although within retailing there is an increase in trading in the period leading up to Christmas.

Revenue from operating segments is measured on a basis consistent with the revenue number disclosure in the income statement. Revenue is generated by the sale of goods and services.

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

The Operating Board assesses the performance of all segments on the basis of underlying profit before tax. The reconciliation provided below reconciles underlying operating profit from each of the segments disclosed to profit/(loss) before tax.

28 weeks to 26 September 2015	**Retailing £m**	**Financial services £m**	**Property investment £m**	**Group £m**
Segment revenue				
Retail sales to external customers	**12,248**	**-**	**-**	**12,248**
Financial services sales to external customers	**-**	**166**	**-**	**166**
Underlying revenue	**12,248**	**166**	**-**	**12,414**
Acquisition adjustment fair value unwind[1]	**-**	**5**	**-**	**5**
Revenue	**12,248**	**171**	**-**	**12,419**
Underlying operating profit	**332**	**34**	**-**	**366**
Underlying finance income	**9**	**-**	**-**	**9**
Underlying finance costs[2]	**(71)**	**-**	**-**	**(71)**
Underlying share of post-tax (loss)/profit from joint ventures and associates	**(5)**	**-**	**9**	**4**
Underlying profit before tax	**265**	**34**	**9**	**308**
Profit on disposal of properties	**94**	**-**	**-**	**94**
Investment property fair value movements	**-**	**-**	**(14)**	**(14)**
Retail financing fair value movements	**(3)**	**-**	**(1)**	**(4)**
IAS 19 pension financing charge and scheme expenses	**(15)**	**-**	**-**	**(15)**
Perpetual securities coupons[2]	**4**	**-**	**-**	**4**
Acquisition adjustments	**-**	**1**	**-**	**1**
One-off items	**(10)**	**(25)**	**-**	**(35)**
Profit/(loss) before tax	**335**	**10**	**(6)**	**339**
Income tax expense				**(75)**
Profit for the financial period				**264**
Assets	**12,247**	**4,368**	**-**	**16,615**
Investment in joint ventures and associates	**11**	**-**	**342**	**353**
Segment assets	**12,258**	**4,368**	**342**	**16,968**
Segment liabilities	**(7,002)**	**(3,755)**	**-**	**(10,757)**

1 Represents fair value unwind on loans and advances to customers resulting from the Sainsbury's Bank acquisition.
2 The coupons on the perpetual securities are accounted for as equity in line with IAS 32 'Financial Instruments: Presentation', however are accrued on a straight line basis and included as an expense within underlying finance costs (see note 3);

28 weeks to 27 September 2014	Retailing £m	Financial services £m	Property investment £m	Group £m
Segment revenue				
Retail sales to external customers	12,497	-	-	12,497
Financial services sales to external customers	-	159	-	159
Underlying revenue	12,497	159	-	12,656
Acquisition adjustment fair value unwind[1]	-	11	-	11
Revenue	12,497	170	-	12,667
Underlying operating profit	388	35	-	423

Underlying finance income	10	-	-	10
Underlying finance costs	(64)	-	-	(64)
Underlying share of post-tax (loss)/profit from joint ventures and associates	(2)	-	8	6
Underlying profit before tax	332	35	8	375
Profit on disposal of properties	2	-	2	4
Investment property fair value movements	-	-	18	18
Retail financing fair value movements	(10)	-	(2)	(12)
IAS 19 pension financing charge and scheme expenses	(18)	-	-	(18)
Acquisition adjustments	-	6	-	6
One-off items	(640)	(23)	-	(663)
(Loss)/profit before tax	(334)	18	26	(290)
Income tax expense				(54)
Loss for the financial period				(344)
Assets	12,085	3,993	-	16,078
Investment in joint ventures and associates	1	-	412	413
Segment assets	12,086	3,993	412	16,491
Segment liabilities	(7,513)	(3,461)	-	(10,974)

1 Represents fair value unwind on loans and advances to customers resulting from the Sainsbury's Bank acquisition.

52 weeks to 14 March 2015	Retailing £m	Financial services £m	Property investment £m	Group £m
Segment revenue				
Retail sales to external customers	23,443	-	-	23,443
Financial services to external customers	-	309	-	309
Underlying revenue	23,443	309	-	23,752
Acquisition adjustment fair value unwind[1]	-	23	-	23
Revenue	23,443	332	-	23,775
Underlying operating profit	720	62	-	782
Underlying finance income	19	-	-	19
Underlying finance costs	(126)	-	-	(126)
Underlying share of post-tax (loss)/profit from joint ventures and associates	(9)	-	15	6
Underlying profit before tax	604	62	15	681
Profit on disposal of properties	5	-	2	7
Investment property fair value movements	-	-	7	7
Retail financing fair value movements	(23)	-	(7)	(30)
IAS 19 pension financing charge and scheme expenses	(37)	-	-	(37)
Acquisition adjustments	-	13	-	13
One-off items	(660)	(53)	-	(713)
(Loss)/profit before tax	(111)	22	17	(72)
Income tax expense				(94)
Loss for the financial year				(166)
Assets	11,908	4,270	-	16,178
Investment in joint ventures and associates	8	-	351	359
Segment assets	**11,916**	**4,270**	**351**	**16,537**
Segment liabilities	**(7,232)**	**(3,766)**	**-**	**(10,998)**

1 Represents fair value unwind on loans and advances to customers resulting from the Sainsbury's Bank acquisition.

5 Finance income and finance costs[1]

	28 weeks to 26 September 2015 £m	28 weeks to 27 September 2014 £m	52 weeks to 14 March 2015 £m
Interest on bank deposits and other financial assets	**9**	10	19
Finance income	**9**	10	19
Borrowing costs:			
Secured borrowings	**(47)**	(45)	(84)
Unsecured borrowings	**(16)**	(25)	(47)
Obligations under finance leases	**(5)**	(5)	(9)
Provisions – amortisation of discount	**(3)**	(1)	(3)
	(71)	(76)	(143)
Other finance costs:			
Interest capitalised – qualifying assets	**4**	12	17
Retail financing fair value movements[2]	**(3)**	(10)	(23)
IAS 19 pension financing charge	**(12)**	(16)	(31)
	(11)	(14)	(37)
Finance costs	**(82)**	(90)	(180)

1 The coupons on the perpetual securities (included within underlying profit – see note 3) are accounted for as dividends in accordance with IAS 32: 'Financial Instruments: Presentation' and hence are not a finance cost.

2 Retail financing fair value movements includes net fair value movements on derivative financial instruments not designated in a hedging relationship of £(3) million (27 September 2014: £(6) million, 14 March 2015: £(18) million) and fair value movement on early repayment of bank loans carried at amortised cost £nil (27 September 2014: £(4) million, 14 March 2015: £(5) million).

6 Income tax expense

	28 weeks to 26 September 2015 £m	28 weeks to 27 September 2014 £m	52 weeks to 14 March 2015 £m
Current tax expense	**55**	60	98
Deferred tax expense/(credit)	**20**	(6)	(4)
Total income tax expense in income statement	**75**	54	94
Underlying tax rate	**25.3%**	26.4%	25.8%
Effective tax rate	**22.1%**	(18.6)%	(130.6)%

	£m	£m	£m
Income tax expense on underlying profit	**78**	99	176
Tax on items below:			
Profit on disposal of properties	**(19)**	-	(10)
Retail financing fair value movements	**1**	(1)	(5)
IAS 19 pension financing charge and scheme expenses	**4**	(6)	(8)
Perpetual securities coupon	**2**	-	-
Acquisition adjustments	**-**	2	4
One-off items	**9**	(41)	(63)
Revaluation of deferred tax balances	**-**	1	-
Total income tax expense in income statement	**75**	54	94

On 8 July 2015, the Chancellor announced that the main rate of UK corporation tax would reduce to 19.0 per cent from 1 April 2017 and to 18.0 per cent from 1 April 2020. None of these expected rate reductions had been substantively enacted at the balance sheet date and, therefore, their effect is not included in the financial statements.

The effect of a one per cent reduction in the corporation tax rate on the deferred tax balances at the balance sheet date would reduce the deferred tax liability by £12 million which would be primarily recognised in the income statement.

7 Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders of the parent by the weighted average number of ordinary shares in issue during the year, excluding those held by the Employee Share Ownership Plan trusts, which are treated as cancelled. For diluted earnings per share, the earnings attributable to the ordinary shareholders are adjusted by the interest on the senior convertible bonds (net of tax) and by the coupons on the perpetual subordinated convertible bonds (net of tax).

The weighted average number of ordinary shares in issue is adjusted to assume conversion of all potentially dilutive ordinary shares. These represent share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year and the number of shares that would be issued if all senior convertible bonds and perpetual subordinated convertible bonds are assumed to be converted.

Underlying earnings per share is provided by excluding the effect of any profit or loss on disposal of properties, investment property fair value movements, retail financing fair value movements, IAS 19 pension financing and defined benefit pension scheme expenses, acquisition adjustments and one-off items that are material and infrequent in nature. 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 26 September 2015 million	28 weeks to 27 September 2014 million	52 weeks to 14 March 2015 million
Weighted average number of ordinary shares in issue	**1,920.0**	1,909.4	1,911.0
Weighted average number of dilutive share options	**15.2**	15.1	17.3
Weighted average number of dilutive senior convertible bonds	**130.0**	29.3	62.3
Weighted average number of dilutive subordinated perpetual convertible bonds	**71.7**	-	-
Total number of ordinary shares for calculating diluted earnings per share	**2,136.9**	1,953.8	1,990.6

	£m	£m	£m
Profit/(loss) for the financial period attributable to ordinary shareholders of the parent	**262**	(344)	(166)
Add interest on senior convertible bonds, net of tax[1]	**6**	-	-
Add coupon on subordinated perpetual convertible bonds, net of tax	**1**	-	-
Diluted earnings/(loss) for calculating diluted earnings per share	**269**	(344)	(166)

	£m	£m	£m
Profit/(loss) from continuing operations attributable to ordinary shareholders of the parent	**262**	(344)	(166)
(Less)/add (net of tax):			
Profit on disposal of properties	**(113)**	(4)	(17)
Investment property fair value movements	**14**	(18)	(7)
Retail financing fair value movements	**5**	11	25
IAS 19 pension financing charge and scheme expenses	**19**	12	29
Acquisition adjustments	**(1)**	(4)	(9)
One-off items	**44**	622	650
Revaluation of deferred tax balances	**-**	1	-
Underlying profit after tax attributable to ordinary shareholders of the parent[2]	**230**	276	505
Add interest on senior convertible bonds, net of tax	**6**	4	7
Add coupon on subordinated perpetual convertible bonds, net of tax	**1**	-	-
Diluted underlying profit after tax attributable to ordinary shareholders of the parent	**237**	280	512

	pence per share	pence per share	pence per share
Basic earnings/(loss)	**13.6**	(18.0)	(8.7)
Diluted earnings/(loss)[1]	**12.6**	(18.0)	(8.7)
Underlying basic earnings	**12.0**	14.5	26.4
Underlying diluted earnings	**11.1**	14.3	25.7

1 Dilutive share options and senior convertible bonds were excluded from the prior year calculations as in accordance with 'IAS 33, Earnings per share', they are only included where the impact is dilutive.
2 Underlying earnings per share calculation is based on underlying profit after tax attributable to ordinary shareholders. Therefore the coupons on the perpetual securities (note 10) are not added back.

8 Dividend

	28 weeks to 26 September 2015	28 weeks to 27 September 2014	52 weeks to 14 March 2015
Amounts recognised as distributions to ordinary shareholders in the period:			
Dividend per share (pence)	**8.2**	12.3	17.3
Total dividend charge (£m)	**157**	234	330

Post the half-year, an interim dividend of 4.0 pence per share (27 September 2014: 5.0 pence per share) has been approved by the Board of Directors for the financial year ending 12 March 2016, resulting in a total interim dividend of £77 million (27 September 2014: £96 million). The interim dividend was approved by the Board on 10 November 2015 and as such has not been included as a liability at 26 September 2015.

9 Notes to the cash flow statement

(a) Reconciliation of operating profit/(loss) to cash generated from operations

	28 weeks to 26 September 2015 £m	28 weeks to 27 September 2014 £m	52 weeks to 14 March 2015 £m
Profit/(loss) before tax	**339**	(290)	(72)
Net finance costs	**73**	80	161
Share of post-tax loss/(profit) of joint ventures	**11**	(24)	(8)
Operating profit/(loss)	**423**	(234)	81
Adjustments for:			
Depreciation expense	**294**	299	545
Amortisation expense	**14**	19	34
Non-cash acquisition adjustments[1]	**(6)**	(16)	(31)
Sainsbury's Bank impairment losses on loans and advances	**5**	12	21
Profit on disposal of properties	**(94)**	(2)	(5)
Impairment of property, plant and equipment	**(12)**	538	540
Impairment of intangible assets	**-**	8	8
Foreign exchange differences	**5**	(2)	(12)
Share-based payment expense	**15**	13	21
Retirement benefit obligations[2]	**(137)**	(15)	(79)
Operating cash flows before changes in working capital	**507**	620	1,123
Changes in working capital:			
(Increase)/decrease in inventories	**(35)**	(52)	6
Decrease in available-for-sale financial assets	**-**	-	32
Increase in trade and other receivables	**(97)**	(109)	(57)
Increase in amounts due from Sainsbury's Bank customers and other deposits	**(258)**	(216)	(426)
Increase in trade and other payables	**283**	376	294
(Decrease)/increase in amounts due to Sainsbury's Bank customers and other deposits	**(29)**	(176)	114

Increase in provisions and other liabilities	**4**	81	50
Cash generated from operations	**375**	524	1,136

1 Refer to note 3 for details of acquisition adjustments. This excludes £5 million (27 September 2014: £10 million, 14 March 2015: £18 million) amortisation on acquired intangibles included within amortisation expense in this note.

2 The adjustment for retirement benefit obligations reflects unpaid defined benefit pension scheme expenses of £2 million (27 September 2014: £2 million, 14 March 2015: £6 million) and the cash contributions of £(139) million made by the Group to the defined benefit scheme (27 September 2014: £(17) million, 14 March 2015: £(85) million).

(b) Cash and cash equivalents

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

	26 September 2015 £m	27 September 2014 £m	14 March 2015 £m
Cash in hand and bank balances	**794**	880	970
Money market funds and deposits	**352**	329	262
Treasury bills	**120**	208	53
Cash and bank balances	**1,266**	1,417	1,285
Bank overdrafts	**(5)**	(16)	(9)
Net cash and cash equivalents	**1,261**	1,401	1,276

10 Analysis of net debt[1,2]

	26 September 2015 £m	27 September 2014 £m	14 March 2015 £m
Non-current assets			
Interest bearing available-for-sale financial assets	**36**	37	37
Derivative financial instruments[3]	**16**	21	20
	52	58	57
Current assets			
Cash and cash equivalents[4]	**622**	577	403
Derivative financial instruments[3]	**45**	47	69
	667	624	472
Current liabilities			
Bank overdrafts	**(5)**	(16)	(9)
Borrowings	**(142)**	(328)	(221)
Finance leases	**(30)**	(30)	(30)
Derivative financial instruments[3]	**(45)**	(54)	(74)
	(222)	(428)	(334)
Non-current liabilities			
Borrowings	**(2,156)**	(2,440)	(2,337)
Finance leases	**(158)**	(175)	(169)
Derivative financial instruments[3]	**(40)**	(21)	(32)
	(2,354)	(2,636)	(2,538)
Total net debt	**(1,857)**	(2,382)	(2,343)

1 The Group's definition of net debt excludes Sainsbury's Bank's own net debt balances.

2 The perpetual securities are accounted for as equity in accordance with IAS 32 'Financial Instruments: Presentation' and therefore not included within net debt.

3 Derivative financial instruments exclude £1 million Sainsbury's Bank non-current asset balances (27 September 2014: £1 million, 14 March 2015: £1 million), £(1) million current liabilities (27 September 2014: £nil, 14 March 2015 £(1) million) and £(5) million non-current liabilities (27 September 2014: £(6) million, 14 March 2015 £(6) million).

4 Cash and cash equivalents exclude £644 million Sainsbury's Bank balances (27 September 2014: £840 million, 14 March 2015: £882 million).

Reconciliation of net cash flow to movement in net debt

	28 weeks to 26 September 2015 £m	28 weeks to 27 September 2014 £m	52 weeks to 14 March 2015 £m
Net debt at beginning of the period	**(2,343)**	(2,384)	(2,384)
Net decrease in cash and cash equivalents	**(15)**	(178)	(303)
Elimination of net decrease in Sainsbury's Bank cash and cash equivalents	**238**	385	343
Net decrease/(increase) in borrowings[1]	**269**	(197)	(20)
Net decrease/(increase) in obligations under finance leases	**11**	(16)	(11)
Fair value movements	**(16)**	9	(7)
Equity component of convertible bond	**-**	-	39
Other non-cash movements	**(1)**	(1)	-
Net debt at the end of the period	**(1,857)**	(2,382)	(2,343)

1 Excluding fair value and Sainsbury's Bank derivative movements.

On 5 May 2015, the Group refinanced its unsecured £1,150 million syndicated revolving credit facility due 2019 with a new secured corporate £1,150 million syndicated revolving credit facility due 2020. The new facility is structured on a dual tranche basis with a £500 million Facility (A) due April 2018 and a £650 million Facility (B) due April 2020. As at 26 September 2015, £nil had been drawn under Facility (A) (27 September 2014: £500 million; 14 March 2015: £120 million).

On 5 May 2015, the Group amended its £200 million unsecured bank loan due November 2019 and its €50 million unsecured bank loan due September 2016 into a secured corporate £200 million bank loan due November 2019 and a secured corporate €50 million bank loan due September 2016.

During March 2015, the Group repaid upon maturity a €50 million loan due March 2015.

During June 2015, the Group repaid upon maturity a £50 million loan due June 2015.

Perpetual securities[1]

	Perpetual securities £m
At 14 March 2015	-
Issue of £250 million 6.5% perpetual subordinated capital securities (net of issue costs)	247
Issue of £250 million 2.875% perpetual subordinated convertible bonds (net of issue costs)	247
Current tax relief on issue costs	1
Distributions to holders of subordinated perpetual convertible bonds	(4)
Current tax relief on distributions to holders of subordinated perpetual convertible bonds	2
Profit for the year attributable to holders of subordinated perpetual convertible bonds	2
At 26 September 2015	**495**

1 'Perpetual securities' – perpetual subordinated capital securities and perpetual subordinated convertible bonds.

On 30 July 2015 the Group issued £250 million of perpetual subordinated capital securities and £250 million of perpetual subordinated convertible bonds. Costs directly associated with the issue of £6 million have been set off against the value of the proceeds. The securities are perpetual with no fixed redemption date. Holders of the securities do not benefit from any put option rights however the Group does have the right to call the perpetual subordinated capital securities at their principal amount on 30 July 2020, and the perpetual subordinated convertible bonds on 30 July 2021. The bonds may be converted into Ordinary shares of the Company at the option of the holders at any time up to 23 July 2021 at an initial conversion price of 348.6417 pence.

The Group has the right to defer coupons on the perpetual securities on any coupon payment date where the Company has not either paid a dividend on its ordinary shares or bought back ordinary shares (excluding shares bought to satisfy employee share schemes) within the previous 12 month period.

As the Company paid a dividend in the 12 months prior to the perpetual subordinated convertible bond coupon date of 30 January 2016, the periodic distribution of £4 million has been recognised in the 28 weeks to 26 September 2015.

At 26 September 2015, as the Company had not paid a dividend in the 12 months prior to the perpetual subordinated capital securities coupon date of 30 July 2016, no periodic distribution has been recognised in the 28 weeks to 26 September 2015.

Sainsbury's Bank
Sainsbury's Bank has pledged the rights to £428 million of its personal loans book with the Bank of England for £240 million of Treasury Bills under the Funding for Lending Scheme ('FLS'). These Treasury Bills can then be converted to cash as a source of future funding to the Bank. As at 26 September 2015, there was £nil (27 September 2014: £nil, 14 March 2015: £nil) borrowings drawn down.

Sainsbury's Bank, via its subsidiary undertakings, has entered into a £400 million asset backed commercial paper securitisation of consumer loans. Of this facility, £300 million had been drawn as at 26 September 2015 (27 September 2014: £nil, 14 March 2015: £150 million). Interest on the notes is repayable at a floating rate linked to three-month LIBOR and their contractual repayment is determined by cash flows on the relevant personal loans included in the collateral pool.

11 Financial instruments

Carrying amount versus fair values
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 26 September 2015	**Carrying amount £m**	**Fair value £m**
Financial assets		
Other receivables	**422**	**422**
Amounts due from Sainsbury's Bank customers[1]	**3,271**	**3,280**
Financial liabilities[2]		
Loans due 2018[3]	**(829)**	**(892)**
Loans due 2031	**(818)**	**(987)**
Bank overdrafts	**(5)**	**(5)**
Revolving credit facility due 2018	**-**	**-**
Bank loans due 2016	**(37)**	**(37)**
Bank loans due 2019	**(200)**	**(200)**
Senior convertible bond due 2019	**(414)**	**(450)**
Finance lease obligations	**(188)**	**(188)**
Amounts due to Sainsbury's Bank customers	**(3,631)**	**(3,631)**

1 Includes £1,776 million accounted for as a fair value hedge.
2 The perpetual securities are accounted for as equity in accordance with IAS 32 'Financial instruments: Presentation' and therefore are not a financial liability.
3 Includes £211 million accounted for as a fair value hedge.

At 27 September 2014	**Carrying amount £m**	**Fair value £m**
Financial assets		
Other receivables	339	339
Amounts due from Sainsbury's Bank customers[1]	2,795	2,826
Financial liabilities		

Loans due 2018[2]	(915)	(995)
Loans due 2031	(846)	(1,021)
Bank overdrafts	(16)	(16)
Revolving credit facility due 2017	(501)	(501)
Bank loans due 2015	(183)	(183)
Bank loans due 2016	(39)	(39)
Bank loans due 2017	(61)	(61)
Bank loans due 2019	(201)	(201)
Other loans due 2015[3]	(22)	(22)
Finance lease obligations	(205)	(205)
Amounts due to Sainsbury's Bank customers	(3,371)	(3,375)

1 Includes £1,458 million accounted for as a fair value hedge.
2 Includes £211 million accounted for as a fair value hedge.
3 Includes £22 million accounted for as a fair value hedge.

At 14 March 2015	Carrying amount £m	Fair value £m
Financial assets		
Other receivables	344	344
Amounts due from Sainsbury's Bank customers[1]	3,011	3,024
Financial liabilities		
Loans due 2018[2]	(873)	(950)
Loans due 2031	(834)	(1,012)
Bank overdrafts	(9)	(9)
Revolving credit facility due 2017	(120)	(120)
Bank loans due 2015	(86)	(86)
Bank loans due 2016	(35)	(35)
Bank loans due 2017	-	-
Bank loans due 2019	(200)	(200)
Senior convertible bond due 2019	(410)	(475)
Finance lease obligations	(199)	(199)
Amounts due to Sainsbury's Bank customers and banks	(3,661)	(3,661)

1 Includes £1,957 million accounted for as a fair value hedge.
2 Includes £211 million accounted for as a fair value hedge.

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 26 September 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Available-for-sale financial assets[1]				
Interest bearing financial assets	-	36	-	**36**
Other financial assets	-	-	144	**144**
Financial assets				
Derivative financial assets	-	62	-	**62**
Financial liabilities				
Derivative financial liabilities	-	(73)	(18)	**(91)**

At 27 September 2014	**Level 1**	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Available-for-sale financial assets[1]				
Investment securities	-	32	-	32
Interest bearing financial assets	-	37	-	37
Other financial assets	-	-	196	196
Financial assets at FVTPL				
Derivative financial assets	-	68	1	69
Financial liabilities at FVTPL				
Derivative financial liabilities	-	(79)	(2)	(81)

At 14 March 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
	£m	**£m**	**£m**	**£m**
Available-for-sale financial assets[1]				
Interest bearing financial assets	-	37	-	**37**
Other financial assets	-	-	145	**145**
Financial assets at FVTPL				
Derivative financial assets	-	90	-	**90**
Financial liabilities at FVTPL				
Derivative financial liabilities	-	(99)	(14)	**(113)**

1 Available-for-sale financial assets also includes £2 million in relation to unlisted equity investments which are carried at cost as the fair value cannot be reliably measured and has been excluded from the fair value hierarchy table above.

Reconciliation of Level 3 fair value measurements of financial assets:

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

28 weeks to 26 September 2015	**Available-for-sale financial assets £m**	**Derivative financial liabilities £m**	**Total £m**
Opening balance	145	(14)	**131**
Included in finance cost in the Group income statement	-	(4)	**(4)**
Included in other comprehensive income	(1)	-	**(1)**
Total Level 3 financial assets and liabilities	**144**	**(18)**	**126**

28 weeks to 27 September 2014	Available-for-sale financial assets £m	Derivative financial assets / (liabilities) £m	Total £m
Opening balance	184	3	187
Included in finance cost in the Group income statement	-	(4)	(4)
Included in other comprehensive income	12	-	12
Total Level 3 financial assets	196	(1)	195

52 weeks to 14 March 2015	Available-for-sale financial assets £m	Derivative financial assets / (liabilities) £m	Total £m
Opening balance	184	3	187
Included in finance cost in the Group income statement	-	(17)	(17)
Included in other comprehensive income	(39)	-	(39)
Total Level 3 financial assets	145	(14)	131

Available-for-sale other financial assets

The available-for-sale financial assets relate to the Group's beneficial interest in a property investment pool. The net present value of the Group's interest in the various freehold reversions owned by the property investment pool has been derived by assuming a property growth rate of 0.8 per cent per annum (27 September 2014: three per cent; 14 March 2015: 0.8 per cent) and a discount rate of nine per cent (27 September 2014: nine per cent; 14 March 2015: 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:

	26 September 2015		27 September 2014	
	Change in discount rate +/- 1.0%	**Change in growth rate +/- 1.0%**	Change in discount rate +/- 1.0%	Change in growth rate +/- 0.5%
	£m	**£m**	£m	£m
(Decrease)/increase in available-for-sale assets	**(10)/11**	**16/(15)**	(15)/17	11/(10)

	14 March 2015	
	Change in discount rate +/- 1.0%	Change in growth rate +/- 1.0%
	£m	£m
(Decrease)/increase in available-for-sale assets	(10)/11	16/(15)

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 liability of £(18) million relating to these agreements at 26 September 2015 (within derivative financial liabilities at 27 September 2014: £(1) million; at 14 March 2015: £(14) 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:

	26 September 2015		27 September 2014	
	Change in volume +/- 20.0%	**Change in electricity forward price +/- 20.0%**	Change in volume +/- 20.0%	Change in electricity forward price +/- 10.0%
	£m	**£m**	£m	£m
(Increase)/decrease in derivative financial liabilities	**(4)/4**	**8/(8)**	-/(-)	9/(9)

	14 March 2015	
	Change in volume +/- 20.0%	Change in electricity forward price +/- 20.0%
	£m	£m
(Increase)/decrease in derivative financial liabilities	(3)/3	17/(18)

12 Retirement benefit obligations

Retirement benefit obligations relate to a defined benefit scheme, the Sainsbury's Pension Scheme (the 'Scheme') and an unfunded pension liability relating to senior employees. The Scheme was closed to new employees on 31 January 2002 and closed to future accrual on 28 September 2013. The assets of this Scheme are held separately from the Group's assets.

The Scheme is subject to a triennial actuarial valuation carried out by Towers Watson, the Scheme's independent actuaries, at 14 March 2015 on the projected unit basis. The results of this valuation are expected to be finalised by June 2016.

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

The Consumer Price Index ('CPI') rather than the Retail Price Index ('RPI') has been used as the basis for inflationary increases to pensions in cases where this is permitted by the Scheme rules.

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

	26 September 2015 £m	27 September 2014 £m	14 March 2015 £m
Present value of funded obligations	**(7,470)**	(7,174)	(7,680)
Fair value of plan assets	**6,971**	6,500	6,988
	(499)	(674)	(692)
Present value of unfunded obligations	**(16)**	(13)	(16)
Retirement benefit obligations	**(515)**	(687)	(708)
Deferred income tax asset	**42**	53	57
Net retirement benefit obligations	**(473)**	(634)	(651)

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

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

	26 September 2015 %	27 September 2014 %	14 March 2015 %
Discount rate	**3.80**	3.95	3.50
Inflation rate - RPI	**3.20**	3.20	3.00
Inflation rate - CPI	**2.20**	2.20	2.00

Future pension increases	**2.00 – 3.05**	1.95 – 3.05	1.80 – 2.85

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

	26 September 2015 £m	27 September 2014 £m	14 March 2015 £m
Excluded from underlying profit before tax:			
Interest cost on pension scheme liabilities	**(142)**	(155)	(288)
Interest income on plan assets	**130**	139	257
IAS 19 pension financing charge (Note 5)	**(12)**	(16)	(31)
Defined benefit pension scheme expenses	**(3)**	(2)	(6)
Total IAS 19 income statement expense (excluded from underlying profit before tax (Note 3))	**(15)**	(18)	(37)

13 Capital expenditure and commitments

In the financial period, there were additions to property, plant and equipment of £345 million (27 September 2014: £561 million) and additions to intangible assets of £37 million (27 September 2014: £45 million).

In the financial period, there were disposals of property, plant and equipment with a net book value of £25 million (27 September 2014: £5 million), disposals of assets held for sale with a net book value of £1 million (27 September 2014: £5 million) and disposals of intangible assets with a net book value of £nil (27 September 2014: £nil).

At 26 September 2015, capital commitments contracted, but not provided for by the Group, amounted to £195 million (27 September 2014: £266 million).

14 Related party transactions

The Group's significant related parties are its joint ventures as disclosed in its Annual Report and Financial Statements 2015.

Transactions with joint ventures and associates
For the 28 weeks to 26 September 2015, the Group entered into various transactions with joint ventures and associates as set out below.

	28 weeks to 26 September 2015 £m	28 weeks to 27 September 2014 £m	52 weeks to 14 March 2015 £m
Management services provided	**1**	-	(1)
Revenue received from joint ventures	**16**	3	17
Dividend income received	**7**	14	70
Repayment of loan to joint ventures	**-**	4	17
Investment in joint ventures and associates	**(6)**	-	(12)
Rental expenses paid	**(32)**	(36)	(65)

Balances arising from transactions with joint ventures and associates

	26 September 2015 £m	27 September 2014 £m	14 March 2015 £m
Receivables			
Other receivables	**29**	27	37
Loans due from joint ventures	**2**	15	2

Payables

Loans due to joint ventures	**(5)**	(5)	(5)

15 Contingent liabilities

The Group has a contingent liability for indemnities arising from the disposal of subsidiaries. No provision has been recognised on the basis that any potential liability arising is not considered probable. It is not possible to quantify the impact of this liability with any certainty.

16 Post balance sheet events

On 14 October 2015, it was announced that Mobile *by* Sainsbury's (a Group joint venture) would close in January 2016. Closure costs will be immaterial.

Principal risks and uncertainties

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

- Business continuity and major incidents response
- Business strategy and change
- Colleague engagement, retention and capability
- Data security
- Environment and sustainability
- Financial and treasury risk
- Health and safety – people and product
- Trading environment and competitive landscape

For greater detail of these risks, which are unchanged from the Group's Annual Report and Financial Statements 2015, please refer to pages 28 to 30 of the Group's Annual Report and Financial Statements 2015, 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 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 2015.

By order of the Board

Mike Coupe
Chief Executive
10 November 2015

John Rogers
Chief Financial Officer
10 November 2015

Independent review report to J Sainsbury plc

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the interim financial report for the 28 weeks ended 26 September 2015 which comprises the Group income statement, 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 set of 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 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 IFRSs 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 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 Ireland) 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 set of financial statements in the interim financial report for the 28 weeks ended 26 September 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Ernst & Young LLP
London
10 November 2015