**14 November 2012**

**Interim results for the 28 weeks to 29 September 2012**

***Good sales and profit performance; outperforming the market***

**Financial summary**

- Total sales (inc VAT, inc fuel) up 4.0 per cent to £13,365 million (2011/12: £12,848 million)
- Total sales (inc VAT, ex fuel) up 4.1 per cent
- Like-for-like sales (inc VAT, ex fuel) up 1.7 per cent
- Underlying profit before tax(1) up 5.4 per cent to £373 million (2011/12: £354 million)
- Underlying basic earnings per share(2) up 9.4 per cent to 15.2 pence (2011/12: 13.9 pence)
- Return on capital employed(3) of 10.9 per cent (2011/12: 10.9 per cent)
- Interim dividend of 4.8 pence per share, up 6.7 per cent (2011/12: 4.5 pence per share)

**Statutory**

- Revenue (ex VAT, inc fuel) up 4.0 per cent to £12,160 million (2011/12: £11,693 million)
- Profit before tax up 2.5 per cent to £405 million (2011/12: £395 million)
- Basic earnings per share up 4.9 per cent to 17.0 pence (2011/12: 16.2 pence)

**Operating highlights**

- Outperformed the market, increasing market share to 16.7 per cent(4), the highest for nearly a decade, completing 31 consecutive quarters of like-for-like sales growth
- Nearly 250 million *Brand Match* coupons printed since its launch a year ago, with 'Cheaper Here Today' coupons issued over 50 per cent of the time
- Celebrated ten year partnership with *Nectar*, a continuing source of customer insight and loyalty
- Operational cost savings of around £60 million, on track for around £100 million for the full-year
- Underlying operating margin unchanged (up 1 basis point at constant fuel prices)
- Five awards at the Retail Industry Awards 2012 including Supermarket of the Year for the fifth time in seven years and Convenience Chain of the Year for the third year in a row
- World sector leader for food retailers for the sixth consecutive year in the Dow Jones Sustainability Index

**Strategy highlights**

- *Great food:* Continued investment and growth in own-brand, with penetration increasing at a faster rate than any other major supermarket. We are 85 per cent of the way through the re-launch of our core *by Sainsbury's* range which will see 6,500 new or improved products introduced by April 2013
- *Compelling general merchandise and clothing:* Goes from strength to strength, currently growing three times faster than our food business and gaining market share
- *Complementary channels and services:* Online continues to perform strongly, growing at over 20 per cent, with grocery orders regularly exceeding 165,000 a week. Our convenience business is expanding by one to two stores each week and is enjoying almost 20 per cent year-on-year growth. Sainsbury's Bank continues to make strong progress, with our share of joint venture post-tax profit up from £7 million to £12 million
- *Developing new business:* Announced $I^2C$, a joint venture company with Aimia, owners of *Nectar*. Launched our MP3 music download service; acquired a majority stake in Anobii e-book platform; announced a video on demand service powered by Rovi
- *Growing space and creating property value:* During the half-year we opened 351,000 sq ft of space, comprising five supermarkets, 49 convenience stores and three extensions. Property profits from sale and leaseback activity were £48 million

**David Tyler, Chairman**, said: "Sainsbury's has made a strong start to the year, delivering continued outperformance in what has remained a challenging market. We have grown our underlying basic earnings per share to 15.2 pence, return on capital employed remains unchanged at 10.9 per cent and our interim dividend is 4.8 pence per share, up 6.7 per cent."

**Justin King, Chief Executive** said: "Our share of the grocery market is the highest for almost a decade at 16.7 per cent, with 31 consecutive quarters of like-for-like sales growth. We continue to succeed by remaining focused on delivering quality products, best-in-class service and value for our customers, without compromise. *Brand Match*, *Nectar* and our highly targeted coupon-at-till all reinforce our price competiveness.

Whilst the wider economic situation remains challenging, we are well positioned to help our customers *Live Well For Less*. Our long-standing consistent strategy, combined with our customer insight and strong value-driven culture, will continue to deliver for customers, colleagues and shareholders."

**Notes:**

1. Underlying profit before tax: Profit before tax before any profit or loss on the disposal of properties, investment property fair value movements, financing fair value movements, IAS 19 pension financing element and one-off items that are material and infrequent in nature.
2. Underlying basic earnings per share: Underlying profit, net of attributable taxation, divided by the weighted average number of ordinary shares in issue during the period, excluding those held by the ESOP trusts, which are treated as cancelled.
3. 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).
4. Sainsbury's market share grew to 16.7 per cent from 16.6 per cent (source: Kantar for the 52 weeks ended 30 September 2012).
5. 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.
6. Sainsbury's will report its 2012/13 Third Quarter Trading Statement at 07:00 (GMT) on 9 January 2013.

A results presentation for analysts and investors will be held at 09:45 on 14 November 2012.

**To view the slides of the results presentation and the webcast:** We recommend that you register for this event in advance. To do so, please visit www.j-sainsbury.co.uk and follow the on-screen instructions. To participate in the live event, please go to the website from 09:30 on the day of the announcement, where there will be further instructions. An archive of the webcast will be available from 12:00.

**To listen to the results presentation:** You may dial in to listen to the results on +44 (0) 208 996 3900, pass code 264663. A transcript of the presentation and an archive recording of this event will be available from 15:00 on the day of the event at www.j-sainsbury.co.uk.

Enquiries:


| Investor Relations | Media |
|---|---|
| **Adam Wilson Katsibas / Kellie Herman** | **Alex Cole / Tara Hicks / Tom Parker** |
| **+44 (0) 20 7695 0080** | **+44 (0) 20 7695 7295** |

## Business Review

### Trading and market overview

We have made a good start to the year, continuing to outperform the market, in what has remained a challenging environment. Our share of the grocery market is its highest for almost a decade at 16.7 per cent and we have achieved 31 consecutive quarters of like-for-like sales growth. Total sales (including VAT, excluding fuel) were up 4.1 per cent, with like-for-like sales up 1.7 per cent. Careful control of costs enabled us to grow underlying profit before tax by 5.4 per cent to £373 million.

We continue to succeed by understanding what our customers want. Delivering universal appeal to help them *Live Well For Less*. Our performance demonstrates that delivering quality and value, with values, is a compelling offer for customers.

Despite the unseasonal weather in the half-year, with six bank holidays, the Queen's Diamond Jubilee and the Olympic and Paralympic Games, we had many opportunities to help our customers celebrate. We saw a continuation of savvy shopping, with customers putting on average one fewer item in their basket, although the impact of this trend is now annualising.

Through our *Brand Match* initiative, which has just celebrated its first anniversary, we have the most comprehensive tool in the market to help people appreciate our great value. Similarly our longstanding ten year partnership with *Nectar* enables us to understand our customers better and provide them with relevant offers.

Our non-food, convenience and online businesses continue to enjoy market-beating growth and gain market share, while investment in these areas is increasing customer loyalty.

We are well positioned to continue to grow and to achieve our vision of being the most trusted retailer where people love to work and shop.

### Great food

Great food remains at the heart of what we do, with our leadership in fresh produce and our strong own-brand key differentiators.

Our customers have high expectations about the quality, integrity and provenance of the fresh food they buy, with one in every five pounds spent on fruit and vegetables, spent at Sainsbury's. In addition, our fresh food counters, now in 513 of our 576 supermarkets, are growing market share faster than at any other major retailer. Our colleagues' expertise and customer service is key to driving sales and over 20,000 have received City & Guilds accredited training in our seven food colleges, covering bakery, butchery, fishmonger and deli counter skills.

Own-brand investment goes from strength to strength and we are seeing tangible results. Our own-brand penetration is increasing at a faster rate than any other major supermarket and we continue to invest in the breadth and quality of our ranges. We are now 85 per cent of the way through the re-launch of our core *by Sainsbury's* range, which will see 6,500 new or improved products introduced by April 2013. Sales of *by Sainsbury's* products are increasing at the strongest rate in recent years and it is the fastest growing core own-brand range in the UK. It was named Own Label Range of the Year at the Grocer Gold Awards in June.

Our *Taste the Difference* range grew by nearly ten per cent and continues to outperform the premium tier market. Over half our customers buy *Taste the Difference*, with over 60 per cent of them also buying into our *basics* range, which is the second biggest selling supermarket value brand.

In September, we introduced a new breed of free range, slow grown Norfolk Black Chicken as part of our *Taste the Difference* range. Bred from two heritage breeds, the birds are free to roam outdoors amongst trees and hedges. In development for over three years, it has been heralded as one of the most exciting innovations in poultry farming for decades.

We have always worked closely with British farmers to give our customers high quality, seasonal and fresh British food. It is our aim to double the amount of British food we sell by 2020 as part of our stretching *20 x 20 Sustainability Plan*. Our Farmer Development Groups bring together 2,500 British farmers in ten producer groups - dairy, beef, pork, lamb, veal, eggs, chicken, cheese, wheat, and produce - and through these groups we have invested over £40 million in British farming over the last five years.

In October, we launched a £1 million agriculture research and development fund to kick start the next wave of improvements to UK farming. This money will help farmers and suppliers to adopt leading technologies, as well as drive innovation.

**Compelling general merchandise and clothing**

Our general merchandise and clothing businesses go from strength to strength, growing faster than our food business and gaining market share. However, fewer than one in five of our supermarkets have a full non-food offer of over 15,000 sq ft, which presents opportunities for future growth.

We have a clear strategy centred on delivering high street style and quality at supermarket prices in a way which leverages the footfall and brand positioning of our great food offer. We also see that our non-food offer builds customer loyalty, with those who buy clothing, general merchandise and entertainment shopping more frequently than those who do not.

At the end of the half-year, our *Tu* clothing range achieved its best ever sales on Saturday 29 September. We recently celebrated the one year anniversary of our collaboration with Gok Wan and also confirmed five more exclusive *Gok for Tu* womenswear collections for the coming year. Our new ‘Denim Shop’, introduced into most of our clothing stores, nearly doubled denim sales in the period. Additionally, we enjoyed our biggest ever ‘Back to School’ season in the second quarter and remain the fourth largest player in the school uniform market.

The trend in home baking continues to drive strong sales of bakeware and baking accessories. We successfully launched our exclusive Great British Bake Off range of products in 90 stores. Our Home range continues to enjoy strong growth and in the build up to the Jubilee we saw excellent sales on lines such as bunting, tea towels, aprons, cake tins, dinnerware and mugs. In the second quarter, we had a strong response to our ‘Great Student Value’ event, driving sales volumes on home essential lines including 500,000 towels and 160,000 saucepans.

In entertainment, we are the only supermarket to grow market share, up 200 basis points to 6.6 per cent in the 12 weeks to 30 September. We secured exclusive versions of some of the biggest DVD releases in the past few months including *Avengers Assemble, The Hunger Games* and *War Horse*, which all performed well. Our investment in own-brand educational books saw sales value increase in this area by a third.

Increased direct sourcing via offices in Shanghai, Hong Kong and Bangladesh has also enabled us to forge better relationships with our suppliers and deliver better value for our customers.

**Complementary channels and services**

People have more choice than ever before of where, how and when to do their shopping. To enable our customers to shop with us in the way they choose, we offer a winning mix of supermarkets, convenience stores and a full online grocery and general merchandise offer. Where customers shop all three of these channels their total spend is more than double that of the average supermarket only shopper.

Our convenience business continues to perform strongly, with almost 20 per cent year-on-year growth, and we were named Convenience Chain of the Year for the third year running in the Retail Industry Awards. We are meeting our target of opening one or two convenience stores each week, and in the first half of this year we opened 49 new stores taking our convenience store total to 487. We now have a programme to upgrade existing stores with an improved fresh food offer. In the half-year, 12 convenience stores were refurbished, resulting in a good sales uplift.

Our online grocery business continues to grow in popularity, with sales up over 20 per cent in the half, driven primarily by new customers. Our online grocery orders now regularly exceed 165,000 a week and we deliver to 96 per cent of UK postcodes. Customer feedback shows that quality of service, quality of food and ease of shop are key to this success. Our general merchandise website offers thousands of products across home, garden, appliances, technology, toys, sports and leisure. More than half our customers opt to collect their orders via our *Click & Collect* service, which is available in 946 of our 1,063 stores.

Our goal is to make our customers' lives easier and deliver the best shopping experience - whether in store, at home or on the go. With the launch of mobile friendly versions of our grocery and general merchandise websites, we are giving customers access to our products wherever they are. We are also looking at making the in-store experience even more convenient by trialling *Mobile Scan & Go*, a new technology that lets customers scan items as they shop using their iPhone or Android phone and pay without unloading their trolley or basket at the till.

Sainsbury's Bank continues to make strong progress, with our share of post-tax profit at £12 million, up from £7 million this time last year. Lending and insurance new business volumes are up around 30 per cent. The Bank's strategy remains to offer shoppers consistently great deals and rewards, enabling them to benefit from quality financial products, saving money every time they spend in store, fill up their car or shop online. Customers who have a Sainsbury's Bank product increase their spend in-store, driven by our ability to offer them targeted offers and promotions using *Nectar* loyalty data.

*Nectar* remains a strong driver for customers to choose Sainsbury's for their banking as well as their grocery and general merchandise requirements. Over 1.75 billion *Nectar* points have been awarded to over one million collectors since the start of the Bank's double point initiative in October 2009. The Bank recently launched its most rewarding *Nectar* based credit card to date, further deepening its relationship with *Nectar* and the commitment to reward customers. Its new cashback credit card, which has seen customer applications well above target, makes Sainsbury's the only supermarket bank to offer a choice of reward or cashback cards.

**Developing new business**

We are also investing beyond our core and developing new businesses and services.

We have over 270 in-store pharmacies and in October we announced a partnership with Guy's and St Thomas' NHS Trust to take over the management of the outpatient pharmacies at the two hospitals. We also manage the outpatient pharmacy at James Cook University Hospital in Middlesbrough. Alongside our pharmacies, Sainsbury's customers also benefit from ten NHS GP or nurse-led surgeries and ten stores also have private dental surgeries. Our stores at Leeds White Rose and Ely have concessions operated by MEE Worldwide Healthcare, offering hearing and ophthalmological services, and plans are in place to open a further five MEE concessions in stores across Britain.

In the last quarter, we announced the formation of a joint venture company – Insight 2 Communication ('$I^2C$') - with Aimia, owners of the *Nectar* programme. $I^2C$ will plan and deliver fully integrated campaigns that can benefit our 22 million customers, providing them with relevant, targeted offers based on the products and categories they want to buy.

Our commitment to multi-channel retailing and our understanding of digital service businesses can be seen in our online entertainment offer, with the announcement of a number of initiatives to further our progress in this area. In May, we launched our MP3 music download service, giving customers access to over 2.3 million tracks and albums. In June, we acquired a majority stake in Anobii, a social network and online retailer of e-books. More recently, in August, we announced we will be launching a video on demand service powered by Rovi.

**Growing space and creating property value**

In line with our plans we opened 351,000 sq ft of space during the half-year, comprising five supermarkets, 49 convenience stores and three extensions.

Some of this additional space has enabled us to bring our increasingly popular non-food ranges to a wider audience, as well as expanding our coverage to areas of the country where we do not yet have a strong presence. Around 22 per cent of the UK population do not live within a 15 minute drive of a Sainsbury's store, and we have less than five per cent market share in 42 per cent of UK postcodes. We have a steady pipeline of space ready for development, including planning consents for around 60 supermarket extensions, as well as a number of opportunities for new supermarkets and convenience stores.

We work with joint venture partners to add property value and trading space to our estate. In April, as part of our British Land joint venture we opened our newly extended store at Purley Way, Croydon, providing an uplift of 10,200 sq ft. We also received planning permission to extend our Weedon Road store in Northampton by 23,600 sq ft, with the improved offer set to open in November. A deal was signed with Barratt London in July to bring forward our Fulham Wharf project. Work on site started this summer and will deliver a replacement 76,000 sq ft supermarket and 267 of 463 residential apartments by mid 2015. Our partnership with Land Securities has seen work move forward at our Wandsworth Garratt Lane store where the building of our 34,700 sq ft extension is progressing well.

The market value of our property remains at an estimated £11.2 billion. In the half, sale and leaseback activity was worth £128 million, generating a property profit of £48 million, up 23 per cent on the same period last year.

**Our values make us different**

Our values are part of what differentiates us from our competitors. Our *20 x 20 Sustainability Plan*, published in October 2011, ensures we continue to lead in this aspect of business, and derive long-term, sustainable advantage. Highlights in the last six months include:

- *Best for food and health:* We continue to lead the food industry on nutritional labelling. We called for a move to consistent front of pack labelling, combining multiple traffic lights and daily guideline amounts. By committing to make changes, we are working to bring about industry consensus to help customers make healthier eating choices.

- *Sourcing with integrity:* In May, following an overwhelming majority vote from Sainsbury's Dairy Development Group farmers, we introduced a unique Cost of Production payment model, designed to reward farmers for outstanding animal welfare and environmental standards. In August, Sainsbury's again led the way in paying a premium to our dedicated pork producers to reflect rising feed costs. Also, in recognition of the work we are doing on pig welfare, our Pig Concept Farm won Compassion in World Farming's *Leadership and Innovation in Retail* award.

- *Respect for our environment:* Our significant investment in renewable energy continued and we now have the largest multi-roof solar array in Europe. This will reduce our total $CO_2$ emissions by an estimated 6,800 tonnes this year and ongoing, while also delivering energy cost savings. We were the first company to use geothermal technology as an alternative energy source for our store in Crayford, and we are now developing the technology with E.ON for use in up to 100 of our stores.

- *A positive difference to our community:* As the first ever Paralympic-only sponsor, we were proud to play a full part in the Games. 18,000 Sainsbury's customers and colleagues were given the opportunity to attend the Games with Sainsbury's support. 150 Sainsbury's colleagues were seconded to LOCOG or acted as Games Makers. 145 customers and colleagues took part in the Paralympic Torch Relay and the Torch has also toured our supermarkets, generating high levels of customer and colleague engagement. After the Games we announced that we will build on our Million Kids Challenge with our new 'Active Kids for All' Paralympic legacy plan. This is a £1 million commitment to fund teacher training to ensure that half a million children with a disability in mainstream education are included in school sports lessons. We also announced that we are extending our sponsorship of the British Paralympic Association to support them through the Sochi Winter Paralympic Games in 2014, and all the way through to Rio in 2016.

In October, we ran our second FareShare Million Meals Appeal with a record-breaking number of donations from customers – each matched by Sainsbury's – making it the UK's biggest ever single-charity food drive and helping disadvantaged people across the country.

- *Great place to work:* We have created over 2,500 new jobs this half-year and are recruiting an additional 20,000 seasonal jobs to meet increased customer demand and provide an even better service over the busy Christmas and New Year period. We anticipate around 2,000 of these jobs will be made permanent. This year we recruited 150 young people on our trainee manager scheme, more than double that in 2011. Trainees spend a year learning every aspect of how to run a Sainsbury's department and are mentored by an experienced store manager.

Our values are being recognised by customers and stakeholders. Our research shows our customers increasingly trust us on the issues they care about, whilst sustainability experts have endorsed our leadership. In September, we were named the world's leading food retailer for sustainability, topping the Dow Jones Sustainability Index for the sixth year running, reinforcing our leadership position in the FTSE4Good Index. During the half-year, we were the first food retailer to be awarded 'Platinum Plus' in Business in the Community's Corporate Responsibility Index and were named Sustainable Retailer of the Year by the Retail Industry Awards.

## Financial Review

Sainsbury's continues to grow sales, maintaining its outperformance versus the market, despite the tough competitive environment and challenging economic climate. The business continues to invest in the quality of its own-brand range, with strong growth in both *by Sainsbury's* and *Taste the Difference*. Targeted vouchering activity and an ongoing investment in *Brand Match* helped reinforce the competitiveness of Sainsbury's price position. Combined with proud sponsorship of the Paralympics, and continued progress toward our *20 x 20* targets meant the business delivered a good overall performance. The balance sheet remains strong, backed by £11.2 billion of property value.

Sales (including VAT) increased by 4.0 per cent, to £13,365 million (2011/12: £12,848 million). Underlying operating profit increased in line with sales to £412 million (2011/12: £396 million), with operating margin remaining unchanged year-on-year, but with an improvement of 1 basis point at constant fuel prices.

Underlying profit before tax ('UPBT') improved by 5.4 per cent to £373 million (2011/12: £354 million). This growth was ahead of operating profit growth due to strong performance in Joint Venture ('JV') profits. Profit before tax was up 2.5 per cent, at £405 million (2011/12: £395 million), with higher property profits of £48 million (2011/12: £39 million) partially offset by a pension financing charge of £1 million (2011/12: £9 million credit).

Underlying basic earnings per share increased to 15.2 pence (2011/12: 13.9 pence), up 9.4 per cent. This was higher than the growth in underlying profit due to a reduced underlying tax rate of 23.6 per cent (2011/12: 26.6 per cent), principally due to the impact of the reduction in the statutory corporation tax rate. Basic earnings per share increased by 4.9 per cent to 17.0 pence (2011/12: 16.2 pence).

An interim dividend of 4.8 pence per share has been proposed by the Board (2011/12: 4.5 pence per share), up 6.7 per cent year-on-year. This is in line with Sainsbury's policy of paying 30 per cent of the prior year's full-year dividend as an interim dividend.

| Summary income statement | **28 weeks to 29 September 2012 £m** | 28 weeks to 1 October 2011 £m | Change % | 52 weeks to 17 March 2012 £m |
|---|---|---|---|---|
| **Sales (including VAT)** | **13,365** | 12,848 | 4.0 | 24,511 |
| **Sales (excluding VAT)** | **12,160** | 11,693 | 4.0 | 22,294 |
| **Underlying operating profit** | **412** | 396 | 4.0 | 789 |
| Underlying net finance costs (1) | **(59)** | (57) | (3.5) | (109) |
| Underlying share of post-tax profit from JVs (2) | **20** | 15 | 33.3 | 32 |
| **Underlying profit before tax** | **373** | 354 | 5.4 | 712 |
| Profit on disposal of properties | **48** | 39 | 23.1 | 83 |
| Investment property fair value movements | **(1)** | 3 | (133.3) | - |
| Financing fair value movements | **(11)** | (10) | (10.0) | (16) |
| IAS 19 pension financing (charge)/credit | **(1)** | 9 | (111.1) | 17 |
| One-off items | **(3)** | - | n/a | 3 |
| **Profit before tax** | **405** | 395 | 2.5 | 799 |
| Income tax expense | **(85)** | (93) | 8.6 | (201) |
| **Profit for the financial period** | **320** | 302 | 6.0 | 598 |
| **Underlying basic earnings per share** | **15.2p** | 13.9p | 9.4 | 28.1p |
| **Basic earnings per share** | **17.0p** | 16.2p | 4.9 | 32.0p |
| **Dividend per share** | **4.8p** | 4.5p | 6.7 | 16.1p |

(1) Net finance costs before financing fair value movements and the IAS 19 pension financing element.
(2) The underlying share of post-tax profit from joint ventures is stated before investment property fair value movements, financing fair value movements and profit on disposal of properties.

**Sales (including VAT) and space**
Sales (including fuel) increased by 4.0 per cent to £13,365 million (2011/12: £12,848 million).

This includes a 2.3 per cent contribution from new space (excluding extensions and replacements) and like-for-like ('LFL') sales growth of 1.7 per cent.

| Sales growth (including VAT, including fuel) | **28 weeks to 29 September 2012 %** | 28 weeks to 1 October 2011 % | 52 weeks to 17 March 2012 % |
|---|---|---|---|
| Like-for-like sales | **1.7** | 5.1 | 4.5 |
| Net new space (excluding extensions and replacements) | **2.3** | 2.5 | 2.3 |
| **Total sales growth** | **4.0** | 7.6 | 6.8 |

Sales (excluding fuel) grew by 4.1 per cent, with LFL growth of 1.7 per cent. Sainsbury's grew market share for the 52 weeks to 30 September 2012 by 14 basis points to 16.7 per cent (as measured by Kantar).

LFL sales growth was 1.4 per cent in the first quarter where, just as in 2011, the quarter was characterised by five bank holidays, a royal event and periods of unseasonal weather. The second quarter, which contained the Olympics, Paralympics and continued periods of unseasonal weather, had LFL growth of 1.9 per cent. The contribution from net new space (excluding extensions and replacements) of 2.4 per cent was slightly ahead of Sainsbury's expectations. Both convenience and online saw growth of around 20 per cent, delivering Sainsbury's strategy of multi channel growth, and non-food continued to grow at more than twice the rate of food.

| Sales growth (including VAT, excluding fuel) | **28 weeks to 29 September 2012 %** | 28 weeks to 1 October 2011 % | 52 weeks to 17 March 2012 % |
|---|---|---|---|
| Like-for-like sales (1) | **1.7** | 1.9 | 2.1 |
| Net new space (excluding extensions and replacements) | **2.4** | 2.4 | 2.4 |
| **Total sales growth** | **4.1** | 4.3 | 4.5 |

(1) This includes a 0.8 per cent contribution from stores extended in the first half of 2012/13 and the second half of 2011/12, net of disruptions.

Sainsbury's has added a gross 351,000 sq ft of selling space (including replacements and extensions) since the start of the year, an increase of 1.7 per cent (2011/12: 596,000 sq ft and 3.1 per cent). Including the impact of closures, this translated into net space growth of 321,000 sq ft, an increase of 1.6 per cent since the start of the year (2011/12: 2.8 per cent).

The first half opening programme included five new supermarkets, of which one was a replacement store (2011/12: seven new supermarkets, of which two were replacements). These generated an additional 178,000 sq ft of gross selling space (a net 152,000 sq ft). In line with our guidance at the Preliminary Announcement, we have stepped up the number of refurbishments to 14 stores and consequently reduced the number of extensions to three, adding 68,000 sq ft of selling space (2011/12: 15 extensions and three refurbishments added 269,000 sq ft).

Convenience continues to be a key area of growth, with 49 stores added during the first half of the year (2011/12: 37 stores). Two stores were closed (2011/12: no stores closed) and 12 refurbished (2011/12: 15 stores), with net convenience space growth of 101,000 sq ft during the first half of the year, an increase of 9.8 per cent since the start of the year (2011/12: 8.8 per cent), and on track to meet our target of opening one to two new stores per week.

Net of replacements, closures and disposals, closing space of 20,668,000 sq ft was 5.2 per cent higher than last year (1 October 2011: 19,638,000 sq ft).

| **Store numbers and retailing space** at 29 September 2012 | **Supermarkets** Number | Area 000 sq ft | **Convenience** Number | Area 000 sq ft | **Total** **Number** | **Area 000 sq ft** |
|---|---|---|---|---|---|---|
| At 17 March 2012 | 572 | 19,320 | 440 | 1,027 | **1,012** | **20,347** |
| New stores | 5 | 178 | 49 | 105 | **54** | **283** |
| Disposals/closures | (1) | (26) | (2) | (4) | **(3)** | **(30)** |
| Extensions/ refurbishments/downsizes | - | 68 | - | - | **-** | **68** |
| **At 29 September 2012** | **576** | **19,540** | **487** | **1,128** | **1,063** | **20,668** |
| ***Memorandum*:** | | | | | | |
| Extensions | 3 | 56 | - | - | **3** | **56** |
| Refurbishments/downsizes | 14 | 12 | 12 | - | **26** | **12** |
| **Total projects** | **17** | **68** | **12** | **-** | **29** | **68** |

Sainsbury's expects the market to remain challenging with forecast LFLs in the second half similar to those in the first half and a contribution from new space to total sales growth (excluding extensions and replacements) of just above two per cent for the full-year.

## Underlying operating profit

Underlying operating profit increased by 4.0 per cent to £412 million (2011/12: £396 million), reflecting a good sales performance and continued cost efficiencies helping to offset most of the impact of cost inflation.

Underlying operating margin was unchanged year-on-year at 3.39 per cent (2011/12: 3.39 per cent), but showed an improvement of 1 basis point at constant fuel prices. Underlying EBITDAR margin reduced by 1 basis point to 7.65 per cent, but was 1 basis point higher year-on-year at constant fuel prices.

| **Underlying operating profit** | **28 weeks to 29 September 2012** | 28 weeks to 1 October 2011 | Change | Change at constant fuel prices | 52 weeks to 17 March 2012 |
|---|---|---|---|---|---|
| Underlying operating profit (£m) [(1)] | **412** | 396 | 4.0% | | 789 |
| Underlying operating margin (%) [(2)] | **3.39** | 3.39 | - | 1 bp | 3.54 |
| Underlying EBITDAR (£m) [(3)] | **930** | 896 | 3.8% | | 1,740 |
| Underlying EBITDAR margin (%) [(4)] | **7.65** | 7.66 | (1) bp | 1 bp | 7.80 |

(1) Underlying earnings before interest, tax, and before Sainsbury's share of post-tax profit from joint ventures.
(2) Underlying operating profit divided by sales excluding VAT.
(3) Underlying operating profit before rent, depreciation and amortisation.
(4) Underlying EBITDAR divided by sales excluding VAT.

Sainsbury's expects cost inflation in 2012/13 at the upper end of its two to three per cent range. The Group expects cost savings of around £100 million in 2012/13.

## Sainsbury's Bank joint venture ('JV')

Sainsbury's share of Sainsbury's Bank post-tax profit increased by £5 million to £12 million for the half-year (2011/12: £7 million). The profit growth has been driven through the Bank increasing total income, particularly in car and home insurance, whilst continuing to deliver lower bad debt levels.

The Sainsbury's Bank JV is expected to contribute a similar run rate of profit in the second half, to that of the first half. [(1)]

(1) Based on 28 weeks in the first half and 24 weeks in the second half.

**Property joint ventures**
Sainsbury's underlying share of post-tax profit from its JV with The British Land Company PLC was £7 million for the half-year (2011/12: £7 million). Its underlying share of post-tax profit from the JV with Land Securities Group PLC was £1 million for the half-year (2011/12: £1 million).

A loss on revaluation of £1 million was recognised within the share of post-tax profit from the JVs in the income statement (2011/12: £3 million surplus), with property yields remaining unchanged from the year-end, at 5.0 per cent (2011/12: 4.9 per cent).

Full-year profits from the Property JVs are expected to be similar to 2011/12.

**Underlying net finance costs**
Underlying net finance costs increased by £2 million to £59 million (2011/12: £57 million) mainly as a result of the increase in average net debt, partly offset by a reduction in the RPI rate on the Group's inflation linked debt.

| **Underlying net finance costs** (1) | **28 weeks to 29 September 2012 £m** | 28 weeks to 1 October 2011 £m | 52 weeks to 17 March 2012 £m |
|---|---|---|---|
| **Underlying finance income** (1) | **10** | 9 | 18 |
| Interest costs | **(89)** | (85) | (162) |
| Capitalised interest | **20** | 19 | 35 |
| **Underlying finance costs** (1) | **(69)** | (66) | (127) |
| **Net underlying finance costs** (1) | **(59)** | (57) | (109) |

(1) Finance income/costs before financing fair value movements and IAS 19 pension financing element.

Underlying net finance costs for the full-year 2012/13 are expected to increase by £0 – £5 million versus the prior year.

**Taxation**
The income tax expense was £85 million (2011/12: £93 million), with an underlying tax rate of 23.6 per cent (2011/12: 26.6 per cent) and an effective tax rate of 21.0 per cent (2011/12: 23.5 per cent). The underlying rate was lower than last year, primarily as a result of the two per cent lower statutory corporation tax rate, and the impact of this on the revaluation of the deferred tax balances.

The effective tax rate is lower than the underlying tax rate primarily due to the non-taxable profit on disposal of properties.

| **Underlying tax rate**<br>28 weeks to 29 September 2012 | **Profit £m** | **Tax £m** | **Rate %** |
|---|---|---|---|
| Profit before tax, and tax thereon | 405 | 85 | 21.0 |
| Adjustments (and tax thereon) for: | | | |
| Profit on disposal of properties | (48) | - | |
| Investment property fair value movements | 1 | - | |
| Financing fair value movements | 11 | 1 | |
| IAS 19 pension financing element | 1 | - | |
| One off items | 3 | - | |
| Revaluation of deferred tax balances | - | 2 | |
| **Underlying profit before tax, and tax thereon** | **373** | **88** | **23.6** |

Sainsbury's expects the underlying tax rate to be between 23 and 24 per cent in 2012/13, lower than the prior year, principally due to the impact of the reduction in the statutory corporation tax rate.

**Earnings per share**

Underlying basic earnings per share increased by 9.4 per cent to 15.2 pence in the first half of 2012/13 (2011/12: 13.9 pence), reflecting the improvement in underlying profit after tax and the lower underlying tax rate year-on-year, partially offset by the effect of the additional shares issued during the year.

The weighted average number of shares in issue was 1,880.4 million (2011/12: 1,868.6 million), an increase of 11.8 million shares or 0.6 per cent.

Basic earnings per share increased to 17.0 pence (2011/12: 16.2 pence). Basic earnings per share were higher than the underlying basic earnings per share due mainly to the profit on disposal of properties.

| **Underlying earnings per share** | **28 weeks to 29 September 2012 pence** | 28 weeks to 1 October 2011 pence |
|---|---|---|
| **Basic earnings per share** | **17.0** | 16.2 |
| Adjustments (net of tax) for: | | |
| Profit on disposal of properties | **(2.6)** | (2.1) |
| Investment property fair value movements | **0.1** | (0.2) |
| Financing fair value movements | **0.5** | 0.5 |
| IAS 19 pension financing element | **0.1** | (0.5) |
| One off items | **0.2** | - |
| Deferred tax rate change | **(0.1)** | - |
| **Underlying basic earnings per share** | **15.2** | 13.9 |

**Dividends**

The Board has recommended an interim dividend of 4.8 pence per share (2011/12: 4.5 pence), equivalent to 30 per cent of the previous full-year dividend. This will be paid on 4 January 2013 to shareholders on the Register of Members at the close of business on 23 November 2012. The interim dividend was approved by the Board on 13 November 2012 and has not, therefore, been included as a liability as at 29 September 2012.

As communicated at the Preliminary Announcement, Sainsbury's remains focused on delivering returns to shareholders. The Board plans to increase the dividend each year and intends to build cover to two times over the medium term.

**Return on capital employed**

The return on average capital employed ('ROCE') over the 52 weeks to 29 September 2012 was 10.9 per cent (2011/12: 10.9 per cent), an increase of three basis points.

ROCE growth was held back by the cumulative effect of the acceleration in Sainsbury's investment in space growth since June 2009, as well as the more challenging economic environment and impact on industry profitability. This has reduced earnings growth, whilst the value of capital employed has increased.

| Return on capital employed | 52 weeks to 29 September 2012 | 52 weeks to 1 October 2011 | 52 weeks to 17 March 2012 |
|---|---|---|---|
| Underlying operating profit (£m) | **805** | 764 | 789 |
| Underlying share of post-tax profit from joint ventures (£m) | **37** | 26 | 32 |
| Underlying profit before interest and tax (£m) | **842** | 790 | 821 |
| Average capital employed [(1)] (£m) | **7,721** | 7,262 | 7,424 |
| **Return on average capital employed (%)** | **10.9** | 10.9 | 11.1 |
| Return on average capital employed (%) (excluding pension fund deficit) | **10.3** | 10.4 | 10.6 |
| 52 week ROCE movement to 29 September 2012 | 3 bps | | |
| ROCE movement since 52 weeks to 17 March 2012 | (15) bps | | |

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

### Net debt and cash flows

Sainsbury's net debt as at 29 September 2012 was £2,179 million (1 October 2011: £2,115 million), an increase of £64 million year-on-year and an increase of £199 million since 17 March 2012. The increase was driven primarily by investment in estate development, partially offset by cash generated from sale and leasebacks.

Cash generated from operations improved by 15.2 per cent to £637 million (2011/12: £553 million, 17.7 per cent). Working capital increased by £47 million since 17 March 2012, driven by an increase in inventories of £78 million and trade and other receivables of £134 million, partly offset by an increase in trade and other payables and provisions of £165 million.

| Summary cash flow statement and movement in net debt | 28 weeks to 29 September 2012 £m | 28 weeks to 1 October 2011 £m | 52 weeks to 17 March 2012 £m |
|---|---|---|---|
| **Operating cash flow before changes in working capital** | **684** | 657 | 1,238 |
| (Increase)/decrease in working capital | **(47)** | (104) | 53 |
| **Cash generated from operations** | **637** | 553 | 1,291 |
| Interest paid | **(79)** | (73) | (142) |
| Corporation tax paid | **(28)** | (24) | (82) |
| **Net cash from operating activities** | **530** | 456 | 1,067 |
| Net cash used in investing activities | **(476)** | (498) | (883) |
| Proceeds from issue of shares | **4** | 3 | 14 |
| Receipt of new debt | **75** | 119 | 391 |
| Repayment of borrowings | **(105)** | (42) | (65) |
| Dividends paid | **(218)** | (201) | (285) |
| **Decrease in cash and cash equivalents** | **(190)** | (163) | 239 |
| Increase/(decrease) in debt | **20** | (129) | (386) |
| Fair value and other non-cash movements | **(29)** | (9) | (19) |
| **Movement in net debt** | **(199)** | (301) | (166) |

Sainsbury's expects net debt to be around £2.2 billion at the end of 2012/13.

**Financing**
Sainsbury's seeks to manage its financing by diversifying funding sources, minimising refinancing risk and maintaining sufficient stand-by liquidity. Sainsbury's has drawn debt of £2.7 billion and an un-drawn credit facility of £0.7 billion at its disposal.

The principal elements of Sainsbury's core funding comprise two long-term loans of £1,019 million due 2018 and £843 million due 2031 secured over property assets. In addition, Sainsbury's has unsecured loans totalling £510 million with maturities ranging from 2014 to 2018, £190 million of convertible bonds due July 2014, £104 million of hire purchase facilities in respect of movable in-store assets and £58 million of other finance leases.

Sainsbury's maintains a £690 million syndicated revolving credit facility due October 2015 for standby purposes. Interest on drawings under this facility is charged at a margin over LIBOR. There were £nil drawings under the facility as at 29 September 2012 (1 October 2011: £nil drawings).

**Capital expenditure**
Core capital expenditure decreased to £576 million (2011/12: £682 million) in the half-year. Sainsbury's stepped up its convenience opening programme but reduced extension growth, opening 49 convenience stores but only three extensions (2011/12: 37 convenience stores and 15 extensions). During the year, Sainsbury's completed 26 refurbishments (2011/12: 18 refurbishments), reflecting the step up in refurbishment activity in the half.

Core capital expenditure as a percentage of sales (including fuel, excluding VAT) was 4.7 per cent (2011/12: 5.8 per cent).

Sainsbury's also took advantage of continued good property yields in the half-year to achieve £131 million in sale and leaseback proceeds (2011/12: £129 million), which contributed to a total property profit of £48 million (2011/12: £39 million). Net capital expenditure was £487 million (2011/12: £556 million).

| **Capital expenditure** | **28 weeks to 29 September 2012 £m** | 28 weeks to 1 October 2011 £m | 52 weeks to 17 March 2012 £m |
|---|---|---|---|
| New store development | **312** | 321 | 599 |
| Extensions and refurbishments | **202** | 274 | 478 |
| Other – including supply chain and IT | **62** | 87 | 163 |
| **Core retail capital expenditure** | **576** | 682 | 1,240 |
| Acquisition of freehold and trading properties | **42** | 3 | 25 |
| Proceeds from property transactions | **(131)** | (129) | (303) |
| **Net capital expenditure** | **487** | 556 | 962 |

Sainsbury's expects full-year 2012/13 core capital expenditure of around £1 billion. We expect core capital expenditure as a percentage of sales to be below five per cent for the full-year.

**Summary balance sheet**
Shareholders' funds as at 29 September 2012 were £5,502 million (17 March 2012: £5,629 million), a decrease of £127 million. This is mainly attributable to the increase in the net retirement benefit obligation of £242 million and increase in net debt of £199 million, partly offset by continued profitable growth of the underlying business and the additional space added.

The book value of property, plant and equipment, including land and buildings, has grown by £301 million since the start of the year as a result of increased space growth.

Net debt was £199 million higher than at 17 March 2012 (2011/12: £301 million higher than at 19 March 2011), driven primarily by space related growth in property, plant and equipment.

Adjusted net debt to EBITDAR improved to 4.1 times (2011/12: 4.2 times), interest cover improved to 7.3 times (2011/12: 7.2 times), while fixed charge cover was in line with last year at 3.0 times (2011/12: 3.0 times). Gearing increased year-on-year to 39.6 per cent (2011/12: 37.5 per cent) mainly due to the increase in net debt and the increase in the pension fund deficit. Excluding the pension deficit, gearing reduces to 35.2 per cent (2011/12: 36.3 per cent).

**Summary balance sheet**

| | 29 September 2012 £m | Movement since 17 March 2012 £m | 1 October 2011 £m | 17 March 2012 £m |
|---|---|---|---|---|
| Land and buildings (freehold and long leasehold) | **7,121** | 319 | 6,682 | 6,802 |
| Land and buildings (short leasehold) | **651** | 3 | 687 | 648 |
| Fixtures and fittings | **1,858** | (21) | 1,707 | 1,879 |
| **Property, plant and equipment** | **9,630** | 301 | 9,076 | 9,329 |
| Other non-current assets | **909** | (2) | 877 | 911 |
| Inventories | **1,016** | 78 | 976 | 938 |
| Trade and other receivables | **421** | 135 | 415 | 286 |
| Cash and cash equivalents | **551** | (188) | 364 | 739 |
| Debt | **(2,730)** | (11) | (2,479) | (2,719) |
| **Net debt** | **(2,179)** | (199) | (2,115) | (1,980) |
| Trade and other payables and provisions | **(3,598)** | (198) | (3,395) | (3,400) |
| Retirement benefit obligations, net of deferred tax | **(697)** | (242) | (188) | (455) |
| **Net assets** | **5,502** | (127) | 5,646 | 5,629 |
| *Key financial ratios* | | | | |
| **Adjusted net debt to EBITDAR** (1) | **4.1 times** | | 4.2 times | 4.1 times |
| **Interest cover** (2) | **7.3 times** | | 7.2 times | 7.5 times |
| **Fixed charge cover** (3) | **3.0 times** | | 3.0 times | 3.1 times |
| **Gearing** (4) | **39.6%** | | 37.5% | 35.2% |
| **Gearing (excluding pension deficit)** (5) | **35.2%** | | 36.3% | 32.5% |

(1) Net debt plus capitalised lease obligations (5.5% NPV) divided by underlying EBITDAR, calculated on a rolling 52 week basis.
(2) Underlying profit before interest and tax divided by underlying net finance costs, calculated for a 28 week period at half-year, and 52 week period at year-end.
(3) Underlying EBITDAR divided by net rent and underlying net finance costs, calculated for a 28 week period at half-year, and 52 week period at year-end.
(4) Net debt divided by net assets.
(5) Net debt divided by net assets, excluding pension deficit.

As at 29 September 2012, Sainsbury's estimated market value of properties, including our 50 per cent share of properties held within property joint ventures, was £11.2 billion, in line with the year-end (17 March 2012: £11.2 billion). The yield remained constant at 4.9 per cent.

**Pensions**

As at 29 September 2012, the post-tax pension deficit was £242 million higher at £697 million (17 March 2012: £455 million) mainly due to a fall in the discount rate from 5.0 per cent to 4.4 per cent, partially offset by a fall in RPI inflation expectations from 3.3 per cent to 2.8 per cent and a 2.9 per cent increase in the value of plan assets.

The IAS 19 pension service cost included within UPBT was £34 million, £2 million higher than in the first half of last year.

Sainsbury's expects the full-year service charge to be around £60 million in 2012/13.

**Retirement benefit obligations**

| | **29 September 2012 £m** | 1 October 2011 £m | 17 March 2012 £m |
|---|---|---|---|
| Present value of funded obligations | **(6,106)** | (4,793) | (5,654) |
| Fair value of plan assets | **5,343** | 4,689 | 5,192 |
| Pension deficit | **(763)** | (104) | (462) |
| Present value of unfunded obligations | **(10)** | (9) | (9) |
| Retirement benefit obligations | **(773)** | (113) | (471) |
| Deferred income tax asset/(liability) | **76** | (75) | 16 |
| Net retirement benefit obligations | **(697)** | (188) | (455) |

**Group income statement** (unaudited)
for the 28 weeks to 29 September 2012

| | Note | **28 weeks to 29 September 2012 £m** | 28 weeks to 1 October 2011 £m | 52 weeks to 17 March 2012 £m |
|---|---|---|---|---|
| **Revenue** | 4 | **12,160** | 11,693 | 22,294 |
| Cost of sales | | **(11,512)** | (11,074) | (21,083) |
| **Gross profit** | | **648** | 619 | 1,211 |
| Administrative expenses | | **(239)** | (223) | (419) |
| Other income | | **49** | 38 | 82 |
| **Operating profit** | | **458** | 434 | 874 |
| Finance income | 5 | **10** | 18 | 35 |
| Finance costs | 5 | **(80)** | (73) | (138) |
| Share of post-tax profit from joint ventures | | **17** | 16 | 28 |
| **Profit before tax** | 4 | **405** | 395 | 799 |
| | | | | |
| Analysed as: | | | | |
| Underlying profit before tax | 4 | **373** | 354 | 712 |
| Profit on disposal of properties | 3 | **48** | 39 | 83 |
| Investment property fair value movements | 3 | **(1)** | 3 | - |
| Financing fair value movements | 3 | **(11)** | (10) | (16) |
| IAS 19 pension financing (charge)/credit | 3 | **(1)** | 9 | 17 |
| One-off items | 3 | **(3)** | - | 3 |
| | | **405** | 395 | 799 |
| | | | | |
| Income tax expense | 6 | **(85)** | (93) | (201) |
| **Profit for the financial period** | | **320** | 302 | 598 |
| | | | | |
| Attributable to: | | | | |
| Owners of the parent | | **320** | 302 | 598 |
| | | **320** | 302 | 598 |

| **Earnings per share** | 7 | **pence** | pence | pence |
|---|---|---|---|---|
| Basic | | **17.0** | 16.2 | 32.0 |
| Diluted | | **16.8** | 15.9 | 31.5 |
| Underlying basic | | **15.2** | 13.9 | 28.1 |
| Underlying diluted | | **15.0** | 13.8 | 27.8 |

The notes on pages 23 to 34 form an integral part of these Condensed Consolidated Interim Financial Statements.

**Group statement of comprehensive income** (unaudited)
for the 28 weeks to 29 September 2012

| | **28 weeks to 29 September 2012 £m** | 28 weeks to 1 October 2011 £m | 52 weeks to 17 March 2012 £m |
|---|---|---|---|
| **Profit for the period** | **320** | 302 | 598 |
| | | | |
| **Other comprehensive income/(expense):** | | | |
| Actuarial (losses)/gains on defined benefit pension scheme | **(311)** | 209 | (222) |
| Available-for-sale financial assets fair value movements: | | | |
| Group | **4** | 2 | 1 |
| Joint ventures | **2** | (4) | 2 |
| Cash flow hedges effective portion of fair value movements: | | | |
| Group | **(14)** | 4 | - |
| Joint ventures | **-** | 2 | 2 |
| Current tax on items recognised directly in other comprehensive income | **13** | - | 59 |
| Deferred tax on items recognised directly in other comprehensive income | **57** | (103) | 11 |
| **Total other comprehensive (expense)/income for the period (net of tax)** | **(249)** | 110 | (147) |
| | | | |
| **Total comprehensive income for the period** | **71** | 412 | 451 |
| | | | |
| Attributable to: | | | |
| Owners of the parent | **71** | 412 | 451 |
| | **71** | 412 | 451 |

The notes on pages 23 to 34 form an integral part of these Condensed Consolidated Interim Financial Statements.

## **Group balance sheet** (unaudited)
at 29 September 2012

| | Note | **29 September 2012 £m** | 1 October 2011 £m | 17 March 2012 £m |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | | **9,630** | 9,076 | 9,329 |
| Intangible assets | | **159** | 148 | 160 |
| Investments in joint ventures | | **561** | 528 | 566 |
| Available-for-sale financial assets | | **183** | 178 | 178 |
| Other receivables | | **37** | 37 | 38 |
| Derivative financial instruments | | **40** | 43 | 37 |
| | | **10,610** | 10,010 | 10,308 |
| **Current assets** | | | | |
| Inventories | | **1,016** | 976 | 938 |
| Trade and other receivables | | **421** | 415 | 286 |
| Derivative financial instruments | | **78** | 78 | 69 |
| Cash and cash equivalents | 9b | **551** | 364 | 739 |
| | | **2,066** | 1,833 | 2,032 |
| Non-current assets held for sale | | **-** | 20 | - |
| | | **2,066** | 1,853 | 2,032 |
| **Total assets** | | **12,676** | 11,863 | 12,340 |
| **Current liabilities** | | | | |
| Trade and other payables | | **(2,842)** | (2,730) | (2,740) |
| Borrowings | | **(132)** | (165) | (150) |
| Derivative financial instruments | | **(91)** | (87) | (88) |
| Taxes payable | | **(211)** | (202) | (149) |
| Provisions | | **(13)** | (11) | (9) |
| | | **(3,289)** | (3,195) | (3,136) |
| **Net current liabilities** | | **(1,223)** | (1,342) | (1,104) |
| **Non-current liabilities** | | | | |
| Other payables | | **(171)** | (127) | (137) |
| Borrowings | | **(2,644)** | (2,378) | (2,617) |
| Derivative financial instruments | | **(12)** | (4) | (1) |
| Deferred income tax liability | | **(226)** | (340) | (286) |
| Provisions | | **(59)** | (60) | (63) |
| Retirement benefit obligations | 11 | **(773)** | (113) | (471) |
| | | **(3,885)** | (3,022) | (3,575) |
| **Net assets** | | **5,502** | 5,646 | 5,629 |
| **Equity** | | | | |
| Called up share capital | | **539** | 537 | 538 |
| Share premium account | | **1,064** | 1,051 | 1,061 |
| Capital redemption reserve | | **680** | 680 | 680 |
| Other reserves | | **(617)** | (105) | (365) |
| Retained earnings | | **3,835** | 3,483 | 3,715 |
| **Equity attributable to owners of the parent** | | **5,501** | 5,646 | 5,629 |
| Non-controlling interests | | **1** | - | - |
| **Total equity** | | **5,502** | 5,646 | 5,629 |

The notes on pages 23 to 34 form an integral part of these Condensed Consolidated Interim Financial Statements.

**Group cash flow statement** (unaudited)
for the 28 weeks to 29 September 2012

| | Note | **28 weeks to 29 September 2012 £m** | 28 weeks to 1 October 2011 £m | 52 weeks to 17 March 2012 £m |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Cash generated from operations | 9a | **637** | 553 | 1,291 |
| Interest paid | | **(79)** | (73) | (142) |
| Corporation tax paid | | **(28)** | (24) | (82) |
| **Net cash inflow from operating activities** | | **530** | 456 | 1,067 |
| | | | | |
| **Cash flows from investing activities** | | | | |
| Purchase of property, plant and equipment | | **(609)** | (675) | (1,227) |
| Purchase of intangible assets | | **(8)** | (7) | (25) |
| Proceeds from disposal of property, plant and equipment | | **132** | 137 | 314 |
| Acquisition of and investment in subsidiaries and businesses, net of cash acquired | | **(21)** | - | (1) |
| Increase in loans to joint ventures | | **(4)** | (1) | (1) |
| Proceeds from disposal of financial assets | | **-** | 40 | 40 |
| Investment in financial assets | | **-** | - | (1) |
| Interest received | | **10** | 8 | 18 |
| Dividends received | | **24** | - | - |
| **Net cash outflow from investing activities** | | **(476)** | (498) | (883) |
| | | | | |
| **Cash flows from financing activities** | | | | |
| Proceeds from issuance of ordinary shares | | **4** | 3 | 14 |
| Proceeds from long-term borrowings | | **75** | 119 | 391 |
| Repayment of short-term borrowings | | **(50)** | - | - |
| Repayment of long-term borrowings | | **(40)** | (35) | (51) |
| Repayment of capital element of obligations under finance lease payments | | **(11)** | (5) | (9) |
| Interest elements of obligations under finance lease payments | | **(4)** | (2) | (5) |
| Dividends paid | | **(218)** | (201) | (285) |
| **Net cash (outflow)/inflow from financing activities** | | **(244)** | (121) | 55 |
| | | | | |
| **Net (decrease)/increase in cash and cash equivalents** | | **(190)** | (163) | 239 |
| | | | | |
| Opening cash and cash equivalents | | **739** | 500 | 500 |
| | | | | |
| **Closing cash and cash equivalents** | 9b | **549** | 337 | 739 |

The notes on pages 23 to 34 form an integral part of these Condensed Consolidated Interim Financial Statements.

**Group statement of changes in equity** (unaudited)
for the 28 weeks to 29 September 2012

| | Called up share capital £m | Share premium account £m | Capital redemption and other reserves £m | Retained earnings £m | Total £m | Non-controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| **At 18 March 2012** | **538** | **1,061** | **315** | **3,715** | **5,629** | **-** | **5,629** |
| Profit for the period | **-** | **-** | **-** | **320** | **320** | **-** | **320** |
| Other comprehensive income/(expense): | | | | | | | |
| Actuarial losses on defined benefit pension scheme (net of tax) | **-** | **-** | **(243)** | **-** | **(243)** | **-** | **(243)** |
| Available-for-sale financial assets fair value movements (net of tax): | | | | | | | |
| Group | **-** | **-** | **6** | **-** | **6** | **-** | **6** |
| Joint ventures | **-** | **-** | **2** | **-** | **2** | **-** | **2** |
| Cash flow hedges effective portion of changes in fair value (net of tax): | | | | | | | |
| Group | **-** | **-** | **(14)** | **-** | **(14)** | **-** | **(14)** |
| Joint ventures | **-** | **-** | **-** | **-** | - | **-** | - |
| **Total comprehensive (expense)/income for the period ended 29 September 2012** | **-** | **-** | **(249)** | **320** | **71** | **-** | **71** |
| Transactions with owners: | | | | | | | |
| Dividends paid | **-** | **-** | **-** | **(218)** | **(218)** | **-** | **(218)** |
| Amortisation of convertible bond equity component | **-** | **-** | **(3)** | **3** | **-** | **-** | **-** |
| Share-based payment (net of tax) | **-** | **-** | **-** | **16** | **16** | **-** | **16** |
| Shares issued | **-** | **-** | **-** | **-** | **-** | **1** | **1** |
| Allotted in respect of share option schemes | **1** | **3** | **-** | **(1)** | **3** | **-** | **3** |
| **At 29 September 2012** | **539** | **1,064** | **63** | **3,835** | **5,501** | **1** | **5,502** |
| | | | | | | | |
| **At 20 March 2011** | 535 | 1,048 | 467 | 3,374 | 5,424 | - | 5,424 |
| Profit for the period | - | - | - | 302 | 302 | - | 302 |
| Other comprehensive income/(expense): | | | | | | | |
| Actuarial gains on defined benefit pension scheme (net of tax) | - | - | 105 | - | 105 | - | 105 |
| Available-for-sale financial assets fair value movements (net of tax): | | | | | | | |
| Group | - | - | 3 | - | 3 | - | 3 |
| Joint ventures | - | - | (4) | - | (4) | - | (4) |
| Cash flow hedges effective portion of changes in fair value (net of tax): | | | | | | | |
| Group | - | - | 4 | - | 4 | - | 4 |
| Joint ventures | - | - | 2 | - | 2 | - | 2 |
| **Total comprehensive income for the period ended 1 October 2011** | - | - | 110 | 302 | 412 | - | 412 |
| Transactions with owners: | | | | | | | |
| Dividends paid | - | - | - | (201) | (201) | - | (201) |
| Amortisation of convertible bond equity component | - | - | (2) | 2 | - | - | - |
| Share-based payment (net of tax) | - | - | - | 8 | 8 | - | 8 |
| Shares vested | - | - | - | 1 | 1 | - | 1 |
| Allotted in respect of share option schemes | 2 | 3 | - | (3) | 2 | - | 2 |
| **At 1 October 2011** | 537 | 1,051 | 575 | 3,483 | 5,646 | - | 5,646 |

The notes on pages 23 to 34 form an integral part of these Condensed Consolidated Interim Financial Statements.

**Group statement of changes in equity (continued)** (unaudited)
for the 28 weeks to 29 September 2012

| | Called up share capital £m | Share premium account £m | Capital redemption and other reserves £m | Retained earnings £m | Total £m | Non-controlling interests £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| **At 20 March 2011** | 535 | 1,048 | 467 | 3,374 | 5,424 | - | 5,424 |
| Profit for the period | - | - | - | 598 | 598 | - | 598 |
| Other comprehensive income/(expense): | | | | | | | |
| Actuarial losses on defined benefit pension scheme (net of tax) | - | - | (154) | - | (154) | - | (154) |
| Available-for-sale financial assets fair value movements (net of tax): | | | | | | | |
| Group | - | - | 3 | - | 3 | - | 3 |
| Joint ventures | - | - | 2 | - | 2 | - | 2 |
| Cash flow hedges effective portion of changes in fair value (net of tax): | | | | | | | |
| Joint ventures | - | - | 2 | - | 2 | - | 2 |
| **Total comprehensive (expense)/income for the 52 weeks to 17 March 2012** | - | - | (147) | 598 | 451 | - | 451 |
| Transactions with owners: | | | | | | | |
| Dividends paid | - | - | - | (285) | (285) | - | (285) |
| Amortisation of convertible bond equity component | - | - | (5) | 5 | - | - | - |
| Share-based payment (net of tax) | - | - | - | 26 | 26 | - | 26 |
| Allotted in respect of share option schemes | 3 | 13 | - | (3) | 13 | - | 13 |
| **At 17 March 2012** | 538 | 1,061 | 315 | 3,715 | 5,629 | - | 5,629 |

The notes on pages 23 to 34 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 ('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 36. 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 2012 have been filed with the Registrar of Companies. The Independent Auditors' report on the Annual Report and Financial Statements 2012 was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

The financial period represents the 28 weeks to 29 September 2012 (prior financial period 28 weeks to 1 October 2011; prior financial year 52 weeks to 17 March 2012). The financial information comprises the results of the Company and its subsidiaries (the 'Group') and the Group's interests in joint ventures.

The Group's principal activities are grocery and related retailing.

## 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 Services 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 2012, 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 52 weeks ended 17 March 2012.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

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 new standards, interpretations and amendments to published standards that are effective for the Group for the financial year beginning 18 March 2012 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.

- Amendments to IFRS 7 'Financial Instruments: Transfers of Financial Assets' (1)
- Amendments to IFRS 1 'First time adoption' on hyperinflation and fixed dates

(1) This standard and interpretation has been endorsed by the EU.

## 3 Non-GAAP performance measures

Certain items recognised in reported profit 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. The Directors believe that the '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;
- 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 'Employee Benefits'; 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 before tax to arrive at underlying profit before tax are:

| | **28 weeks to 29 September 2012 £m** | 28 weeks to 1 October 2011 £m | 52 weeks to 17 March 2012 £m |
|---|---|---|---|
| **Underlying profit before tax** | **373** | 354 | 712 |
| Profit on disposal of properties [1] | **48** | 39 | 83 |
| Investment property fair value movements | **(1)** | 3 | - |
| Financing fair value movements [2] | **(11)** | (10) | (16) |
| IAS 19 pension financing (charge)/credit | **(1)** | 9 | 17 |
| One-off items [3] | **(3)** | - | 3 |
| **Total adjustments** | **32** | 41 | 87 |
| **Profit before tax** | **405** | 395 | 799 |

(1) Profit on disposal of properties for the 28 weeks to 29 September 2012 comprised £49 million for the Group (1 October 2011: £38 million) and £(1) million for the joint ventures (1 October 2011: £1 million).

(2) Financing fair value movements for the 28 weeks to 29 September 2012 comprised £(10) million for the Group (1 October 2011: £(7) million) and £(1) million for the joint ventures (1 October 2011: £(3) million).

(3) The £(3) million one-off item for the 28 weeks to 29 September 2012 related to restructuring costs. The £3 million one-off item for the 52 weeks to 17 March 2012 related to the release of a provision in respect of the Office of Fair Trading dairy inquiry which was settled in full in October 2011.

## 4 Operating segments

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

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

Management have determined the operating segments based on the information provided to the Operating Board (the Chief Operating Decision Maker) 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 there is an increase in trading in the period leading up to Christmas. The Group has continued to include additional voluntary disclosure analysing the Group's Financial services and Property investment joint ventures into separate reportable segments.

Revenue from operating segments is measured on a basis consistent with the income statement. All 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 reconciliation provided below reconciles underlying operating profit from each of the segments disclosed to profit before tax.

| **28 weeks to 29 September 2012** | **Retailing £m** | **Financial services £m** | **Property investment £m** | **Group £m** |
|---|---|---|---|---|
| **Segment revenue** | **12,160** | **-** | **-** | **12,160** |
| **Underlying operating profit** | **412** | **-** | **-** | **412** |
| Underlying finance income | **10** | **-** | **-** | **10** |
| Underlying finance costs | **(69)** | **-** | **-** | **(69)** |
| Underlying share of post-tax profit from joint ventures | **-** | **12** | **8** | **20** |
| **Underlying profit before tax** | **353** | **12** | **8** | **373** |
| Profit on disposal of properties | **49** | **-** | **(1)** | **48** |
| Investment property fair value movements | **-** | **-** | **(1)** | **(1)** |
| Financing fair value movements | **(10)** | **-** | **(1)** | **(11)** |
| IAS 19 pension financing charge | **(1)** | **-** | **-** | **(1)** |
| One-off items | **(3)** | **-** | **-** | **(3)** |
| **Profit before tax** | **388** | **12** | **5** | **405** |
| Income tax expense | | | | **(85)** |
| **Profit for the financial period** | | | | **320** |
| | | | | |
| Assets | **12,115** | **-** | **-** | **12,115** |
| Investment in joint ventures | **-** | **148** | **413** | **561** |
| **Segment assets** | **12,115** | **148** | **413** | **12,676** |
| **Segment liabilities** | **(7,174)** | **-** | **-** | **(7,174)** |

## 4 Operating segments (continued)

| 28 weeks to 1 October 2011 | Retailing £m | Financial services £m | Property investment £m | Group £m |
|---|---|---|---|---|
| **Segment revenue** | 11,693 | - | - | 11,693 |
| **Underlying operating profit** | 396 | - | - | 396 |
| Underlying finance income | 9 | - | - | 9 |
| Underlying finance costs | (66) | - | - | (66) |
| Underlying share of post-tax profit from joint ventures | - | 7 | 8 | 15 |
| **Underlying profit before tax** | 339 | 7 | 8 | 354 |
| Profit on disposal of properties | 38 | - | 1 | 39 |
| Investment property fair value movements | - | - | 3 | 3 |
| Financing fair value movements | (7) | - | (3) | (10) |
| IAS 19 pension financing credit | 9 | - | - | 9 |
| **Profit before tax** | 379 | 7 | 9 | 395 |
| Income tax expense | | | | (93) |
| **Profit for the financial period** | | | | 302 |
| | | | | |
| Assets | 11,335 | - | - | 11,335 |
| Investment in joint ventures | - | 120 | 408 | 528 |
| **Segment assets** | 11,335 | 120 | 408 | 11,863 |
| **Segment liabilities** | (6,217) | - | - | (6,217) |

| 52 weeks to 17 March 2012 | Retailing £m | Financial services £m | Property investment £m | Group £m |
|---|---|---|---|---|
| **Segment revenue** | 22,294 | - | - | 22,294 |
| **Underlying operating profit** | 789 | - | - | 789 |
| Underlying finance income | 18 | - | - | 18 |
| Underlying finance costs | (127) | - | - | (127) |
| Underlying share of post-tax profit from joint ventures | - | 16 | 16 | 32 |
| **Underlying profit before tax** | 680 | 16 | 16 | 712 |
| Profit on disposal of properties | 82 | - | 1 | 83 |
| Financing fair value movements | (11) | - | (5) | (16) |
| IAS 19 pension financing credit | 17 | - | - | 17 |
| One-off item | 3 | - | - | 3 |
| **Profit before tax** | 771 | 16 | 12 | 799 |
| Income tax expense | | | | (201) |
| **Profit for the financial year** | | | | 598 |
| | | | | |
| Assets | 11,774 | - | - | 11,774 |
| Investment in joint ventures | - | 134 | 432 | 566 |
| **Segment assets** | 11,774 | 134 | 432 | 12,340 |
| **Segment liabilities** | (6,711) | - | - | (6,711) |

## 5 Finance income and finance costs

| | **28 weeks to 29 September 2012 £m** | 28 weeks to 1 October 2011 £m | 52 weeks to 17 March 2012 £m |
|---|---|---|---|
| Interest on bank deposits and other financial assets | **10** | 9 | 18 |
| IAS 19 pension financing credit | **-** | 9 | 17 |
| **Finance income** | **10** | 18 | 35 |
| | | | |
| Borrowing costs: | | | |
| Secured borrowings | **(54)** | (58) | (108) |
| Unsecured borrowings | **(30)** | (24) | (46) |
| Obligations under finance leases | **(4)** | (2) | (5) |
| Provisions – amortisation of discount | **(1)** | (1) | (2) |
| Other | **-** | - | (1) |
| | **(89)** | (85) | (162) |
| | | | |
| Other finance costs: | | | |
| IAS 19 pension financing charge | **(1)** | - | - |
| Interest capitalised – qualifying assets | **20** | 19 | 35 |
| Financing fair value losses [1] | **(10)** | (7) | (11) |
| **Finance costs** | **(80)** | (73) | (138) |

(1) Financing fair value losses relate to fair value adjustments on non-derivative financial assets and liabilities carried at amortised cost and on derivatives relating to financing activities and hedged items in fair value hedges.

## 6 Income tax expense

| | **28 weeks to 29 September 2012 £m** | 28 weeks to 1 October 2011 £m | 52 weeks to 17 March 2012 £m |
|---|---|---|---|
| Current tax expense | **87** | 28 | 77 |
| Deferred tax (credit)/expense | **(2)** | 65 | 124 |
| Total income tax expense in income statement | **85** | 93 | 201 |
| | | | |
| Underlying tax rate | **23.6%** | 26.6% | 26.1% |
| Effective tax rate | **21.0%** | 23.5% | 25.2% |

| | **£m** | £m | £m |
|---|---|---|---|
| Income tax expense on underlying profit | **88** | 94 | 186 |
| Tax on items below: | | | |
| Profit on disposal of properties | **-** | - | 3 |
| Financing fair value movements | **(1)** | - | (3) |
| IAS 19 pension financing element | **-** | - | 4 |
| Revaluation of deferred tax balances | **(2)** | (1) | 11 |
| Total income tax expense in income statement | **85** | 93 | 201 |

The current and deferred tax in relation to the Group's defined benefit pension scheme's actuarial gains and losses and available-for-sale fair value movements have been charged or credited through other comprehensive income.

In the March 2012 Budget statement, it was announced that the main rate of UK corporation tax would reduce from 24 per cent to 23 per cent with effect from 1 April 2013. This was substantively enacted in July 2012 and hence the effect of the change on the deferred tax balances has been included in the figures above.

A further change is proposed to reduce the rate by 1 per cent to 22 per cent by 1 April 2014, but has not yet been substantively enacted and therefore is not included in the figures above.

## 7 Earnings per share

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

For diluted earnings per share, the earnings attributable to the ordinary shareholders are adjusted by the interest on the 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 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, impairment of goodwill, financing fair value movements, IAS 19 pension financing element 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 29 September 2012 Million** | 28 weeks to 1 October 2011 Million | 52 weeks to 17 March 2012 Million |
|---|---|---|---|
| Weighted average number of shares in issue | **1,880.4** | 1,868.6 | 1,870.3 |
| Weighted average number of dilutive share options | **11.2** | 11.7 | 13.6 |
| Weighted average number of dilutive convertible bonds | **46.0** | 45.4 | 45.6 |
| Total number of shares for calculating diluted earnings per share | **1,937.6** | 1,925.7 | 1,929.5 |

| | **£m** | £m | £m |
|---|---|---|---|
| Profit for the financial period | **320** | 302 | 598 |
| Add interest on convertible bonds, net of tax | **6** | 5 | 10 |
| Diluted earnings for calculating diluted earnings per share | **326** | 307 | 608 |

| | **£m** | £m | £m |
|---|---|---|---|
| Profit for the financial period attributable to equity holders of the parent | **320** | 302 | 598 |
| (Less)/add (net of tax): | | | |
| Profit on disposal of properties | **(48)** | (39) | (80) |
| Investment property fair value movements | **1** | (3) | - |
| Financing fair value movements | **10** | 10 | 13 |
| IAS 19 pension financing (charge)/credit | **1** | (9) | (13) |
| One-off items (note 3) | **3** | - | (3) |
| Revaluation of deferred tax balances | **(2)** | (1) | 11 |
| Underlying profit after tax | **285** | 260 | 526 |
| Add interest on convertible bonds, net of tax | **6** | 5 | 10 |
| Diluted underlying profit after tax | **291** | 265 | 536 |

| | **pence per share** | pence per share | pence per share |
|---|---|---|---|
| Basic earnings | **17.0** | 16.2 | 32.0 |
| Diluted earnings | **16.8** | 15.9 | 31.5 |
| Underlying basic earnings | **15.2** | 13.9 | 28.1 |
| Underlying diluted earnings | **15.0** | 13.8 | 27.8 |

## 8 Dividend

| | **28 weeks to 29 September 2012** | 28 weeks to 1 October 2011 | 52 weeks to 17 March 2012 |
|---|---|---|---|
| Amounts recognised as distributions to equity holders in the period: | | | |
| Dividend per share (pence) | **11.6** | 10.8 | 15.3 |
| Total dividend charge (£m) | **218** | 201 | 285 |

Post the period end, an interim dividend of 4.8 pence per share (1 October 2011: 4.5 pence per share) has been approved by the Board of Directors for the financial year ending 16 March 2013, resulting in a total interim dividend of £90 million (1 October 2011: £84 million). The interim dividend was approved by the Board on 13 November 2012 and as such has not been included as a liability at 29 September 2012.

## 9 Notes to the cash flow statement

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

| | **28 weeks to 29 September 2012 £m** | 28 weeks to 1 October 2011 £m | 52 weeks to 17 March 2012 £m |
|---|---|---|---|
| Profit before tax | **405** | 395 | 799 |
| Net finance costs | **70** | 55 | 103 |
| Share of post-tax profit of joint ventures | **(17)** | (16) | (28) |
| Operating profit | **458** | 434 | 874 |
| Adjustments for: | | | |
| Depreciation expense | **258** | 253 | 486 |
| Amortisation expense | **8** | 7 | 13 |
| Profit on disposal of properties | **(49)** | (38) | (82) |
| Foreign exchange differences | **4** | 2 | (6) |
| Share-based payment expense | **16** | 8 | 27 |
| Retirement benefit obligations (1) | **(11)** | (9) | (74) |
| Operating cash flows before changes in working capital | **684** | 657 | 1,238 |
| Changes in working capital: | | | |
| Increase in inventories | **(78)** | (164) | (126) |
| Increase in trade and other receivables | **(134)** | (116) | - |
| Increase in trade and other payables | **164** | 178 | 182 |
| Increase/(decrease) in provisions and other liabilities | **1** | (2) | (3) |
| Cash generated from operations | **637** | 553 | 1,291 |

(1) The adjustment for retirement benefit obligations reflects the difference between the IAS 19 service charge of £34 million (1 October 2011: £32 million, 17 March 2012: £60 million) for the defined benefit scheme and the cash contributions of £45 million made by the Group to the defined benefit scheme (1 October 2011: £41 million, 17 March 2012: £134 million).

### (b) Cash and cash equivalents

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

| | **29 September 2012 £m** | 1 October 2011 £m | 17 March 2012 £m |
|---|---|---|---|
| Cash and cash equivalents | **551** | 364 | 739 |
| Bank overdrafts | **(2)** | (27) | - |
| | **549** | 337 | 739 |

## 10 Analysis of net debt

| | **29 September 2012 £m** | 1 October 2011 £m | 17 March 2012 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Interest bearing available-for-sale financial assets | **31** | 34 | 31 |
| Derivative financial instruments | **40** | 43 | 37 |
| | **71** | 77 | 68 |
| **Current assets** | | | |
| Cash and cash equivalents | **551** | 364 | 739 |
| Derivative financial instruments | **78** | 78 | 69 |
| | **629** | 442 | 808 |
| **Current liabilities** | | | |
| Bank overdrafts | **(2)** | (27) | - |
| Borrowings | **(109)** | (128) | (131) |
| Finance leases | **(21)** | (10) | (19) |
| Derivative financial instruments | **(91)** | (87) | (88) |
| | **(223)** | (252) | (238) |
| **Non-current liabilities** | | | |
| Borrowings | **(2,503)** | (2,285) | (2,493) |
| Finance leases | **(141)** | (93) | (124) |
| Derivative financial instruments | **(12)** | (4) | (1) |
| | **(2,656)** | (2,382) | (2,618) |
| **Total net debt** | **(2,179)** | (2,115) | (1,980) |

### Reconciliation of net cash flow to movement in net debt

| | **28 weeks to 29 September 2012 £m** | 28 weeks to 1 October 2011 £m | 52 weeks to 17 March 2012 £m |
|---|---|---|---|
| **Net debt at beginning of the period** | **(1,980)** | (1,814) | (1,814) |
| Net (decrease)/increase in cash and cash equivalents | **(190)** | (163) | 239 |
| Decrease in interest bearing financial assets | **-** | (40) | (40) |
| Net decrease/(increase) in borrowings (1) | **8** | (43) | (262) |
| Net decrease in derivatives (1) | **27** | - | - |
| Net increase in obligations under finance leases (2) | **(15)** | (46) | (84) |
| Fair value movements | **(24)** | (9) | (17) |
| Other non-cash movements | **(5)** | - | (2) |
| **Net debt at the end of the period** | **(2,179)** | (2,115) | (1,980) |

(1) Excluding fair value movements.
(2) Excluding additions of property, plant and equipment under finance leases.

The Group maintains a £690 million syndicated revolving credit facility due October 2015 for liquidity standby purposes. Interest on drawings under this facility is charged at a margin over LIBOR. There are £nil drawings under the facility as at 29 September 2012 (17 March 2012: £nil drawings; 1 October 2011: £nil drawings).

In June 2012, a £50 million maturing loan at floating interest rate was renewed to June 2015. The £50 million floating rate loan has been swapped into a fixed rate loan using an interest rate swap. The £50 million loan and associated swap have been designated as a cash flow hedge.

In June 2012, the Group also entered into a new £23 million six year amortising bank loan due 2018 and entered into an additional £25 million seven year sale and hire purchase facility with respect to moveable in-store assets due 2019.

In July 2012, the Group entered into an additional inflation linked swap to convert £50 million of the £843 million loan due 2031 from RPI linked interest to fixed rate interest for the period April 2013 to April 2017. This transaction has been accounted for as a cash flow hedge.

## 11 Retirement benefits

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

The Scheme was subject to a triennial actuarial valuation carried out by Towers Watson, the scheme's independent actuaries, at March 2012 on the projected unit basis. The results of this valuation are expected to be finalised in June 2013. The retirement benefit obligations at 1 October 2011, 17 March 2012 and 29 September 2012 were calculated, where appropriate, on a basis consistent with this valuation.

During the period, KPMG have replaced Towers Watson as actuarial advisors to the Group.

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 all 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:

| | **29 September 2012 £m** | 1 October 2011 £m | 17 March 2012 £m |
|---|---|---|---|
| Present value of funded obligations | **(6,106)** | (4,793) | (5,654) |
| Fair value of plan assets | **5,343** | 4,689 | 5,192 |
| | **(763)** | (104) | (462) |
| Present value of unfunded obligations | **(10)** | (9) | (9) |
| Retirement benefit obligations | **(773)** | (113) | (471) |
| Deferred income tax asset / (liability) | **76** | (75) | 16 |
| Net retirement benefit obligations | **(697)** | (188) | (455) |

| | **29 September 2012 %** | 1 October 2011 % | 17 March 2012 % |
|---|---|---|---|
| Discount rate | **4.4** | 5.5 | 5.0 |
| Inflation rate | **2.8** | 3.1 | 3.3 |
| Real discount rate | **1.6** | 2.4 | 1.7 |

The net retirement benefit obligations and the associated deferred income tax asset or liability are shown within different line items on the balance sheet. The deferred tax asset or liability includes the impact of the Sainsbury's Property Scottish Limited Partnership.

## 11 Retirement benefits (continued)

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

| | **28 weeks to 29 September 2012 £m** | 28 weeks to 1 October 2011 £m | 52 weeks to 17 March 2012 £m |
|---|---|---|---|
| Included in underlying profit before tax: | | | |
| IAS 19 pension service costs | **(34)** | (32) | (60) |
| Excluded from underlying profit before tax: | | | |
| Interest cost on pension scheme liabilities | **(150)** | (145) | (268) |
| Expected return on plan assets | **149** | 154 | 285 |
| IAS 19 pension financing (charge)/credit | **(1)** | 9 | 17 |
| Total IAS 19 income statement expense | **(35)** | (23) | (43) |

## 12 Capital expenditure and commitments

In the financial period, there were additions to property, plant and equipment of £636 million (1 October 2011: £661 million) and additions to intangible assets of £7 million (1 October 2011: £4 million).

In the financial period, there were disposals of property, plant and equipment with a net book value of £75 million (1 October 2011: £108 million) and no significant disposals of intangible assets.

At 29 September 2012, capital commitments contracted, but not provided for by the Group, amounted to £338 million (1 October 2011: £281 million).

## 13 Related party transactions

The Group's significant related parties are its joint ventures as disclosed in its Annual Report and Financial Statements 2012.

*Transactions with joint ventures*

For the 28 weeks to 29 September 2012, the Group entered into various transactions with joint ventures as set out below.

| | **28 weeks to 29 September 2012 £m** | 28 weeks to 1 October 2011 £m | 52 weeks to 17 March 2012 £m |
|---|---|---|---|
| Management services provided | **9** | 7 | 7 |
| Interest income received in respect of interest bearing loans | **1** | - | 1 |
| Dividend income received | **24** | - | - |
| Sale of assets | **-** | - | 12 |
| Rental expenses paid | **(38)** | (39) | (75) |
| Acquisition of companies | **(21)** | - | - |
| Loan to joint venture | **4** | 1 | - |

## 13 Related party transactions (continued)

*Balances arising from transactions with joint ventures*

| | **29 September 2012 £m** | 1 October 2011 £m | 17 March 2012 £m |
|---|---|---|---|
| **Receivables** | | | |
| Other receivables | **21** | 2 | 13 |
| Loans due from joint ventures: | | | |
| Floating rate subordinated undated loan capital | **25** | 25 | 25 |
| Floating rate subordinated dated loan capital | **30** | 30 | 30 |
| Other | **20** | 9 | 16 |
| **Payables** | | | |
| Loans due to joint ventures | **(48)** | (48) | (48) |

**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 factors as the 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 acts of terrorism
- Business strategy
- Colleague engagement, retention and capability
- Environment and sustainability
- Financial strategy and treasury risk
- Fraud
- Health and safety
- IT systems and infrastructure
- Pension risk
- Product quality
- Regulatory environment
- Trading environment

For greater detail of these risks, which are unchanged from the Group's Annual Report and Financial Statements 2012, please refer to page 50 and 51 of the Group's Annual Report and Financial Statements 2012, 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 2012. On 11 July 2012, Bob Stack stood down from the Board of J Sainsbury plc as a Non Executive Director.

By order of the Board

Justin King
Chief Executive
13 November 2012

John Rogers
Chief Financial Officer
13 November 2012

## Independent review report to J Sainsbury plc

### Introduction

We have been engaged by the company to review the Condensed Consolidated Interim Financial Statements included in the Interim Results for the 28 weeks ended 29 September 2012, which comprise the Group income statement, Group statement of comprehensive income, Group balance sheet, Group cash flow statement, Group statement of changes in equity and related notes. We have read the other information contained in the Interim Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the Condensed Consolidated Interim Financial Statements.

### Directors' responsibilities

The Interim Results are the responsibility of, and have been approved by, the directors. The directors are responsible for preparing the Interim Results in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services 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 Consolidated Interim Financial Statements included in the Interim Results have been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting", as adopted by the European Union.

### Our responsibility

Our responsibility is to express to the company a conclusion on the Condensed Consolidated Interim Financial Statements included in the Interim Results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### 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 Consolidated Interim Financial Statements included in the Interim Results for the 28 weeks ended 29 September 2012 are 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 Services Authority.

PricewaterhouseCoopers LLP
Chartered Accountants
London
13 November 2012

Notes:
The maintenance and integrity of the J Sainsbury plc website is the responsibility of the Directors; the work carried out by PricewaterhouseCoopers LLP does not involve consideration of these matters and, accordingly, PricewaterhouseCoopers LLP accept no responsibility for any changes that may have occurred to the condensed consolidated interim financial statements since they were initially presented on the website.
Legislation in the United Kingdom governing the preparation and dissemination of condensed consolidated interim financial statements may differ from legislation in other jurisdictions.