J Sainsbury plc Preliminary Results 2012

Wednesday 9th May 2012

David Tyler, Chairman

Welcome to Sainsbury's. Welcome to our announcement of our preliminary results for the year to 17 March 2012.

In summary I must say we're pleased with our performance over the last year. We've improved our offer and our services to customers, as you can see from the growth in our share of the market. We've improved our profits and our operating margin, underlying EPS is up by 6% to 28.1 pence and the Board is proposing a full-year dividend of 16.1 pence, that's up 6.6% on last year.

Now our dividend has more than doubled in seven years. And we've rebuilt cover from little more than one to 1.75 times this year and last. And this is the limit of our dividend cover guidance. So given the continued profitable opportunities that exist for Sainsbury's we've taken the decision now to widen our dividend cover to two times over the medium term.

In the last year we've improved the future prospects of the business by continuing our major investment programme, off-line and online, in our products, in our services and in our infrastructure. And we have at the same time set out a comprehensive sustainability programme, 20 by 20, that underlines our environmental and social commitments through to the year 2020.

We believe that shareholders are benefiting from these investments and by our emphasis on the right values. And these are striking the right chord, we believe, with our customers and with our colleagues. Indeed I'd like to thank all 150,000 of our colleagues for what they've achieved in what's been a challenging year. And I'm pleased to say they'll be sharing in a bonus pot of about £60 million this year.

I believe also that shareholders are benefiting in particular from the strength in depth of our management team. And I'd like just to note a few changes that we've made recently to our operating board: Roger Burnley has taken over as Managing Director of our non-food businesses, a key role for the future; with Helen Buck taking over from Roger as our Retail Director. And we now have a new Marketing Director, that's Sarah Warby – and welcome to Sarah.

So overall we're pleased with our position in the market and despite the difficult economic conditions here in the UK we feel confident that Sainsbury's are making further good progress during the coming year.

So with that I'm going to pass over to John Rogers, our CFO, to talk about the finances.

John Rogers, Chief Financial Officer

Morning everyone. So straight into the financial highlights. Sales of 24.5 billion, up 6.8% year-on-year, delivering an operating profit of 789 million, up 6.9% taking account of the net finance costs and the share of profits from our joint ventures delivers a profit before tax of

712 million, up 7.1%. Tax rate of 26.1%. Basic earnings per share of 28.1 pence up 6%. And a full-year dividend, as David has already covered, 16.1 pence, up 6.6%.

So moving now on to items outside of underlying. Delivering profits of 87 million – and I'll come on to break that out in a bit more detail in a slide later on – which delivers a profit before tax of 799 million.

So what has helped us deliver that good performance? Well, of course it's underpinned by very strong sales growth. Total sales growth in the market of 4.5%, of course which is made up of 2.4% contribution from our new space and 2.1% like-for-like; and of course within that like-for-like there's a 1.1% contribution from our extensions programme.

Justin is going to come on and talk a little bit later on about the market and where the consumer's at. It's fair to say though it's going to be I think another challenging year ahead, as we've had over the last 12 months, and therefore the guidance for your like-for-likes for '12/'13 is a similar number in '12/'13 to last year – so call it 2%. And a contribution from net new store space, excluding extensions and replacement, again of around 2%. So 4% overall growth.

This is a new slide that we wanted to show you this year to help you understand the impact on our trading intensity year-on-year. And what this chart shows is that we've seen a small reduction in trading intensity from '10/'11 to '11/'12 but very much explained, as we've said in the past, by the impact of our new space. So, for example, new stores coming on line, they're on that build up curve, they also tend to be in parts of the country that don't ultimately deliver the same trading intensity as perhaps you might see in the south and southeast but obviously a lower capital cost so good returns but you see that having a dilutive impact on our trading intensity in the first year. And then the same is true on new extensions, which of course in the main 80% of that space is non-food, which of course trades at half the intensity of food and therefore has an overall dilutive effect on trading intensity. The good news is that despite what is a tough environment we've still seen the core estate moving forwards; okay, moving forwards slightly, but nonetheless moving forwards so an encouraging overall performance.

So moving now from sales to profit. Good profit growth, underlying profit growth in the year. At the EBITDAR level at £1.74 billion, up 5.5%, delivering an EBITDAR margin of 7.8, which at the underlying level is down 1bp; but when you take account of the fuel price inflation coming through that's 12bps improvement. And at the operating profit level £789 million, up 6.9% again at the underlying level 4bps of improvement, but stripping out the higher prices on fuel that's a 10bp improvement. So a very encouraging performance, bang in line with the guidance that we gave at the interims at 10bps, albeit at the lower, medium-term 10 to 20bps range.

Coming on now to the cost savings in the year. Obviously the profit has been helped by the cost savings that we've managed to deliver. We saw cost inflation come through in last year's number at around 2.5%, so bang in the middle of our 2-3% medium-term guidance. And we were able to offset all of that cost inflation through savings. And indeed if you look at our track record over the last five years in delivering savings, again consistent savings year-on-year in the business.

Guidance for '12/'13 we expect cost inflation to be at the upper end of our range, so around the 3% it might even nudge a smidge over. So tough cost inflation coming through in this next year's numbers, but again we expect to offset that through 100 million of efficiency savings. So broadly 75% of that inflation being offset by savings.

And I think it is just worth stepping back and reflecting on what we have delivered in savings over the last five years. These are relatively easy things to talk about, but of course a huge amount of hard work goes into delivering these savings. And again making the point that year-on-year we've consistently delivered savings across our business but we've not, importantly, compromised on our customer offer. So at the same time as we've delivered these savings we've seen our customer metrics improve over time. And these savings have come from a number of different areas across the business whether it's logistics optimising our routing for drivers, whether it's procurement in the way that we buy, in this example here, our supermarket trolleys, whether it's in our store costs and our processes in store, or indeed our energy. So, for example, a good example on savings is electricity where over the last five years we have reduced our absolute consumption of electricity by 9%. At the same time we've increased our space in our portfolio by 25%. I think that's a great example of driving cost savings through the business.

We showed you this slide for the first time at the interims to give you an indication as to the underlying operating margin accretion that we're seeing in the business. At the underlying level that's 17bps improvement. Of course that gets diluted by the impact of the sale and leasebacks, by the impact of new space coming in, which of course we've said is dilutive, and an element of investment in our future growth – which brings it down to the 10bps level that we report, if you like, on a normalised basis. We've already commented on the impact of fuel price inflation, taking that a further 6bps to the underlying level 4bps improvement. But again I think reflective of a strong performance in the year.

Coming on now to our JVs. Really pleasing performance in our JVs, particularly the Bank; I think the Bank has done a fantastic job this year delivering an increase in our share of the profits of 45% to 16 million. And again we saw also a good improvement in our property joint ventures as well. So the Bank performance is really driven by a combination of growing the top line, good commission income, good position on loans; but also a very good position in relation to our bad debt, which has allowed us to deliver that incremental profit year-on-year. And again the property joint ventures continue to do what they say on the tin, continue to deliver the five extensions that we've done in the last year. So guidance for '12/'13 we expect a further step-up in profit for the Bank, and a similar level of profit in relation to the property joint ventures.

Coming on now to finance costs. Finance costs increased year-on-year from £97 million to £109 million but again bang in line with the guidance that we gave. This step-up really reflecting the higher interest that we're paying on our RPI linked debt. Good cover coming through 7.5 times on net interest and 3.1 fixed charge cover so maintaining that strong balance sheet position going through. In relation to guidance, the next year's finance cost we expect a little bit of a tick-up in the finance cost of £5 million to £10 million. There is in part a saving as a result of lower interest, lower RPI on our inflation linked debt, but as a consequence of the increase in average net debt during the year we expect to see overall net-net a tick-up of £5 to £10 million in those finance costs.

And as I mentioned at the beginning, just to explain the items that we exclude from underlying, we've always excluded these items from underlying, they're very consistent with previous reporting: so the profits on disposal of properties of £83 million – a little bit of a smidge down on last year's actually; and in relation to the total cash returns we had £303 million of cash returns this year compared to £275 million the previous year. And this is one of the reasons actually why we tend to strip this number out from underlying because of this volatility that you see coming through. But nonetheless a demonstration of great performance in delivering value through our property portfolio. Financing fair value movements taking the number down to 16 million as a result of the lower interest rate environment that we're operating in at the moment. Pensions accounting, this is the

financing element of the pensions accounting, increasing in line with the increasing assets that we've seen this year in the pensions scheme, to deliver an overall number £87 million outside of underlying.

And again, we've shown this chart before showing our returns over time, our returns' progression over time. I think it is worth again stepping back here looking through the history. Obviously we've seen a good margin accretion in these early years here, starting to flatten out a little bit here. And if you remember, this is very much a conscious decision. In '09/'10 we took the decision to really step on in terms of our space growth; so we raised money in the market, we stepped on delivering 1.1 million sq ft, then 1.5 million and then 1.4 million this year. And we've always said that new space of course is initially dilutive, and it's only after three to four years it starts to make that contribution towards margin accretion. So it's not surprising therefore that we've seen a little bit of flattening off there in relation to returns but I'll come on to talk later on about how I expect those returns to flow through as the property pipeline matures.

Which moves us nicely on to space, delivering what we said we would do 1.4 million sq ft of space in the year; 19 new stores; 28 extensions; 73 convenience stores, so again bang in line with the guidance of one to two stores per week; 7.3% growth at the gross level, 6.5% at the net level once you've taken account of the replacement stores. But as we've said, again in terms of guidance for '12/'13, we signalled in the last 18 months two years that we always intended to come off having pumped primed or stepped up the space growth in '09/'10 and beyond; we always recognised that we would come back to a more normal level of space growth going forward. And indeed we're confirming that today in announcing 5% space growth, or 1 million sq ft consistently going forward, and again confirming our position on convenience stores, which is one to two convenience stores per week.

Now this is the second new slide that we wanted to show you today, really explaining what I've often described in the past – much to occasional ridicule – the pig in the python. But what we're showing here is actually our immature space. And this is basically space that in convenience terms has been opened for less than one year, or in supermarket terms has been open for less than three years, and extensions less than three years that's what we define as immature space. And you'll see that that immature space over the last four years, including this year, has grown significantly. Again, not surprising given the step-up in our space growth. However, given the consequence of what we're announcing today, which is returning to a more normalised level of space growth going forward, so 5%, obviously as the pig goes through the python we see that immature space come down over time. And indeed there is a returning or an inflection point in '14/'15. Now, of course the consequences of this are that we would expect to see that accretive space come through and therefore start to see our returns increasing over time.

In relation to guidance for '12/'13 we recognise that it continues to be a tough economic backdrop, we also recognise that we continue to have a significant amount of immature space in our pipeline. And therefore as a consequence we're guiding operating profit to grow in line with sales for the financial year ahead – so effectively flat margin.

Coming on now to capex. Capex for the full year in line with the guidance that we gave £1.2 billion at the core level, offset by the sale and leaseback disposals, to give a net number of £962 million. The guidance for next year of course reflecting the fact that we're returning to more normalised space growth of 1 billion, so a reduction of 20% on this year's number in next year's figures.

We're not only changing the quantum of capex we're also changing the shape of that capex. You can see from this chart here significant step-up in relation to the investment in our core

business, so in IT for example, where we're investing to make sure we've got the opportunity to grow out online business going forwards and also in our refurbishments. I think it's fair to say that in the last couple of years we've concentrated and focused on our ability to extend our stores. Not all our stores lend themselves to extensions of course there are quite a few stores that we can drive further growth on by refurbishing. And there is a bit of a shift, if you like, between refurbishments and extensions this year.

Cash flow, good performance on cash flow up 13% year-on-year and a small improvement in working capital, which we're very pleased with. You'll see the various deductions for interest, tax, dividends and so forth, giving an overall movement in net debt of £166 million, and a final net debt number for the year- end of £1.98 billion – just a little bit below the £2 billon that we guided to.

Continued strong balance sheet. Property value up to 11.2 billion that's really a function of a 1 billon increase in the assets that we put in the ground, the development value of those assets. There has been no yield shift this year at all, so that is real value coming through, 1 billion additional value; of course offset by the 300 million of sale and leasebacks, to give a net increase of £0.7 billion. Pension deficit has moved up, increased year-on-year, as a result of a reduction in discount rates. I've already covered net debt we have facilities in the business of £3.4 billion, so we're well funded going forwards. And of course I've commented already on the cash flows.

In terms of guidance for next year for the net debt position, expect it to be around £2.2 billion. It's a little bit of a step-up on last year's number obviously helped, in part, by the reduction in capex going forwards. The reason why that's going up slightly, if you remember, this year we had a cash tax number that was quite low as a consequence of an overpayment the previous year we expect that cash tax number to return to normal levels. And we're also assuming in these numbers around £200-225 million of sale and leasebacks so a slight step back on this year's number, explaining why the net debt increases to £2.2.

Good balance sheet measures though; a very steady, robust balance sheet. You'd expect over time, if we continue with the normalised level of space growth and the normalised level of capex, that those will improve slightly over time. So, we've got a very robust balance sheet strengthening over time.

And of course David has covered in part the dividend policy already. But you can see here over the last five, six years an increasing absolute dividend, obviously with a cover that's been expanding at the same time; and for the last couple of years we've landed at the upper end of our cover range of 1.75 times. And therefore the intention going forwards is to continue as we have done over history to grow the dividend, but to allow the cover to expand to two times over the medium term.

So just to summarise, great performance, I think trading and operation, seven years of like-for-like growth outperforming the market, clearing it's a tough environment out there at the moment, but we're very proud of the performance that we've delivered this year. Margin accretion coming through, property profits of £83 million. Going forwards a real continued focus on return on capital employed, we're very conscious of the investments that we've made over the last three years, we'll be driving the capital returns from those investments in the future. Return to space growth of around 5% and we'll continue obviously to focus on driving the operating cash flows and improving the working capital position, all on the back, of course, of a very strong balance sheet, very stable, underpinned by the property value that's increased to £11.2 billion.

So that concludes the financial overview, I'll hand over now to Justin to cover the business overview.

Justin King, Chief Executive

Thank you John. Morning everyone. Still with it? Good, thank you. Well I'm going to cover three things. I do want to add weight to what David and John have already said about the strength of our performance in the last year. I'm going to spend a bit of time talking about the consumer, where we see the consumer and why we believe in delivering Live Well For Less, we are capturing the public mood. And then I'm going to spend a little bit of time talking through our long term vision for growth, most of them slides that you're very familiar with, something we've been presenting for five years now, but update you on progress and why we believe it continues to be the right growth strategy for our business.

So the market backdrop, slides you've seen before, and I would suggest there are no points I'm going to make that are news to you. The position of consumers has been in a very tight spot for a couple of years. They feel very downbeat about the pressure on the household budget in the here and now, but no more upbeat about the prospects for it getting any better. I've already been asked this morning a couple of times about whether the fact we're back in recession makes a difference; only inasmuch as it's another brick in the wall, if you like, of the bad news that consumers are hearing. It doesn't actually change the reality of household budgets, they've been dealing with the reality of the pressure they're under for three years now.

And therefore I believe what we've been dealing with for the last three years is what we can reasonably expect to be dealing with for at least another year or so. And in fact if you look at the sort of centre of gravity of projections of income against inflation, broadly that's saying that the loss of net income that consumers have suffered over the last three years is not going to be recovered any time soon, and broadly wage settlements reflecting inflation but no more than that, so that gap between those two lines in the last three years, that reduction in disposable income cost solid now for a number of years to come.

And this led to a really quite significant change in consumer behaviour, something we commented on, I think, first back in our quarter three to four trading statements back in the transition from 2010/11. An almost overnight change in shopping behaviour to shopping a little bit more frequently, doing a smaller weekly shop. And although one can argue about the scale, and the drama therefore of the graph, you can see over the last 12 months this remarkable widening of the jaws between a higher level of frequency of shop but a lower number of items per shop. In an average grocery shopping basket of 20 or so items a 5% reduction is a one item reduction. And I would suggest if that took place over a five year period we would consider it a dramatic trend. For it to have taken place virtually overnight, I think, tells you quite how significant that change was and how consumers had to react to the pressure they were under. In particular we commented before, the tipping point was a step up in fuel prices, and we do see that connection whenever fuel prices start to tick up, immediately consumers looking to find that saving in their weekly budget.

But of course if you have a multi-channel business, and we do with convenience and online, you can reflect that trend. And it's why indeed, one of the reasons at least, that both of those businesses are growing strongly.

And the final comment on this slide reinforces a point that I made at the interims. We have seen a once in a generation reduction in volumes in the grocery market through 2011, that's the first time since the oil price shock in the 1970s, and I think it's reasonable to assume that

this has legs to run yet. So underlying volume decline, perhaps not as dramatic as it was last year, but further underlying volume decline in 2012 is certainly our planning assumption.

This slide I think tells a really interesting story. It charts the whole of the grocery market over the last three years and its growth. And it's worth making the point, albeit that of course this is a cash not a volume chart, that the market has remained in growth throughout the last three years. But I think what you can see quite clearly, the bulk of the growth, certainly above the median, has come with special occasions, be it Easter, the Royal Wedding or Christmas. And I think if you look at the three Christmases it tells a very interesting story: three periods of strong growth, growth on growth on growth, immediately followed by a dramatic ratcheting back of customer spending behaviour. And I think if we think in terms of what the consumer's doing, they're managing their weekly budget through a smaller weekly shop and more frequent top up. They're managing their monthly budget, we can clearly see that in the month end and pay day effect. But they're actually managing a year round budget as well, making sure they manage the budget week in week out so they can enjoy those special occasions. So it's not that they are battening down the hatches the whole time, they want to be able to enjoy the better things in life and they're making sure they prepare their household budget for it, and to the extent that they haven't done it, they immediately take it out of their spending following the special event.

And in that regard, of course, I think we're very positive about the prospects for those positive occasions in the 12 months ahead. We think that the market, as I said, will be in underlying volume decline, the levels of growth in total will remain quite restrained, but those special occasions, Christmas and Easter of course but with the Jubilee, the Olympics and the Paralympics, are at least reasons to be cheerful in the year ahead.

And in that regard we have set ourselves up to succeed, in particular with the Jubilee, which is now racing towards us, and then slightly further out but nonetheless already capturing the public mood, the Paralympics, which follow on from the Olympics, we set out a very specific, unique and differentiated position for Sainsbury's. We know already, from the level of engagement we've had into the various promotional activities we've run around the Jubilee that this is something customers are excited about. And another example would be, you probably aren't aware, but there are 4,000 beacons going to be lit on the night of the Jubilee, they're sponsored by Sainsbury's, and every one of those beacon organisers has support from us, in terms of vouchers and discounts, to come in and do all of their purchasing for their event in Sainsbury's. So we've aligned ourselves, we think, with the public mood. I don't know what your view of the Paralympics is, but what we're seeing from our customers is in many ways it's capturing the true Corinthian spirit, the Olympics are a fantastic event, of course, the hot tickets are the opening and closing ceremony and Usain Bolt. But the Paralympics have already sold more tickets than any Paralympics has ever sold, truly capturing the public mood. And again we recently ran a ballot for free Paralympic tickets; over a million customers entered that ballot for Paralympic tickets. So it's really capturing the public mood.

And on the subject of capturing the public mood, we believe the core of our success is with the access to data that we have through Nectar, through our loyalty data, we're able to see these changes in customer trends early, to see them clearly, and to respond to them. And never was that clearer in our launch of our new advertising copyline Live Well For Less, which we did last autumn. I just want to remind you of the advertising, that's still running actually, that launched that campaign ((advert plays)).

Now our customers tell us that absolutely captured the mood they're in; the idea that the good things in life should not cost a lot of money and that just because times are tough that you don't have to cut back on what's important to you. And we, through all of our marketing

and all of our promotional delivery in-store, have been trying, if you like, to stand that up, to reinforce it, to deliver in a unique Sainsbury's way the idea that you can indeed Live Well For Less.

And a big part of that is the values of our business. A phrase coined a few years ago now by the IGD, the customer looking for value for their values. And I think in many ways was one of the most missed trends of this consumer downturn, that it was not a race for the bottom, it was consumers saying times are tougher but I want to hold on to what's true. In the last year we've launched our 20 by 20 commitments; they are precisely what it says on the tin, 20 commitments to change our business, make it more sustainable, by 2020 all of which, we believe, will be key to competitive advantage. These are not commitments in isolation of what's important to customers. And all of our research says that customers get that, rate us very highly for it, and of course we're getting recognition, whether it be FTSE4Good, Business in the Community or Investors in People, the three logos represented there, external recognition for truly differentiating our business on these dimensions.

But of course Living Well For Less needs to have the For Less a bit as well, and with the launch of Brand Match we've found a route to start to close the gap between the reality of our pricing, you know that our pricing is sharper than our customers give us credit for, and the perception of our pricing. I say start to close the gap, you know it's only six months since launch, these kind of things take a long time to make a difference. But we think the move from a little bit less than 70% agreeing, our customers agreeing that our prices are competitive, to 80% in six months is dramatic, it's certainly the most dramatic move we've seen in our price perception data.

But perhaps more importantly it's the reality of what happens with Brand Match; over half of the time, if ever you wanted clear proof that our prices are truly competitive, over half of the time the voucher printed reassures the customer that their shopping today was cheaper than it would have been at Asda and Tesco. And although initially, in the early days of Brand Match, when consumers got the cash coupon, that was when they kind of felt they won. What we know now is that over time it's the reassurance of a cheaper coupon that really has an effect on their perception of our pricing. But the importance of the cash coupon, the one I'm showing on the right, is that it remains, notwithstanding the announcements of others in recent weeks, the most comprehensive, simplest price promise in the marketplace: 14,000 lines checked every single day and promotional prices included. And of course instantly delivered at the till. So it's unique and remains so, and is providing incredible reassurance.

Of course at the core of all of that is our ability to look at data. We've re-signed a long term agreement with Nectar. But I thought it was important to understand the practical level of activity. There's been commentary in recent weeks about there being a step-up in allegedly unprofitable activity. Well we don't accept that view of the world. We're very clear that our vouchering activity is profitable, indeed it lies at the core of our ability to convert our sales growth into strong profit growth.

Important to remember that loyalty cards in themselves, the deal with the customer, you tell us what your shopping is by giving us your loyalty card and we pay you for that data. £200 million worth of Nectar points redeemed in the last 12 months, with a very heavy focus on Christmas. Remember that chart I showed you earlier about people spending more at Christmas. If you did a plot of loyalty points you'd see an incredible peak, viewed as a savings bank for that big Christmas shop.

But here's a figure we haven't given you before: 375 million coupons at till issued last year, over a million a day. And importantly, embraced and supported by our supplier base, predominantly branded although our own label suppliers supported as well, because it helps

us drive our own label performance, 125 suppliers have participated in the last year, we think a key part of our successful performance.

Moving on to our strategy. Now this is a slide we changed the pictures to hopefully continue to hold your attention, most notable Gok there with his model, because Gok's been launched in the last year, but actually the words that sit in front of the pictures haven't changed. This has been our strategy for growth, it's what lies behind the results that we've delivered today, and it remains our strategy for growth going forward.

It starts, of course, with food. And this is a slide we've shown you before, hopefully you're reassured to see that this trajectory has continued. But importantly the investments that we made throughout '09, '10 and '11, to continue to drive quality at a time that we knew it was still on the customer agenda, when many of our competitors were either standing still or rowing in the opposite direction, it's stood us in really good stead. And we continue to widen the gap there on quality food. We're not complacent about that, we recognise that a number of our competitors have started to move onto this turf. Our view of that, by the way, is that that's great news. If the competitive conversation in this marketplace moves to food and food quality and service and what's delivered in-store, that's a competitive marketplace that we're very, very happy to present our brand in.

Core, of course, to food difference, because it's very difficult to deliver it with brands, is your own label. Strong growth we've commented on many times, Taste the Difference and Basics, invariably both in the same basket, reflecting the fact it isn't just a weekly challenge from one day to the next, it is a moment in time challenge; if I want to buy those special things for dinner on Friday night I'll save a bit of money by buying Basics. It's why, we told you this before, the promise that we make on Sainsbury's own brand we make on all levels, if we promise that it's a UK sourced meat we make that promise for Basics, Taste the Difference and by Sainsbury's. Again we're the only supermarket that makes the promise across the range.

Basics and Taste the Difference have benefitted from relaunches in the last two years, by Sainsbury's about half way through now, will be largely done for Christmas, and encouragingly starting to show real signs of growth, around 3%, as we relaunch the product. Now some might ask why it takes so long. Well it takes long because 70% of our relaunches are new or improved products. This is not an exercise in repackaging. You can do that much more quickly. Really improving the product takes time.

And our stores remain unique and differentiated in their delivery of fresh food through counters. We told you a year or so ago we were going to invest heavily in training; 18,000 colleagues now through our five Food colleges and the Bakery college. And we've also rolled our pace. We're very proud of the pace that we move when we make a decision to invest in our business. New counters in 330 of our stores. You've been to see them, most of you, in some of our major investments, but it's in 330 of our stores, well over three quarters sterling weighted of our store estate invested in counters. The good news is it matters to customers, they've noticed, our counter business now the fastest growing from a market leading position, I should say, amongst grocery retailers.

And non-food continues to be part of our growth story. I've already been asked this morning whether non-food is holding us back, but as you know, non-food is growing faster than our food business, it's actually pulling us forward. Of course the market context in non-food is much tougher. But we're conscious there's been a conversation about whether perhaps non-food has had its day, whether perhaps big stores have had its day. We don't agree with either of those observations. We do agree that hypermarkets led by non-food have never been, in our view, the preferred consumer format. That's why we've never done them. Even

our biggest stores, 80,000 square feet, food is still the dominant partner. When you go into those stores it's food you've come in to shop. And we believe we've never made the mistake of putting non-food first, one that others are having to address.

But I think it's also important to note, and actually when you see it graphically I have to say it was even a bit of a surprise to me. The vast majority, 75% of our non-food space, is in stores that are smaller than 60,000 square feet. The centre of gravity for our business is in that 35 to 60 range. So we're very proud of our five stores that are 80 to 100,000 square feet, they continue to be some of our best performing stores, we don't see the size problem that has been commented on by others, but the core of our non-food business, indeed the core of our estate, is those mid range stores.

Now I touched on this already but our growth businesses are just that growth businesses. But importantly because they're now scale businesses as well that growth is material to the performance of the overall company. Convenience now 1.3 billion, sales and online over 800 million so around 10% of our turnover coming from those two businesses, both growing at around 20% and in both cases we believe that is the strongest growth being achieved by any grocer in those businesses.

And we see that growth business continuing; one to two convenience stores a week, 73 in the last year as you've heard from John and we see that as being the pace that we can achieve ongoing so we went through our 400th store in Wolverhampton late last summer, we'll go through our 500th store around Christmas time this coming year.

And important to note that our online business has been a big part of the productivity that we've been able to deliver. We remain focused on an online pick model in store, over 50 of our stores picking more than a 1,000 orders a week, a very productive business model at that level of pick.

And whilst new businesses remain largely about what lies on the horizon I think we should make note of the speed with which we rolled out our Click & Collect operation. 900 stores still among the grocers, the biggest offer, we got that to all of those stores in advance of Christmas, perhaps most surprisingly a good number of our convenience stores, it's not huge business in those convenience stores, but it's hugely convenient to those customers. We know from the response that we get the idea that you can order something online and pick it up even at the small Sainsbury's just around the corner from your house is widely convenient; 75% of our non-food online orders in the week before Christmas were Click & Collect, and on an ongoing basis it's about 50%. And you saw from John a shift in our capital focus in the coming year a good step-up in our investment in our IT capability to support the development, not just, but a big part of it, of our online business.

And we should make special note of Sainsbury's Bank, quietly slowly but surely the team at the Bank have done a fantastic job; 16 million contributed towards the profit performance of the Group. It's a joint venture of course but a 40% increase year-on-year. Now a five year track record of growing profit line; very pleased with that. And I think of particular note we took a big step on in the last 12 months down the road that we think is going to be the most productive road for the Bank going forward, and that's bringing together our supermarket and bank business using the power of Nectar in a background way offering customers the opportunity of collecting Nectar points with banking products but also in a very direct way by using the extra knowledge and understanding that we have of customers to be able to offer them better prices on home and car insurance because we know and understand them better, so a real pricing benefit coming from that data insight.

Now there has been much discussion about space, I'm sure we'll come back to it in the Q&A but I've had a go at providing a little bit of illumination on the charts that we've previously shown. You remember before we've talked about the fact that if you think about this in simple terms we have 20% market share below a ling drawn diagonally from The Wash to the Bristol Channel at roughly 10% above. It is actually slightly more granular than that, you can see it's above 20% in the truly south and east and actually does broadly grade throughout the country. And I hope you can see when you visually overlap the new store map there is a clear overlap, we are opening new space where our market share is very low. In fact in Scotland, as you can see, we've increased our total Scottish base more than 10% in the last 12 months. We have still managed even in the ring that is London to increase our space over 2% inside, if you like, the M25, but I think a clear demonstration that our space opening programme reflects the historical shape of our estate.

Of course as you would expect a different story in extensions. Broadly across the whole country we actually, as you know, are trying to ensure that our biggest stores are available to as much of the population as possible. Around 22% of the UK population not yet within 15 minutes' drive time of our biggest non-food offer, so clearly our extension strategy is much more spread because it's about building access to our non-food offer, and you see that reflected there in the right hand chart. So I hope that's helpful.

So in summary, I hope you agree good sales and profit performance, a good profit conversion from a sales performance a notch ahead of the underlying performance of the market. We think the economic conditions in which that performance has been delivered will remain, notwithstanding however, that we think there are reasons to be cheerful in the year ahead and we've aligned ourselves very clearly with those in the Jubilee and the Paralympics at least.

We're delighted with how Live Well for Less as landed with customers; they tell us that it reassures them that we understand the challenges that they face. And the way we've been delivering Live Well for Less through our own label offer, through the price reassurance of Brand Match and through continuing to invest throughout our whole core estate in giving them the fresh food that they really want has given us real differentiated, in some instances, unmatchable competitive advantage. And all of that's been done in the context of a long term vision for growth, one we've been delivering for a number of years and see as remaining the core of our growth plans going forward.

So with that we'll move to questions. I presume we'll be doing mobile mics so if you could put your hand up, wait until the mic gets to you, and as of course this is recorded and transmitted, if you could say who you are before you ask your question that would be helpful. Let's start in the middle please.

Questions and Answer session

Question 1

James Collins – Deutsche Bank

Two questions please. First one is what's changed over the last year such that you've decided that now the right number for new space growth is a million square feet. I think previously you were guiding towards roundabout 1.25m sq ft so what's behind that decision? You always said you were going to normalise but it's clearly a bigger normalisation than you've previously talked about.

And then the second question, last year this time you put up a chart where you showed that you had become significantly less promotional than the rest of the industry. I think if you now looked to that chart according to Kantar you are very much back in the pack in terms of promotions, and in fact driving your business on promoted sales far more than anybody else in the industry. Again could you give us a feeling of what's behind that?

Answer: Justin King, Chief Executive

I think in terms of space normalisation one of the things I've already said in answer to a couple of questions from the media this morning is at 5% it would still be the fourth biggest space growth we've had in a year in history, it just so happens that the three biggest of the last three years and they obviously reflected the very significant step on that we achieved as a result of the fundraising that we did in 2009 and going into the property market then we saw a bigger opportunity. And you might recall originally we said 15% in two years and we kept it going for another year because that process was so successful. But you're right I think if you'd asked us six...nine months ago we would have been talking about a normal level being closer to 6% than 5%. I think that we continue to be hard on ourselves about which investments truly return and we've taken a very clear decision, I think the reason that John showed the pie chart that he did you can see that broadly 50% of our capex is still being spent against new space, be it supermarkets or convenience, but we've mixed it up in the other part of the capex; a big step-up in IT to support our growth plans which are longer term, particularly on, although not exclusively, online; and then secondly, a finesse between our extensions into refurbishments.

The danger that we saw was that whilst extensions for us are typically our best stores they're not always our best stores. And we didn't want to be guilty of leaving behind some of our very best stores which don't have planning permission for extensions, are unlikely to get them, in some instances we've worked quite hard to get them and failed, and therefore what you'll see is many more investments in the coming year which we'll call refurbishments. They tend to have little or no space, although we don't treat them as an extension if they add less than 10% of space because it's usually just shuffling the mix inside the box. So that's probably the biggest part of the change in the last six months is that shift back into investment in the core of the business.

Answer: John Rogers, Chief Financial Officer

Just to build on what Justin said, what's reassuring is we'll still seeing returns on the investments that we're making delivering above our expectations. So particularly on convenience, as we've said before, highly accretive, continue to perform very strongly. Extensions in particularly actually the last year of extensions performed more strongly than the previous year of extensions, which is very encouraging in what is clearly quite a tough economic backdrop as far as non-food is concerned. And again the new stores, the new stores that we're putting down as Justin's highlighted in those areas where we don't currently have a strong presence they continue to perform well. So the pipeline is there, five years' worth, we've got extension consents going forward, 70 odd consents, so that's at least five years' worth of extensions. A very strong pipeline in new stores with visibility store by store year by year stretching out for five years. Less so for convenience obviously it's about sort of 12 months' visibility on that. But we're very much encouraged by the pipeline that's in place and the returns that we're seeing come through from the investments that we've made today.

Answer: Justin King

On the promotional things I guess we're going to disagree with some of the observations that have been made in recent weeks and months about the dynamics in the market. We went for about two years under promoting the market. Our observation would be through '10 and a good part of '11 the market was over promoting and the marginal promotions were definitely unprofitable. And we were able to leverage our higher own label mix and the power of what we were able to do with data to not play our part in what we thought was marginal and unprofitable and unnecessary. We're back in the pack because we think that broadly the pack is now promoting at a level that is both sustainable and profitable supported very largely by branded manufacturers. The shift that you've seen however is money now being spent perhaps away from the extremes of promotions, and of course Tesco specifically announced this, into other types of activity. And that's why we shared with you the headline data - I'll try and head off the question but I might get asked it - we're not going to give you much more insight into what the size of those vouchers are, how many are being redeemed and so on because we think that's absolutely competitively sensitive. But you can see from the scale of what we're able to do with vouchering activity that you've definitely seen a shift of those with data being able to deliver customer's value in a different way. And it's a way that's very hard for those that don't have that data to compete with because you can't see it happening, you can't see where those vouchers have landed, you can't see whether they've been redeemed. So I think the shift that we would point to is we are back running in the pack with promotions because we think that broadly speaking that's driven by branded suppliers, it's sustainable and affordable for as long as branded suppliers keep paying for it, but the game is shifting towards competitive differentiation on other types of activity and that's what that data shows.

<u>Question 2</u>

Andrew Kasoulis – Credit Suisse

Could you just help us with your margin guidance maths please? Same economic backdrop, like-for-like two-ish, new space two-ish, cost savings the same as last year and then everything that's moving seems to be getting better. If you've got less immature new space you've got presumably much less fuel impact in 2012 than in last year why are we now…and reasons to be cheerful too I guess, why are you now guiding flat margin versus your +10 to +20 basis points of medium term guidance? I mean that's come down 10 to 20 basis points as far as I can see.

Answer: Justin King

John should comment too but let me just say a couple of things. If it wasn't clear from what John said I think we still think 10 to 20 basis points is good medium term guidance and that's the whole point of John's pig in the python that you can see the opportunity there. But I think at flat margin, which I what we're guiding to, given what we already know about your expectations for the profitability of the industry and our competitors, our margin delta if we achieve a flat margin in the next 12 months will be greater than it's ever been. I don't think you can plan margin out with a competitive context. One of our competitors have said they're going to resolve that conundrum by widening their gross margin, we don't believe that there is any scope for widening gross margin in the current consumer backdrop. So I think when we look at the competitive context how much we expect to be invested in price and promotions and other activity as a result of your expectations for the profitability of some of our competitors, we think flat margin guidance is prudent with that as a competitive backdrop. But the medium term guidance we remain comfortable that 10 to 20 accretion and we just delivered in the last 12 months 10 with petrol stripped out is the right medium term guidance.

Answer: John Rogers

In addition to what Justin's just said of course as well as I guided we expect the cost inflation this year to be at the upper end of our 2-3% so the 3% rather than the two and half per cent that we saw in this last financial year. So again that explains our position in relation to flat guidance for the full year. And we're seeing a lot of cost inflation of course come through particularly on utilities so electricity prices, gas prices, diesel prices are rising materially. Rates as well significantly up year-on-year compared to this last financial year, all of which contributes to that 3% overall cost inflation.

<u>Question 3</u>

Gillian Robb – Morgan Stanley

You've given us some colour on Brand Match and how it's improving price perception but I was wondering if you could comment on how that compares to your original expectations for the initiative and how you're seeing that come through in product category mix? Are you seeing increases in ambient versus fresh, for example? And if there's any regional differences in perception that we should be aware of?

Answer: Justin King

Regional – no other than the fact that we're a little bit ahead in Northern Ireland because we're a little bit ahead in Northern Ireland because that's where we tested it. So no I don't think there's anything regional we'd comment on.

At the moment I think we would say that we can't see direct product impact it doesn't seem to impact at the level of "Oh I now know I can buy that product and I didn't use to buy it". The impact is the competence in completing the shop. So there is a slight bias towards ambient as you expect because that's the bit of the shop that we typically under-index in, but it's no more than that. And I don't think we'd comment beyond that really because again I think it's something that's very difficult for our competitors to truly get their head around how and why it works. I think for us the biggest number, and that's the one that we quote, is the fact that over half the vouchers that we print are vouchers reassuring customers that their shopping with us was cheaper. And of course we set the bar very high because we price check not just against Tesco but also Asda and it's an either/or check, so that's a pretty high bar to win over 50% against.

In terms of our expectations I think they were very much set by the trial and why we moved very quickly from a trial to rollout and you saw it in the shape of the chart. There's a very quick response and then a slow but sure but positive accretion over time, so this is a long haul. I'm not sure, you heard it here first, but I'm not sure we'll show you this slide in a year's time because I expect the change will be relatively small but progressive because this thing could take two, three, four more years to change perception as much as it has in the last six months. But any move in a positive direction is good for us because it comes back to this central point which is our growth broadly speaking comes from customers that already shop with us a bit, and we want to get them to shop with us more.

Answer: John Rogers

I think one regional dynamic that is worth talking about is that we talked about expanding into places where we don't have a strong brand presence like Scotland and typically we find in those regions those are areas where we have a price perception, price reality gap so Scotland is a good example. And actually what Brand Match has been very effective at is

reassuring those customers to come to shop at Sainsbury's and to feel comfortable that they're not going to be paying any more than they would do if they went to one of our competitors. And that dynamic has been particularly helpful to us in those areas of country where we've historically not had a brand presence.

Question 4

Philip Dorgan – Panmure

Just a couple of quick questions. First of all when do you think you're going to establish blue sky between your return on capital and your cost of capital because at the moment depending on how you work it out it's pretty close or lower?

And secondly of the £800 million online sales you have could you split it food/non-food, is it something like £750m/£50m? Or could you give the numbers anyway? Thank you.

Answer: Justin King

Well you've answered your own second question that's near enough that I can't add any illumination. In terms of return on capital employed it depends on your definition of clearblue sky as our return on capital employed is ahead of our cost of capital. The progress we've made in the last five to six years has been very significant virtually doubling that return. The challenge, as you well know, is you start with the capital that you've got and you have to invest the incremental capital very progressively to drag and whole thing up. There's clearly numbers that flow from the guidance that John's given which is broadly flat for a year or so and then starting to accrete driven primarily by of course profit accretion once those two lines get back into balance in terms of mature and immature space. John?

John Rogers

Yes, I think you've covered it.

Justin King

I'll let you answer that one next time then.

John Rogers

That's all right.

Question 5

David McCarthy – Investec

Can you give us a split of the opening programme for this year between extensions and new space? And then I've got a supplementary.

Answer: Justin King

Well, it's on the chart that John presented.

Answer: John Rogers

Just to give you a little bit more detail, about five to ten extensions, 150 to 200,000 square feet and about 15 new stores, 600,000 square feet, give or take.

Further questions

Okay, and you've given us medium term guidance for your margin growth, can you give us medium term guidance for your sales growth, because you've said 2% this year coming down from 2.4% to 2%, but of course you've got the weighted benefit, time weighted benefit of last year's opening programme, so your weighted space additions basically going from seven and a half, it's going to come down to five next year, so what should we be putting in for the medium term sales growth from new space? One, one and a half?

Answer: Justin King

Well, for new space, I mean we're not providing formal guidance beyond the year ahead, but what we have said is the million square feet with the property pipeline that we've got that we would expect to go at about 5% space growth for three to five years, and we can certainly see the timeline to that. I don't think beyond the next year we'd want to commit to the mix between extensions, new stores and refurbishments, we'll take that decision as we go. It's mostly a trade off of the individual extensions that we've got consented ready to go, the competitive context in that town, versus the opportunities that we have to invest in core estates. So it'll be something between last year which was very heavily weighted towards the sort of 25% of capex that was spent on extensions was almost all extensions and very little refurbishments. It's more evenly split, the bias in favour of refurbishments in the coming year, it'll be somewhere between those two points, but that's a decision we take year to year.

Answer: John Rogers

I think, Dave, just to help you a little bit there what's quite useful is to look at the conversion factor so if you like the sales growth to the space growth, and actually what we deliver going historically is around a 60% conversion factor. Actually when you strip out the extensions of course which we said in the past are predominantly non-food and therefore trade at the intensity of about half that of food the conversion factor of sales to space growth is around 80%, and actually we feel that when we do that comparison with the rest of the sector that's market beating performance.

<u>Question 6</u>

James Tracey – Redburn Partners

Two questions from me, one is on given the new guidance on flat margins and higher cost inflation do you still expect to see £750 million PBT, that's consensus currently in Bloomberg for this year?

And the second question is on the cost savings, could you give a little bit more detail as to where they're coming from? Is it mostly from a continuation of the energy savings, is it labour productivity or is it some other type of cost savings? Thank you.

Answer: John Rogers

In terms of consensus for this coming year we see that as being £738m, and obviously the results we've announced today slightly beat to this year's consensus, we would expect to see some of the outliers or the underliers, if you like, come up a little bit. So it wouldn't surprise me if we saw consensus tick up by five million or so to £743m. And again that's consistent with the flat guidance that we've given.

In terms of the cost saving mix, in some ways it's very much more of the same, it's from across the board, it's procurement savings, it's in store process savings, it's energy savings. I mean when you look at that slide what's very evident from that slide is actually it's lots of little things contributing to the saving and it's the same pattern going forwards, it's really looking very closely at the business and identifying where those small opportunities exist and of course all those small opportunities add up to quite a big number.

Question 7

Clive Black – Shore Capital

Two or three questions if I may. Firstly, Justin you've been in the job about ten years, not too long, what's your medium term interests in Sainsbury's first of all? Secondly, in terms of the sector do you sense that there'll be any new shifts in market share in the next year, or do you think it'll be more of the same in terms of Tesco underperforming and yourselves outperforming? And how do you think non brand match would look in Sainsbury's stores in terms of the coupons that customers get? Or private label brand match?

Answer: Justin King

Well, you're wishing my life away, Clive, I'm eight, although this is my ninth of these pleasant experiences…

Clive Black

Yes, approaching ten I said.

Justin King

Approaching ten. Would you like me to stay or…?

Clive Black

You've kind of got more cuddly as the years have gone by, but so have I so two positives may not work.

Justin King

Well, obviously you've got no football to watch next season so I'm going to have to keep you interested for at least another 12 months. No, I mean I thoroughly enjoy my job, I mean I understand why after eight years people would ask that question, but I genuinely think I'm doing the most interesting retail job there is in the UK. I think the growth potential we have here is unique and we've put in a lot of hard yards, the leadership team here, there's a good number of them sitting in the front, and you put in those hard yards to enjoy the opportunity of some of the things that we're now enjoying. There's nothing sexier in retail than being able to take a new store to a new part of the country, see customers that have never had the opportunity to shop with you, be excited to do that. There's nothing more exciting than seeing a business that we've spent eight, nine years growing passing a billion pounds as our online business will in the next 12 to 18 months. So I think this is where the action is and I intend to be here for a good while yet.

I'm not sure what we can say about market share, I mean I think that the obvious observation is that the penalty for underperformance in this marketplace is very significant in P&L terms and therefore the need to invest heavily to put that right is always what defines underperformance in this market; how quickly do people bite the bullet of making the investments they need to to address that underperformance.

And clearly what's going to characterise the next 12 months more than anything is whether Tesco have bitten the bullet significantly enough to address their underperformance, only time will tell. Our job, whilst focusing our own business is therefore to make it as difficult for them as possible, but I wouldn't be saying anything different from any other competitor chief exec, which is if we keep focusing on doing the right thing for our customers that makes their job harder than it would otherwise be. Our growth comes from within, I think there's always this idea I think embedded in many questions that somehow we start by working out where we're going to win it from, we don't, we start by working out what we've got and how we

grow it. And this is my ninth of these and I think I said in the first of these we don't need to win a single customer who isn't currently shopping with us, we just need to get the ones that already are shopping with us more frequently, spending more money when they come. We've managed to add to that, take the brand to customers that don't currently have the opportunity but that core dynamic remains what will drive market share for us in the 12, 24, 36 months ahead.

In terms of non brand match, I mean I guess the point of the question is where's your own label price position, the best way I can answer that question is that we do not have a value perception issue on own label which reflects the value perception issue that we have on brands. Customers are very clear, Coca-Cola is Coca-Cola and they expect to pay the same price for it, but customers are also very clear that they understand that there is a cost inherent in quality, and provided you get that balance right, you get the kind of endorsement that you get there, which is different. So we are investing in places that our customers value and the secret in own label is to spend money productively on giving customers things that they will value more highly than your cost in giving it to them, or that other competitors can't make that investment.

I mean Fair Trade is probably the best example, I mean you can argue that we pay £4 million a year roughly more than we would pay in market prices if we just went to the market and bought non Fair Trade bananas, and we have a five year competitive advantage in Fair Trade bananas and counting. Why? Because others look at that cost and can't make sense of that cost in terms of what their customers demand. Because we have a situation where a third of customers, because they already were, are prepared to pay more for Fair Trade, and actually if we charged a premium which we don't, would, about a third of them said if you don't charge us for it we really like Fair Trade but we just can't afford it and broadly I guess a third were indifferent. For our competitors it's a very different shape, they probably only had 5% or 10% willingly paying more, they may have 10% or 20% that are interested if they do it for free, but they've got 50% or 60% that don't care. So they can't justify that investment, so we have invested significantly buying the things we think our customers value most highly, and therefore yes, our own label is more expensive but our value perception meets or beats that of our competitors because it reflects what our customers expect of us.

Question 8

Keith Richardson – Lloyds Bank

Just a quick one on the internet, you're highlighting obviously good growth in sales, 50 stores delivering over 1,000 orders a week, where do you see the orders per store topping out before availability will affect either the online shopper or the shopper coming to store?

Answer: Justin King

Well, I don't think there's an absolute number, we have a store that's north of 4,000, I don't think we've put that figure in the public domain, but it gives you a sense of the scale, and I think that we would, well actually it doesn't matter what we think, our customers have clearly told us that in that shop they get a better in-store shopping experience because of the investment we've made in online, because the store is now nearly twice the size that it once was, the aisles are two or three feet wider than they once were and the range has increased by about 50% and freshness has improved because stock turns have improved.

And how do I know that customers love it? Because our sales in-store have grown and it's one of our top ten growing stores in-store, forget the online bit, in the last two or three years. So it's possible to meet both masters. That's not to say that there aren't stores where that's challenging and there are definitely stores within our estate where we'd rather not be doing online picking because we think there is a clash between the in-store experience and the

picking experience. And that's why we focus very heavily on moving when we do the picking, when our online pickers start, I'm not sure anybody in this room would be volunteering to work the hours most of our online pickers do, they start very early in some of our stores, and in some of our stores we would do well over half of the picking kind of before a customer even gets to the shop. So there are things we can do and clearly there are limits to that because our online customers order fresh food and that's often not delivered until three or four o'clock in the morning and therefore you have to wait until it's arrived.

So it's not again completely without jeopardy but it's one I think we feel we're managing well at the moment. We see a number of years of growth potential in the in-store pick model, we have a less pressing need than others to do the so-called dark stores because our weight of space is in the part of the country where online has its greatest demand, the southeast, but dark store technology is moving on and I guess one could see the time in a small number of years where dark stores for everybody against some of the store pick models, the smaller turnover in-stores that are already high sales density would be a better model. It's not imminent for us but we could see that time coming.

Question 9

Nick Coulter – Nomura

Three from me please. Firstly on extensions it looks like the rate of extensions is coming down by broadly half, that obviously has a direct impact on your like-for-likes but you've guided your like to like figure of around two, so I guess the question is what's going to make up the gap in the like-for-like?

Secondly on refurbs, can I press you for some detail in terms of store numbers, capex, and how that shapes up versus what would be a normal refurb programme for Sainsbury? And then lastly on Click & Collect is that actually using the Sainsbury's supply chain or is that a three p supply chain, how will that evolve and is non-food online currently profitable at the moment? Thank you.

Answer: Justin King

Well I'll have a go and John I'm sure will tip in. I thought you were about to sort of half answer your own question when you moved onto refurbs after extensions, I mean the answer to your first question, yes it is about half the amount of space from extensions this year versus last year. The reason we've given you the same like-for-like guidance is the cash has been, or going to be invested in terms of refurbishments. Whilst they don't deliver quite what an extension does they do still deliver strongly for us, so that's why we've kept the guidance in terms of like-for-like. We might have to run a bit harder in the core business but there's no harm in that I think.

Answer: John Rogers

Just to add to that also because of the timing of when you bring extensions online, because we still benefit from the extensions that we've done in the second half of this year, for example, we'd expect to see the contribution from extensions, it will come off a little bit but it won't come off in proportion to the fact that we're doing half. So whereas this year we've had a contribution for extensions of about 1.1 what we'd expect to see in this next financial year is something like 0.9, so it's going to come up a little bit but not to the extent that you talk about.

Answer: Justin King

And then to add a little bit of colour to the refurbishment point, I mean I think the numbers are there, you can kind of work them out as much as we'd be prepared to give you them on

page 17, it's an accurate pie chart. I don't think we are going to give line of sight to numbers and names and addresses, because I think broadly speaking we like to, particularly whilst it's fairly difficult to hide an extension from our competitors because we have to do planning permission it's quite easy to hide a refurbishment until you turn up to do it. So I don't think we're going to tell you any advance numbers and where they are. We'll happily tell you in a year's time what we did.

And I should draw the distinction between a refurbishment and maintenance capex which I think is kind of implicit in your question. We've stuck true to maintenance capex of roughly £200 million throughout this period, we have not stepped off our core idea that broadly speaking a store should have a major investment every ten years and a wash and brush up every five and we've stuck with that as our underlying and that's what the maintenance capex is paying for. A refurbishment is a bit more than that, it is bringing together all in one all of the changes that we would normally do as part of an extension, new customer service desk, re footprinting of the store, generally up-spacing fresh, down-spacing ambient, redoing all the counters, those kind of things, so it's more than maintenance capex, it's a kind of extension without the space is probably the best way I can describe it. So that's why we break it out differently for maintenance capex, we've never stepped off, we don't think we've allowed our estate to get old, but we recognise that there's a good number of really good stores where we've failed if that's the right word to get an extension on a landlocked site where it's not realistic and we mustn't not do those just to pursue the next extension opportunity. And you'll see if you ask me the question in a year's time that the list of stores is quite a sexy list of stores, they're big, beautiful stores, just ones that we've not been able to extend.

In terms of Click & Collect, yes it comes through our supply chain to our stores, but of course a good bit of the range isn't available in any of our stores and by the time you get to a convenience store isn't available in that store at all, so it is discrete and special, it doesn't naturally flow there as part of the existing supply chain, but it uses our vehicles and so on. And yes, it's profitable but not where it needs to be.

<u>Question 10</u>

Niamh McSherry - Berenberg

You mentioned that you'd be happy to see the conversation move to quality or the competitive discussion, assuming that relative price positions stay the same and competitors did improve the quality of their product don't you think that you might lose some customers to competitors, maybe customers who don't necessarily care about Fair Trade bananas?

Answer: Justin King

I mean that's the challenge of competition. Clearly, I mean I alluded to the fact that there is a difference between representing a brand and investing to truly make it better, so talking about quality is one thing, delivering quality is another and some of our competitors will have some very material challenges within their supply chain and the supply base to deliver the quality that we deliver. But we're not complacent about that, I mean if all of our competitors stepped up their quality we would have to too, but just as you cannot price brands ignoring the competitive dynamic you can't change the quality and pricing of own label ignoring the competitive dynamic. If our competitors chose to sell their own label at the same price as it is today but of our level of quality that's going to cause them a significant margin issue. They will then have to ask of themselves whether the volume response that they'll get justifies that investment in quality.

And that comes back to my earlier answer to Clive about bananas, investing in quality works when it's the story that your customers want to hear. So part of the problem, just as we have

a price perception gap, many of our competitors have the opposite problem, which is investing in quality doesn't pay them back in a volume response, so they have to change their pricing but their core consumer doesn't want the pricing to change and that's the conundrum that they face. So it's nice to know our competitors have challenges as well as us. But if the overall conversation every time one of our competitors advertises quality I see that as a good news story, if we're talking to customers as an industry more about quality, suggesting to customers that they look at the label, behind the label we're very happy at what they'll see when they look behind the label because our beauty is more than skin deep.

Concluding comments: Justin King

John said we're out of time, we're also out of questions so that's great. Thank you very much everybody. We'll see you again in the autumn. There's a long summer break and the sun is ahead.