8 May 2013

J Sainsbury plc

Preliminary results for the 52 weeks to 16 March 2013

- Good sales and profit growth, with significant market outperformance
- Underlying profit before tax up 6.2 per cent to £756 million
- Agreement reached to take full ownership of Sainsbury's Bank

Financial summary

- Total sales (inc VAT) up 4.6 per cent to £25,632 million (2011/12: £24,511 million)
- Total sales (inc VAT, ex fuel) up 4.3 per cent, like-for-like sales (inc VAT, ex fuel) up 1.8 per cent
- Underlying profit before tax up 6.2 per cent to £756 million (2011/12: £712 million)(1)
- Underlying basic earnings per share up 9.3 per cent to 30.7 pence (2011/12: 28.1 pence)(2)
- Return on capital employed of 11.2 per cent (2011/12: 11.1 per cent)(3)
- Proposed full year dividend of 16.7 pence, up 3.7 per cent, cover 1.83 times (2011/12: 16.1 pence, cover 1.75 times)

Statutory

- Revenue (ex VAT, inc fuel) up 4.5 per cent to £23,303 million (2011/12: £22,294 million)
- Profit before tax down 1.4 per cent to £788 million (2011/12: £799 million)(4)
- Profits excluded from underlying results down from £87 million to £32 million, reflecting fewer property disposals
- Basic earnings per share up 1.9 per cent to 32.6 pence (2011/12: 32.0 pence)

Operating highlights

- Outperformed the market, increasing market share to 16.8 per cent, the highest for a decade(5), driven by 33 consecutive quarters of like-for-like sales growth
- Delivered over £100 million of operational cost savings
- Improved underlying operating margin by 2 bps to 3.56 per cent (2 bps at constant fuel prices)
- Price perception continues to improve, driven by competitive pricing, targeted promotions and offers via Nectar and Brand Match
- Awarded:
    - Supermarket of the Year, for the fifth time in seven years - Retail Industry Awards
    - Convenience Chain of the Year, for the third year in a row - Retail Industry Awards
    - Online Retailer of the Year - The Grocer
    - Employer of the Year - Retail Week
    - World Sector Leader, for the sixth consecutive year - Dow Jones Sustainability Index

Strategy highlights

- *Great food:* We continue to invest in our supply chain and sourcing credentials, including initiatives such as our Farmer Development Groups and Fairtrade. Own-brand sales are outperforming the market and growing faster than brands, and the re-launch of our core range, *by* Sainsbury's, is now complete. Over 20,000 colleagues have benefited from City & Guilds accredited training in our seven food colleges.
- *Compelling general merchandise & clothing:* Our non-food offer goes from strength to strength, growing at over twice the rate of our food business and gaining market share. In February, we reached the milestone of £1 billion annual sales from general merchandise, reflecting the investment we have made in the quality of our offer, in-store experience and non-food space.
- *Complementary channels & services:* Our established multi-channel strategy continues to enable customers to shop where, when and how they want. Annual grocery online sales are almost £1 billion and convenience store sales are now over £1.5 billion. Today we have announced that an agreement has been reached to take full ownership of Sainsbury's Bank by acquiring Lloyds Banking Group's 50 per cent shareholding for £248 million, which comprises a cash consideration for the shares of £193 million(6) and the purchase of £55 million of loan stock. The Bank continues to make strong progress, with our share of joint venture post-tax profit up 38 per cent from £16 million to £22 million.
- *Developing new business:* Pharmacy continues to be an area of growth with over 270 now in stores, complemented by 37 NHS GP or nurse-led surgeries in-store; we also operate outpatient pharmacies in three major hospitals. We announced I^{2}C, a joint venture company with Aimia, owners of Nectar, and acquired a majority stake in Anobii e-book platform, now operating as eBooks *by* Sainsbury's.
- *Growing space & creating property value:* During the year we opened one million sq ft of gross new space, adding 14 supermarkets, eight extensions and 87 convenience stores. Property profits were £66 million and our portfolio is now valued at £11.5 billion. Over the past five years, we have disposed of £1.3 billion of property, monetising property profits of £341 million, while the value of our portfolio has increased by £4 billion.

David Tyler, Chairman, said: "Sainsbury's has again delivered a good sales and profit performance, continuing to gain market share. Our intention to take full ownership of Sainsbury's Bank is one that will benefit both customers and shareholders and allow its full potential to be realised.

We have grown underlying earnings per share by 9.3 per cent, to 30.7 pence. As a result the Board is recommending a full year dividend of 16.7 pence, an increase of 3.7 per cent, covered 1.83 times by underlying earnings. The Board is committed to increasing the dividend year-on-year and continues to plan to build cover to two times over the medium term."

Justin King, Chief Executive said: "Our focus on helping our customers *Live Well For Less* is delivering good growth in sales and profit. Our key points of difference, such as the best quality own-brand, Nectar, Brand Match, coupon-at-till and industry leading service, are recognised by our customers.

We continue to invest in offering customers choices of how they shop with us, bringing our food, clothing and general merchandise to more customers.

Our decision to take full ownership of Sainsbury's Bank will add further momentum to our strategy of developing complementary channels for the benefit of both customers and shareholders.

Whilst we see no near term change in the current economic situation, we remain confident that by continuing to invest in our long-standing strategy and by understanding and helping our customers, we are well positioned for future growth."

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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 year, 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. Driven by lower year-on-year property profits and an increase in other one-off items.
5. Sainsbury's market share grew to 16.8 per cent from 16.6 per cent (source: Kantar, 52 weeks ended 17 March 2013).
6. £193 million comprises the tangible net asset value of Sainsbury's Bank at £181 million (based on best estimate on 31 January 2014), plus a £12 million premium. The transaction will be funded from internal resources. Further details can be found at www.j-sainsbury.co.uk.
7. Certain statements made in this announcement are forward-looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual events or results to differ materially from any expected future events or results referred to in these forward-looking statements. They appear in a number of places throughout this announcement and include statements regarding our intentions, beliefs or current expectations and those of our officers, directors and employees concerning, amongst other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the business we operate. Unless otherwise required by applicable law, regulation or accounting standard, we do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.
8. Sainsbury's will report its 2013/14 First Quarter Trading Statement at 07:00 (GMT) on 12 June 2013.

A results presentation for analysts and investors will be held at 09:00 on 8 May 2013.

To view the slides of the results presentation and the webcast: We recommend that you register for this event in advance. To do so, visit www.j-sainsbury.co.uk and follow the on-screen instructions. To participate in the live event, please go to the website from 08:30 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) 844 800 3850, pass code 554001. 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.

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Chief Executive's Letter

Dear Shareholder,

We have delivered good sales and profit growth, with significant market outperformance. We are succeeding because we work hard to understand what our customers want, and we offer them quality and value every day through our promise to help people *Live Well For Less*. We will continue to invest in creating the best quality own-brand products, delivering first-rate service and bringing our food, clothing and general merchandise to more customers.

A year like no other

This truly has been a year like no other. The Queen's Diamond Jubilee festivities were not dampened by the great British weather, and the endeavours of our Olympians and Paralympians uplifted and inspired us as a nation. We were enormously proud to play our part in both events – as a partner for the Queen's Diamond Jubilee Beacons and Thames River Pageant, and by becoming the first-ever Paralympic-only sponsor of the London 2012 Paralympic Games.

For Sainsbury's too, it has been a year like no other as we helped more customers than ever before to *Live Well For Less.* With 33 consecutive quarters of like-for-like sales growth our market share is at its highest level for a decade and we are outperforming our major competitors. Our clear and proven long-term strategy continues to drive good sales and profit growth.

Our vision is to be the most trusted retailer, where people love to work and shop. Our success rests on the 157,000 colleagues working in our stores, depots and support centres. It is due to their hard work and dedication that we were once again named Supermarket of the Year at the Retail Industry Awards - the fifth time in seven years - as well as Convenience Chain of the Year for the third year running.

With 23 million customer transactions a week, an increase of over 800,000 on last year, we believe our promise to help people *Live Well For Less* is more relevant than ever. Our customers trust us to make their lives simpler and easier and to help them save time and money. They are confident about the quality, provenance and integrity of the products they buy from us across all price brackets.

We have continued to address price perception. Brand Match, now in its second year, is reassuring customers that they won't pay more for brands at Sainsbury's than at either Asda or Tesco. We are also able to offer meaningful and targeted promotions through Nectar - the UK's largest loyalty scheme - and our coupon-at-till technology. Nearly 12 million Sainsbury's customers regularly use their Nectar loyalty card when they shop with us and the programme remains a source of considerable competitive advantage.

Great food

Our great food offer, in particular the strength and breadth of our own-brand products, is a key driver of growth and loyalty. Own-brand is outperforming the market, as well as many branded equivalents, with most customers buying across our ranges – from *basics* to *by* Sainsbury's and *Taste the Difference*. The relaunch of our core *by* Sainsbury's range, which accounts for nearly 40 per cent of sales, is now complete, with many products new or improved. It has been very well received by our customers and is growing ahead of our major competitors' comparable products.

Compelling general merchandise & clothing

Sales of general merchandise and clothing continue to grow – at more than twice the rate of food over the year. We offer customers high street quality and style at supermarket prices and this is proving to be very successful. We also know that our non-food offer builds overall customer loyalty, and with only around a third of the population - up from 11 per cent five years ago - living within a 15 minute drive of our full non-food range, there are plenty of opportunities for future growth.

Complementary channels & services
Our long-standing investment in complementary channels and services continues to deliver. The amount customers spend more than doubles when they shop in our supermarkets, convenience stores and online. Sainsbury's Locals now account for nearly a third of the UK's convenience market growth with sales of over £1.5 billion and year-on-year growth of over 17 per cent. Annual sales in our groceries online business are at nearly £1 billion and continue to grow at around 20 per cent.

Sainsbury's Bank has enjoyed another successful year with our share of joint venture post-tax profit up 38 per cent to £22 million, and an eight per cent increase in active customer accounts over the year. We have reached an agreement to take full ownership of Sainsbury's Bank by acquiring Lloyds Banking Group's 50 per cent shareholding for £248 million, which comprises cash consideration for the shares of £193 million and the purchase of £55 million of loan stock. Developing complementary channels and services is a core part of Sainsbury's long-term strategy for growth and our ownership of the Bank will enable its full potential to be realised.

Developing new business
Our targeted programme of new business development continues, with Sainsbury's pharmacies now open in over 270 stores and in three hospitals. Sainsbury's Energy has achieved an 83 per cent increase in customers over the year and we are finding new ways to offer a range of digital products and services, from eBooks to Mobile Scan & Go.

Growing space & creating property value
We continue to deliver against our space growth plans, with the return to what we consider to be a prudent and steady state of growth. This year we opened just over one million sq ft of space adding 14 new supermarkets, 87 convenience stores and eight extensions to our estate. Our property portfolio is now valued at £11.5 billion and we generated £66 million of property profit from sale and leaseback activity in the year.

Our values make us different
We know that our values make us different from other supermarkets, and our customers and colleagues expect Sainsbury's to do the right thing. Our *20x20 Sustainability Plan*, published in 2011, lays out 20 commitments, each linked to one of our five core values. The plan provides a clear focus to our corporate responsibility programme - from doubling the amount of British food we sell, to positive commitments on the environment. In November, we updated on the progress we have made so far and further information is provided in the annual report.

Our values continue to be a source of long-term sustainable advantage and great pride. One example is our involvement in the London 2012 Paralympic Games. From the start we aimed to be much more than a sponsor and to play our part in ensuring the success of the Games, as well as creating a lasting legacy. Our legacy programme has already contributed £2 million of funding for schools, clubs and organisations to ensure that the next generation of Paralympic athletes get the support and coaching they need. Building on our support of British Athletics' Paralympic programme, I am delighted that we are sponsoring the Sainsbury's Summer Series - three world-class athletics events being held this summer in Birmingham and at the Queen Elizabeth Olympic Park in London.

Being a great place to work is an essential part of our business plan. This is not only important to us but also to our customers – they consistently tell us that how we treat our colleagues is their number one priority for corporate responsibility. This year we have seen our highest levels of colleague engagement and commitment and we were recognised as the Employer of the Year by Retail Week.

In addition, Sainsbury's was once again rated global sector leader in the Dow Jones Sustainability Index and continued to be listed in the FTSE4Good Index.

Looking forward

Looking forward to the year ahead, whilst the economic climate is likely to remain challenging, we are well positioned to succeed for you, our shareholders, through the continued delivery of our long-term strategy for growth and by helping our customers *Live Well For Less.*

Justin King
Chief Executive

Business Review

Great food

Fresh food is at the heart of what we do. The quality and value of our food, combined with our strong ethical standards and supplier relationships, differentiate us from other supermarkets and help our customers to *Live Well For Less*.

We know people want to eat more local food, and support British farmers. We source food from the UK whenever it is available and the quality is of the standard our customers expect. We are committed to doubling the amount of British food we sell by 2020.

We are proud of our close and long-standing relationships with our suppliers. We operate 10 Development Groups for farmers and growers across dairy, beef, pork, lamb, veal, eggs, chicken, cheese, wheat and produce and we have invested over £40 million in these groups since 2006. In May 2012, following an overwhelming majority vote from Sainsbury's Dairy Development Group farmers, we adopted a unique 'Cost of Production' payment model for milk. This increased the price we paid to dairy farmers and continues to reward them for good animal welfare and environmental responsibility. We also paid a premium to our Pork Development Group farmers when they faced rising feed prices.

Customers increasingly buy into our own-brand food offer, which has grown by nearly five per cent in the year and now accounts for half of our food sales. The successful re-launch of our core *by Sainsbury's* range is now complete with over 6,500 lines, many of which are new or improved. Sales grew ahead of our major competitors' comparable ranges and *by Sainsbury's* won the prestigious Grocer Gold Own Label Brand of the Year award. Our *Taste the Difference* range is also growing strongly at nearly 10 per cent and is gaining market share. *Basics* continues to be the second biggest selling supermarket value brand in the UK, purchased regularly by customers who buy across our own-brand ranges.

Our customers trust us to provide high quality food that is safe to eat, and whose provenance is clear. We found no horsemeat in any of our products. This is testimony to our exacting standards and to the DNA and other testing we have been carrying out regularly for many years to ensure the integrity and safety of our food.

Sainsbury's is committed to fishing responsibly and helping to change UK fish-eating habits. In January, we launched our second 'Switch the Fish' campaign. This was designed to encourage people to try lesser-known sustainable fish, with over five tonnes of lemon sole, mussels, Cornish sardines, coley fillets and loch trout fillets distributed over the three day campaign. Sales of these alternative species increased by 59 per cent following the campaign.

One pound in every five spent on fresh fruit and vegetables in UK supermarkets is spent at Sainsbury's, because our customers trust the quality, integrity and provenance of our offer. We were the biggest volume retailer of British apples and pears for the fourth year running.

We offer a fresh counter service in over 500 of our stores and sales from these are continuing to grow and outperform the market. Much of this success is driven by the enthusiasm, skill and expertise of over 20,000 colleagues who have benefited from City & Guilds accredited training in our seven food colleges.

Ethical trading is a cornerstone of our food offer and with sales this year of £319 million we are once again the largest Fairtrade retailer in the world. All our bananas and own-brand tea, coffee and sugar are Fairtrade. Since 2007 we have given over £20 million to projects in developing countries from sales of bananas alone.

Compelling general merchandise & clothing

Our strategy of offering customers high street quality and style at supermarket prices is proving to be highly successful, with sales of general merchandise and clothing growing at more than twice the rate of food. Our non-food offer builds customer loyalty - customers who buy clothing and general merchandise well as food, shop with us more frequently and spend more than those who only buy food. In February, we achieved the significant milestone of £1 billion in annual general merchandise sales, a reflection of the investment we have made in space and the quality of our offer.

Two thirds of the UK population are still not within a 15 minute drive of our full non-food offer and only one in five of our supermarkets has a full non-food range. Future store extensions therefore present opportunities for growth in this area.

Our successful *Tu* clothing ranges are increasingly popular with our customers and have enjoyed strong double digit growth during the year. *Tu* is the seventh biggest clothing line in the UK by volume and has risen to twelfth place by value. The sales of women's jeans increased by over 80 per cent after the successful roll-out of our new Denim Shop format, and our exclusive *Gok for Tu* collections, designed to be versatile, fashionable and flattering, continue to be hugely popular with our customers.

Parents appreciate the great value and quality of our childrenswear ranges and our biggest ever schoolwear event last summer delivered a sales increase of 25 per cent. We sold over one million polo shirts, 630,000 boys' trousers and 272,000 girls' skirts, consolidating our position of number four in the schoolwear market by volume. Another huge success has been our investment in children's fancy dress, where we are second in the UK market by value.

General merchandise sales outperformed the market, driven in part by strong sales on occasions such as Mother's Day, Back to School and our bi-annual sales, as well as by the events unique to the year – the Queen's Diamond Jubilee, Olympics and Paralympics. We sell more bakeware than our major competitors and as a result of our compelling offer and improved in-store experience, we are now the UK's seventh largest retailer for homeware by value.

We have grown market share across all four categories of entertainment – film, music, games and books - in what is a challenging market. We secured exclusive versions of some of the biggest DVD releases of the year including *Avengers Assemble, The Hunger Games, War Horse* and *Ice Age 4*. In the first week of its release, we achieved over 25 per cent market share on *Skyfall* - the biggest-selling DVD in the market since *Mamma Mia* in 2008.

We continue to increase direct sourcing and to forge better relationships and terms with our suppliers overseas through our offices in Shanghai, Hong Kong and most recently Bangladesh. We have rigorous technical and ethical processes, to ensure we source with integrity and help our customers to *Live Well For Less.*

Complementary channels & services

People have more choice than ever before of where, how and when to do their shopping. 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.

The trend for local top-up shopping remains, as customers conserve fuel, minimise waste and manage their budgets. Our convenience business, which we have built and invested in over the past 15 years, is benefiting from this trend, with five million customer transactions each week and a turnover in excess of £1.5 billion. Convenience stores have delivered sales growth of over 17 per cent year-on-year, driven by both new space and like-for-like sales growth. We have continued to open one or two convenience stores each week, 87 during the year, bringing our total number of convenience stores to 523. In the next year the number of convenience stores will overtake that of supermarkets, and over the next three years this expansion will create 10,000 job opportunities.

We were named Convenience Chain of the Year for the third year running at the Retail Industry Awards in recognition of our breadth of range, customer service and community involvement.

Our groceries online business, which has been operating since 1999, is also growing strongly at around 20 per cent year-on-year. We have the ability to deliver to over 96 per cent of UK households. Grocery orders regularly exceed 190,000 per week – 25,000 more than last year – and customer feedback relating to service and availability are at an all-time high. We have also seen double-digit improvements in the efficiency of our picking and delivery operations.

Maximising new and existing opportunities in the online and digital space is a key part of our long-term growth plans. This year, we were the first retailer in the UK to trial innovative 'Mobile Scan & Go' technology in three stores. It allows customers to track how much they are spending as they shop and view savings instantly on their mobile phone. When they have finished shopping they pay at the till without unloading their trolley, basket or bag.

Our general merchandise website continues to offer thousands of branded and own-brand lines across home and garden, appliances, technology, toys, games, sport and leisure. Over half our customers choose to collect their orders via our *Click & Collect* service which is available in nearly 1,000 of our stores.

Sainsbury's Bank has enjoyed another successful year, delivering its fifth consecutive year of profit growth, with our share of the joint venture post-tax profit up 38 per cent to £22 million. Our strategy remains to offer customers good quality financial services products that offer value for money. The strong performance is underpinned by a competitive offering which combines preferential deals on financial products with Nectar points to be spent at Sainsbury's or elsewhere.

The Bank's active accounts are up eight per cent on the year to 1.5 million and these customers spend more with us.

Our Nectar-based credit card, offering our most attractive reward to date, has exceeded all expectations and further deepened our relationship with Nectar and our customers. Growth in credit cards overall was 17 per cent year-on-year.

The Bank enjoyed continued success with car insurance, with new business up 67 per cent year-on-year. Sainsbury's Travel Money increased turnover by 35 per cent, with both in-store bureaux and online ordering performing well.

The Bank was named Best Personal Loan Provider by Consumer Moneyfacts, Best Online Pet Insurance Provider by Your Money Direct, Best Credit Card for Rewards by Moneynet and Best Term Assurance Provider Direct by Moneyfacts Investment Life & Pensions.

We have reached an agreement to take full ownership of Sainsbury's Bank by acquiring Lloyds Banking Group's 50 per cent shareholding for £248 million, which comprises cash consideration for the shares of £193 million and the purchase of £55 million of loan stock. Developing complementary channels and services is a core part of our long-term strategy for growth and ownership of the Bank will enable its full potential to be realised. As a consequence, given that loyal Bank customers spend more in our stores than non-Bank customers, and that customer penetration is low , there is a significant opportunity to grow the Bank and at the same time in-store sales and customer loyalty. As a result we expect strong returns over time for the Group from this investment.

Developing new business
Developing new business and investing beyond our core is an important part of our long-term strategy for the future.

One of our *20x20* sustainability commitments is to be a leading provider of health services. Research shows that people are more likely to discuss minor ailments with a pharmacist than go to their GP and this is borne out by the experience of our 270 plus in-store pharmacies. Our highly-trained, professional pharmacists conducted 95,000 cholesterol checks, an increase of 25 per cent year-on-year, gave 56,000 flu vaccinations and worked with the Department of Health for the third year to help people stop smoking by giving out more than 30,000 Quit Kits. We have also taken over the management of the outpatient pharmacies at Guy's and St Thomas' Hospitals in London and James Cook University Hospital in Middlesbrough.

Customers in 35 of our stores can benefit from the NHS GP or nurse-led surgeries we host. Private dental surgeries also operate in 12 of our stores. Our convenient locations and good parking facilities lend themselves perfectly to these services, which are appreciated by our customers and the communities we serve.

Sainsbury's Energy provides customers with great value gas and electricity together with the reward of Nectar points. We also offer advice on energy-saving products such as solar panels and insulation and home energy assessments. The number of customers signing up to Sainsbury's Energy has increased by 83 per cent in the last year, as people shop around for the best deals in the market. Our online sales channel accounts for 36 per cent of the total number of customers acquired.

We have formed a joint venture with Aimia, owner of the Nectar programme. The new company, I^2C (Insight to Communication), will benefit customers through timely, relevant and accessible offers, based on their likes and dislikes, while brands benefit from insight-based marketing solutions and a greater return on investment.

We continue our drive into the online and digital entertainment market with the purchase of a majority stake in Anobii, now operating as eBooks *by* Sainsbury's, and our partnership with Rovi Corporation, an on-demand video streaming service. These new and exciting business relationships underline our commitment to become a key player in the digital entertainment market.

Growing space & creating property value

In the last five years, we have added £4 billion to the value of our property portfolio, the market value of which is now £11.5 billion. Activity during the year delivered profits of £66 million, and over five years we have raised £1.3 billion through disposals realising property profits of £341 million.

We have a clearly defined strategy for growing space and increasing our store portfolio. This falls into three main areas:

1. New supermarkets
2. Adding space to existing stores through extensions
3. New convenience stores

This year we have added 14 supermarkets, 87 convenience stores and eight extensions to our property portfolio – a total of just over one million sq ft, in line with our target of around five per cent gross space growth.

Some of this additional space has enabled us to bring our increasingly popular clothing and general merchandise ranges to more customers. It has also enabled us to expand our coverage of the UK to areas where our presence was previously limited - 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 35 per cent of UK postcodes.

A new Sainsbury's store brings a number of benefits to local communities. In October, we opened a new 60,000 sq ft supermarket in the Caldewgate area of Carlisle. The store has given a major regeneration boost to this area of the city, which had been badly affected by flooding and was becoming increasingly run-down. Our store created around 300 new local jobs, increased parking provision and brought a petrol filling station to the area.

We opened our 500th convenience store in Southsea, Hampshire in November and in the coming year will see the number of convenience stores we operate exceed the number of supermarkets. Convenience stores deliver particularly good returns and make a positive contribution to the regeneration of local high streets in terms of footfall, increased trade and employment opportunities. Our store on Bellevue Road, Wandsworth, is a good example of this effect. Local traders were very supportive of us opening as they anticipated the benefits a Sainsbury's store could bring to their own businesses. This has been borne out by research, which shows that since our store opened footfall in the area has increased by almost 40 per cent.

We have a pipeline of space ready for development, including planning consents for a number of supermarket extensions, as well as a number of opportunities for new supermarkets and convenience stores. We ensure that all our investments, individually and overall, deliver good returns.

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, giving us an additional 10,200 sq ft of selling space. We also extended our store in Weedon Road, Northampton, by 23,600 sq ft, in November. Over the last few years, we have been successful in both securing mixed use planning permissions and ensuring we can get the maximum value for our land holdings via tactical sale and leaseback agreements. Work on a site in Fulham Wharf started in the summer and will deliver a replacement 76,000 sq ft supermarket and 267 residential apartments by mid 2015. Our partnership with Land Securities has seen work move forward at our Wandsworth Garratt Lane store where we are building an extension of 34,700 sq ft, a hotel and additional retail space due to open this autumn.

Our values make us different

Our values set us apart from other retailers. They underpin our strategy and the way we operate our business, and they govern the way we relate to customers, colleagues and stakeholders. We see this as a competitive strength as well as a responsibility. In October 2011, we published our *20x20 Sustainability Plan* comprising 20 ambitious goals, each linked to one of our five values, which we aim to achieve by the year 2020. It is our roadmap towards a more sustainable future and part of our promise to help customers *Live Well For Less.*

Best for food and health

We play a key role in helping our customers to achieve a healthier lifestyle, as well as encouraging co-operation between the food industry, Government, health and nutrition groups, suppliers and colleagues. We have been at the forefront of this type of positive action for many years: our innovative front-of-pack traffic light labelling - now on over 9,000 products - has changed customer buying patterns in favour of amber and green-rated products over red-rated ones.

We continue to make progress in reducing salt, fat and sugar in our own-brand food. About 30 per cent of our fruit and vegetable sales are through promotions and we are active supporters of the Government's Responsibility Deal 'Five-A-Day' pledge.

We are rolling out new ABV (alcohol by volume) labelling on our own-brand products to help customers identify quickly and easily the alcoholic strength of the products they buy. Since 2011 we have seen a 17.5 per cent increase in the number of bottles of lighter alcohol wine sold. This year we have trained pharmacists in over 270 stores as Healthy Eating Advisors to help our customers eat more healthily, lose weight and get active.

Sourcing with integrity

Our entire supply chain, from farm to store, is built around long-term sustainable relationships to ensure the best quality products at fair prices. We have one of the most extensive quality control programmes in the industry, employing over 100 people to ensure the integrity of our products. We apply the same checks and exacting standards across all our own-brand products - from *basics* to *Taste the Difference*.

We work with over 2,200 British farmers and growers and we are proud of the strong relationships we have built with them over time. We have invested over £40 million in our 10 British farmer development groups since 2006 to promote and support good animal welfare, and improve environmental and ethical standards. In December, we awarded £1.2 million of agricultural research and development grants to support the future of British farming through initiatives driven by our farmers, growers and suppliers.

The weather was particularly bad for our growers this winter, and by selling 'ugly' fruit and vegetables of different shapes and sizes that are just as nutritious and tasty as our regular produce, we were able to support British farmers and reduce unnecessary waste.

The sustainability of the fishing industry is high on our agenda and we are the largest retailer of Marine Stewardship Council certified sustainable fish in the UK, with around 130 products - from *basics* fish fingers to *Taste the Difference* Wild Alaskan Salmon and from fish counters through to ready meals.

Respect for our environment
Using green energy and introducing proven and next-generation renewable technologies is fundamental to the long-term sustainability of our business. These technologies are helping to reduce our overall energy use, lower our energy bills and reduce our operational carbon emissions, even as we continue to grow floor space.

Investment in this area not only improves the long-term sustainability of our business, but also delivers a strong financial return. It makes good business sense for Sainsbury's, helps the environment and also supports job creation in the renewable energy sector.

We are the UK's leading retail user of energy from anaerobic digestion ('AD'). Tamar Ltd, the strategic partnership we set up with Tamar Energy to produce energy from organic waste matter, is developing a UK network of over 40 AD plants that will generate 100MW of green electricity over the next five years. Our well-established zero food waste to landfill policy means that any surplus food from our stores that has not been given to charity or used for animal feed is sent for AD to generate green energy. We are also working closely with our suppliers to ensure they have access to these AD plants to help them reduce the environmental impact of their operations, a key strand of our *20x20 Sustainability Plan*.

In February, we became the first retailer to achieve the Carbon Trust Water Standard, showing that we are taking action to measure, manage and reduce water use year-on-year. We also saved 15,000 tonnes of carbon dioxide by switching to natural refrigerants in 150 stores.

We host the largest multi-roof solar panel array in Europe, having installed over 82,000 solar panels at 189 stores producing renewable energy for electricity.

We were awarded a number of environmental accolades this year, including the top award of 'Sustainable Business of the Year' at the Energy and Environmental Awards. This was in recognition of our industry-leading work on carbon and energy reduction, constant technological innovation, focus on recycling and water innovation.

Making a positive difference to our community
As the first-ever Paralympic-only sponsor, we played a full part in the London 2012 Games and experienced the power of sport to bring people and communities together. Over 18,000 Sainsbury's customers and colleagues were given the opportunity to attend the Games with our support, and 148 colleagues were seconded to LOCOG or acted as Games Makers. One hundred and fifty customers and colleagues took part in the Paralympic Torch Relay, generating high levels of customer and colleague engagement as it toured the UK – and our supermarkets.

Building on the success of *Active Kids* and the 'Million Kids Challenge', we launched our 'Active Kids for All' Paralympic legacy plan. Our £1 million commitment will fund teacher training to ensure that 500,000 children with a disability in mainstream education are included in school sports lessons. We are also extending our sponsorship of the British Paralympic Association to ensure that the next generation of Paralympic athletes get the support and coaching they need through to the Sochi Winter Paralympic Games in 2014 and Rio in 2016. Looking forward to this summer, we are proud to sponsor the Sainsbury's Summer Series – three world-class athletics events being held in Birmingham and at the Queen Elizabeth Olympic Park in London.

Working together with our customers, we donated a record-breaking £41.5 million to good causes in the year including sponsorship of Comic Relief, support for the Royal British Legion Poppy Appeal and our nationwide Local Charity Partnership programme. Our second Million Meals Appeal saw a record-breaking two million meals donated to disadvantaged people across the country, with Sainsbury's matching our customers' donations, making it the UK's biggest ever single-charity food drive.

A great place to work

We have created 5,000 jobs this year as part of our commitment to create 50,000 new job opportunities by 2020. Since 2011 we have recruited over 370 people on to our popular, fast-track Trainee Manager Scheme. Attracted by a long-term rewarding career and benefits including a contributory pension, discount card and eligibility for the Sainsbury's profit sharing and bonus schemes, as well as first class on and off-the-job training, they are now making their mark on our business across the country. We also created 400 apprenticeship places designed to train and develop team leaders of the future for our stores. Apprentices will be equipped with new skills and offered City & Guilds vocational training, including nationally recognised qualifications that are the equivalent of two A-levels.

To date over 20,000 colleagues who work on fresh counters and bakeries and in our in-store cafes have received job-related, City & Guilds-accredited training at our seven food colleges.

Over 80,000 colleagues are now saving for their retirement in a company Defined Contribution scheme. Last year we were one of the first companies in the UK to introduce pension auto-enrolment. In light of changes to pensions over the last few years, and in line with other businesses, we have started a consultation about changes to our Defined Benefit pension scheme. The proposed changes will ensure that pension arrangements for all our colleagues are fair and sustainable for the future.

Over 11,000 colleagues shared a £23 million payout in savings and profit via two of our Sharesave schemes which matured in March 2013, and nearly 19,000 colleagues participated in our most recent Save-As-You-Earn offer.

Our focus on the value of our values is an integral part of our business strategy and has again been recognised by key external benchmarks. We were recognised as Employer of the Year at the Retail Week Awards, highlighting how we engaged our colleagues in every aspect of the London 2012 Paralympic Games. We maintained our position in the FTSE4Good Index and we were recognised as global sector leader, for the sixth consecutive year, in the 2012 Dow Jones Sustainability Index review.

Chief Financial Officer's Letter

Dear Shareholder,

In an eventful year, while the economic environment remained tough, Sainsbury's grew sales (including VAT) by 4.6 per cent to £25,632 million (2011/12: £24,511 million) and underlying profit before tax ('UPBT') by 6.2 per cent to £756 million (2011/12: £712 million). In so doing, we outperformed the market and increased market share to 16.8 per cent, the highest for a decade.

This performance was, in part, due to continued progress in our multi-channel strategy allowing customers to choose where, when and how they shop. Our online grocery business grew at around 20 per cent and annual sales are nearly £1.0 billion. Our convenience business grew at over 17 per cent and annual sales are now over £1.5 billion. Own-brand goes from strength to strength with not only top-line sales growth across all three ranges, *basics*, *by* Sainsbury's and *Taste the Difference*, but also good profit growth. *Brand Match* continued to reinforce the competitiveness of Sainsbury's price position along with Nectar and coupon-at-till technology, ensuring customers are rewarded with relevant offers.

Sainsbury's achieved over £100 million operational cost savings which offset most of the impact of inflationary pressures on costs during the year. Underlying operating profit increased by 5.1 per cent to £829 million (2011/12: £789 million), with operating margin improvement of two basis points (two basis points at constant fuel prices). UPBT improved by 6.2 per cent to £756 million (2011/12: £712 million). This growth was ahead of operating profit growth due to strong performance in underlying joint venture ('JV') profits, with our share of JV post-tax profit at Sainsbury's Bank up 38 per cent from £16 million to £22 million.

We are pleased to announce that we have reached an agreement with Lloyds Banking Group to acquire their 50 per cent shareholding of Sainsbury's Bank and take sole ownership. Sainsbury's intends to fund the future consideration from internal resources.

As well as the stand-alone growth potential of the Bank, full ownership will also allow future products to be even more tailored to Sainsbury's customers, leveraging Nectar data to drive sales uplift in both financial services and our supermarkets business. After taking out a Bank product, Sainsbury's shoppers become more loyal and spend more in-store, providing significant opportunity to unlock further value.

The Bank's results will be fully consolidated within our financial services segment from when the transaction completes, currently expected in January 2014.

New space and the investments made over the past few years continue to deliver an expected return above the Group's required hurdle rate, with core capital expenditure this year of £1,040 million (2011/12: £1,240 million). New space delivered a 2.5 per cent contribution to sales growth, slightly ahead of expectations due to stores opening earlier than anticipated and sales performing ahead of forecast in both supermarkets and convenience.

The return on capital employed ('ROCE') increased by 12 basis points to 11.2 per cent enhanced by the movement in the net pension deficit, which reduces capital employed. ROCE excluding the pension fund deficit was 10.4 per cent, a 15 basis point decrease year-on-year, held back by the cumulative effect of the Group's accelerated investment in space growth since June 2009 and slower sector growth and profitability.

Sainsbury's took advantage of continued good property yields and generated funds through the selective sale and leaseback of supermarkets that have no further development potential, generating £202 million of proceeds through property transactions (2011/12: £303 million). This delivered a profit from the disposal of properties of £66 million (2011/12: £83 million). The estimated market value of the Group's overall property portfolio increased by £0.3 billion, to £11.5 billion (17 March 2012: £11.2 billion).

The balance sheet remained strong and the business has funding in place of over £3 billion, including a revolving credit facility of £0.7 billion that remained un-drawn at the year-end. Net debt ended the year at £2.2 billion, in line with expectations.

Underlying basic earnings per share increased to 30.7 pence (2011/12: 28.1 pence), a 9.3 per cent improvement year-on-year. This was higher than the increase in underlying profit, primarily due to the impact of the reduction in the statutory corporation tax rate. Basic earnings per share increased by 1.9 per cent to 32.6 pence (2011/12: 32.0 pence).

The Board has recommended a final dividend of 11.9 pence (2011/12: 11.6 pence), making a full year dividend of 16.7 pence, up 3.7 per cent year-on-year (2011/12: 16.1 pence) and covered 1.83 times by underlying earnings. The Board intends to continue to increase the dividend each year and build dividend cover to around two times over the medium term.

Whilst the economic climate is likely to remain challenging, next year will be an exciting one for Sainsbury's as we take full ownership of Sainsbury's Bank and increase the pace of our convenience opening programme. Alongside this, our priority is to continue to drive returns from our investments, improve operational cash flow and working capital management, and maintain tight cost control.

John Rogers
Chief Financial Officer

Financial Review

Summary income statement 52 weeks to 16 March 2013	**2013** **£m**	2012 £m	Change %
Sales (including VAT)	**25,632**	24,511	4.6
Sales (excluding VAT)	**23,303**	22,294	4.5
Underlying operating profit	**829**	789	5.1
Underlying net finance costs[1]	**(111)**	(109)	(1.8)
Underlying share of post-tax profit from JVs[2]	**38**	32	18.8
Underlying profit before tax	**756**	712	6.2
Profit on disposal of properties	**66**	83	(20.5)
Investment property fair value movements	**(10)**	-	n/a
Financing fair value movements	**(10)**	(16)	37.5
IAS 19 pension financing (charge)/credit	**(5)**	17	(129.4)
One-off items	**(9)**	3	(400.0)
Profit before tax	**788**	799	(1.4)
Income tax expense	**(174)**	(201)	13.4
Profit for the financial period	**614**	598	2.7
Underlying basic earnings per share	**30.7p**	28.1p	9.3
Basic earnings per share	**32.6p**	32.0p	1.9
Dividend per share	**16.7p**	16.1p	3.7

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 JVs 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 4.6 per cent to £25,632 million (2011/12: £24,511 million).

This includes a 2.5 per cent contribution from new space (excluding extensions and replacements) and like-for-like ('LFL') sales growth of 2.1 per cent.

Sales growth (including VAT, including fuel) 52 weeks to 16 March 2013	**2013** **%**	2012 %
Like-for-like sales	**2.1**	4.5
Net new space (excluding extensions and replacements)	**2.5**	2.3
Total sales growth	**4.6**	6.8

Sales (excluding fuel) grew by 4.3 per cent, with LFL growth of 1.8 per cent, which was lower than the sales including fuel number due to the growth in fuel volume and fuel price inflation. The LFL increase was also below Sainsbury's medium term planning objective of between three and four per cent, reflecting the challenging market conditions. Sainsbury's growth was, however, 1.2 percentage points ahead of the market, with market share growing by 19 basis points to 16.8 per cent for the 52 weeks to 17 March 2013 (as measured by Kantar).

LFL sales growth (excluding fuel) improved from 1.7 per cent in the first half to 1.9 per cent in the second half. Sainsbury's delivered growth of only 0.9 per cent in the third quarter, as competition intensified over the Christmas period. This eased off in the fourth quarter when Sainsbury's recorded the highest LFL growth of the year, at 3.6 per cent.

The contribution from net new space (excluding extensions and replacements) of 2.5 per cent was slightly ahead of Sainsbury's expectations due to stores opening earlier than anticipated and sales performing ahead of expectations in both new supermarket and convenience stores.

The convenience business grew sales at over 17 per cent to over £1.5 billion, well ahead of the market, and groceries online delivered nearly £1.0 billion of sales, a year-on-year increase of around 20 per cent. Our multi-channel strategy enables customers to shop where, when and how they want. Sainsbury's non-food offer continued to be challenged by the tough economic backdrop, and yet delivered growth ahead of the market and over twice that of the food business. This growth was supported by continued range development as well as investments in extensions and new space.

Sales growth (including VAT, excluding fuel) 52 weeks to 16 March 2013	**2013** **%**	2012 %
Like-for-like sales[1]	**1.8**	2.1
Net new space (excluding extensions and replacements)	**2.5**	2.4
Total sales growth	**4.3**	4.5

1 This includes a 0.7 per cent contribution from stores extended in 2012/13, net of disruptions.

Average trading intensity ('TI') excluding fuel declined to £19.27 per sq ft per week (2011/12: £19.47 per sq ft), caused by; the higher proportion of space for general merchandise and clothing (which trades less intensively than food); an increasing presence in those parts of the country where TI is likely to be lower (albeit capital costs are also lower); and a drop in TI in the underlying estate due to the challenging economic environment. Convenience TIs continued to grow, as this offer meets changing customer shopping behaviours, with new stores performing well and sales from existing stores maturing.

New space, excluding extensions and replacements, contributed a net 2.5 per cent to the sales growth (excluding fuel) of 4.3 per cent. Sainsbury's added a gross 1,007,000 sq ft of selling space in the year (including replacements and extensions), an increase of 4.9 per cent (2011/12: 1,401,000 sq ft and 7.3 per cent). Including the impact of closures, this translated into net space growth of 918,000 sq ft, an increase of 4.5 per cent since the start of the year (2011/12: 1,239,000 sq ft and 6.5 per cent).

Space growth included 14 new supermarkets, of which two were replacement stores (2011/12: 19 new supermarkets, of which four were replacements). These generated an additional 634,000 sq ft of gross selling space (a net 551,000 sq ft), with one store closure. In line with previous guidance, we stepped up the number of supermarket refurbishments to 20 stores and consequently reduced the number of extensions to eight, adding 185,000 sq ft of selling space (2011/12: 28 extensions and seven refurbishments added 498,000 sq ft). Sainsbury's continued to open space in areas in which the brand is under-represented, with strong growth in East and North West England. These stores typically bring higher returns due to lower build costs, although ultimate TI is lower than in other parts of the country.

Convenience continues to be a key area of growth, with 87 stores added during the year (2011/12: 73 stores). Four stores were closed (2011/12: ten stores closed) and 15 refurbished (2011/12: 28 stores), with net convenience space growth of 182,000 sq ft, an increase of 17.7 per cent since the start of the year (2011/12: 118,000 sq ft and 13.0 per cent), meeting our target of opening one to two new stores per week.

Net of replacements, closures and disposals, closing space of 21,265,000 sq ft was 4.5 per cent higher than last year (2011/12: 20,347,000 sq ft).

Store numbers and retailing space 52 weeks to 16 March 2013	**Supermarkets**		**Convenience**		**Total**	
	Number	Area 000 sq ft	Number	Area 000 sq ft	**Number**	**Area** **000 sq ft**
At 17 March 2012	572	19,320	440	1,027	**1,012**	**20,347**
New stores	14	634	87	190	**101**	**824**
Disposals/closures	(3)	(83)	(4)	(6)	**(7)**	**(89)**
Extensions/refurbishments/downsizes	-	185	-	(2)	**-**	**183**
At 16 March 2013	**583**	**20,056**	**523**	**1,209**	**1,106**	**21,265**
***Memorandum*:**						
Extensions	8	165	-	-	**8**	**165**
Refurbishments/downsizes	20	20	15	(2)	**35**	**18**
Total projects	**28**	**185**	**15**	**(2)**	**43**	**183**

In 2013/14, Sainsbury's expects LFL sales to be between 1.0 per cent and 1.5 per cent, reflecting the tough economic environment and reduced contribution from extensions from 0.7 per cent in 2012/13 to 0.2 per cent. Contribution from new space (excluding extensions and replacements) is expected to be similar to 2012/13.

In 2013/14, Sainsbury's expects gross space growth of around one million sq ft with circa two new convenience store openings per week.

Underlying operating profit

Underlying operating profit increased by 5.1 per cent to £829 million (2011/12: £789 million), reflecting a good sales performance and cost savings of over £100 million in the year, helping to offset most of the impact of cost inflation.

Underlying operating margin improved by two basis points year-on-year to 3.56 per cent (2011/12: 3.54 per cent), which was also a two basis point improvement at constant fuel prices. Underlying EBITDAR margin increased by three basis points to 7.83 per cent, a four basis point improvement at constant fuel prices.

In 2013/14, Sainsbury's expects operating profit to grow in line with sales.

Underlying operating profit 52 weeks to 16 March 2013	**2013**	2012	Change	Change at constant fuel prices
Underlying operating profit (£m)[1]	**829**	789	5.1%	
Underlying operating margin (%)[2]	**3.56**	3.54	*2 bps*	*2 bps*
Underlying EBITDAR (£m)[3]	**1,824**	1,740	4.8%	
Underlying EBITDAR margin (%)[4]	**7.83**	7.80	*3 bps*	*4 bps*

1 Underlying earnings before interest, tax, and before Sainsbury's underlying share of post-tax profits from JVs.
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.

In 2013/14, Sainsbury's expects cost inflation at the middle of its two to three per cent range and cost savings of around £100 million.

Sainsbury's Bank joint venture ('JV')

Sainsbury's underlying share of Sainsbury's Bank post-tax profit increased by £6 million to £22 million (2011/12: £16 million). The Bank has continued to perform strongly, with profit growth driven through increasing commission income, particularly in car and home insurance, and lower bad debt levels.

Sainsbury's announced its intention to purchase the remaining 50 per cent of the Sainsbury's Bank JV on 8 May 2013, with expected completion in January 2014.

In 2013/14, Sainsbury's Bank expects to make a similar profit to 2012/13. 50 per cent of the Bank's post-tax profits will be included through equity accounting for around 46 weeks of 2013/14. The Bank's profits will be fully consolidated in the last six weeks of the financial year.

Property joint ventures ('JV')

Sainsbury's underlying share of post-tax profit from its JV with British Land was £14 million (2011/12: £14 million). Its underlying share of post-tax profits from the JV with Land Securities was £2 million (2011/12: £2 million).

At the year-end, a loss on revaluation of £10 million was recognised within the share of post-tax profit from the JVs in the income statement (2011/12: £nil loss). This represents a decrease on revaluation of properties in the JV to an average yield of 5.1 per cent (2011/12: 5.0 per cent) as a result of shorter lease terms within the portfolio.

In 2013/14, Sainsbury's expects the property JVs to make a similar profit to 2012/13.

Underlying net finance costs

Underlying net finance costs increased by £2 million to £111 million (2011/12: £109 million), mainly as a result of an increase in average net debt and a reduction in capitalised interest, partly offset by a decrease in the RPI rate which reduced the rate on Sainsbury's inflation-linked debt[1].

Underlying net finance costs 52 weeks to 16 March 2013	**2013** **£m**	2012 £m
Underlying finance income[2]	**19**	18
Interest costs	**(162)**	(162)
Capitalised interest	**32**	35
Underlying finance costs[2]	**(130)**	(127)
Underlying net finance costs[2]	**(111)**	(109)

1 The interest rate on the inflation-linked debt resets annually in April, by reference to the RPI rate (capped at five per cent) prevailing in January.
2 Finance income/costs before financing fair value movements and IAS 19 pension financing element.

Sainsbury's expects underlying net finance costs in 2013/14 to remain broadly flat, principally due to the effect of a decrease in the RPI rate on the component of the Group's inflation-linked debt, partly offset by the higher forecast average net debt balance.

Taxation

The income tax charge was £174 million (2011/12: £201 million), with an underlying tax rate of 23.7 per cent (2011/12: 26.1 per cent) and an effective tax rate of 22.1 per cent (2011/12: 25.2 per cent). The underlying and effective tax rates were 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.

Underlying tax rate 52 weeks to 16 March 2013	**Profit £m**	**Tax £m**	**Rate %**
Profit before tax, and tax thereon	788	174	22.1
Adjustments (and tax thereon) for:			
Profit on disposal of properties	(66)	(11)	
Investment property fair value movements	10	-	
Financing fair value movements	10	2	
IAS 19 financing charge	5	2	
One-off items	9	1	
Deferred tax rate change	-	11	
Underlying profit before tax, and tax thereon	**756**	**179**	**23.7**

In 2013/14, Sainsbury's expects the underlying tax rate to be between 21 and 22 per cent, lower than 2012/13, principally due to the impact of further reductions in the statutory corporation tax rate.

Earnings per share

Underlying basic earnings per share increased by 9.3 per cent to 30.7 pence (2011/12: 28.1 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 1,881.5 million (2011/12: 1,870.3 million), an increase of 11.2 million shares or 0.6 per cent. Basic earnings per share increased to 32.6 pence (2011/12: 32.0 pence). Basic earnings per share were higher than the underlying basic earnings per share mainly due to the profit on disposal of properties.

Underlying earnings per share 52 weeks to 16 March 2013	**2013 pence per share**	2012 pence per share
Basic earnings per share	**32.6**	32.0
Adjustments (net of tax) for:		
Profit on disposal of properties	**(2.8)**	(4.3)
Investment property fair value movements	**0.5**	-
Financing fair value movements	**0.4**	0.7
IAS 19 financing charge/(credit)	**0.2**	(0.7)
One-off items	**0.4**	(0.2)
Deferred tax rate change	**(0.6)**	0.6
Underlying basic earnings per share	**30.7**	28.1

Dividends

The Board has recommended a final dividend of 11.9 pence per share (2011/12: 11.6 pence), which will be paid on 12 July 2013 to shareholders on the Register of Members at the close of business on 17 May 2013, subject to approval. This will increase the full year dividend by 3.7 per cent to 16.7 pence per share (2011/12: 16.1 pence). The dividend is covered 1.83 times by underlying earnings (2011/12: 1.75 times).

The proposed final dividend was recommended by the Board on 8 May 2013 and, as such, has not been included as a liability as at 16 March 2013.

Sainsbury's remains focused on delivering returns to shareholders. The Board intends to continue to increase the dividend each year and to build cover to two times over the medium term.

Return on capital employed

The return on capital employed ('ROCE') over the 52 weeks to 16 March 2013 was 11.2 per cent (2011/12: 11.1 per cent), an increase of 12 basis points year-on-year, enhanced by the increase in the net pension deficit, which reduces capital employed.

ROCE excluding the net pension deficit, over the 52 weeks to 16 March 2013 was 10.4 per cent, a year-on-year decrease of 15 basis points. ROCE growth was held back by slower sector growth, reduced industry profitability and the cumulative effect of Sainsbury's accelerated investment in space growth since June 2009. This has an initially dilutive impact on profits as the stores mature, whilst increasing the value of capital employed.

Return on capital employed 52 weeks to 16 March 2013	**2013**	2012
Underlying operating profit (£m)	**829**	789
Underlying share of post-tax profit from JVs (£m)	**38**	32
Underlying profit before interest and tax (£m)	**867**	821
Average capital employed[1] (£m)	**7,753**	7,424
Return on capital employed (%)	**11.2**	11.1
Return on capital employed (%) (excluding pension fund deficit)	**10.4**	10.6
52 week ROCE movement to 16 March 2013	**12 bps**	
52 week ROCE movement to 16 March 2013 (excluding pension fund deficit)	**(15) bps**	

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

Net debt and cash flows

Sainsbury's net debt as at 16 March 2013 was £2,162 million (2011/12: £1,980 million), an increase of £182 million. This was driven primarily by a small increase in working capital, an increase in corporation tax payments and lower sale and leaseback activity. This was offset by lower investments in estate development.

Operating cash flow before changes in working capital increased 4.5 per cent, but cash generated from operations decreased by 1.8 per cent to £1,268 million (2011/12: £1,291 million, 13.4 per cent increase) due to an adverse movement in working capital.

Working capital increased by £26 million year-on-year (2011/12: £53 million decrease) as inventory increased by £57 million, offset by £31 million of other working capital improvements.

Summary cash flow statement 52 weeks to 16 March 2013	**2013** **£m**	2012 £m
Operating cash flow before changes in working capital	**1,294**	1,238
(Increase)/decrease in working capital	**(26)**	53
Cash generated from operations	**1,268**	1,291
Interest paid	**(143)**	(142)
Corporation tax paid	**(144)**	(82)
Net cash from operating activities	**981**	1,067
Net cash used in investing activities	**(862)**	(883)
Proceeds from issue of shares	**17**	14
Receipt of new debt	**75**	391
Repayment of borrowings	**(138)**	(65)
Dividends paid	**(308)**	(285)
(Decrease)/increase in cash and cash equivalents	**(235)**	239
Increase/(decrease) in debt	**36**	(386)
Fair value and other non-cash movements	**17**	(19)
Movement in net debt	**(182)**	(166)

Sainsbury's expects net debt to be around £2.4 billion at the end of 2013/14, assuming the quantum of sale and leaseback activity to be similar to previous years and excluding the consideration to be paid for the Bank. Including this consideration net debt is expected to increase to £2.6 billion. Future net debt guidance will exclude the consolidation of balances attributable to Sainsbury's Bank.

Financing

The Group's key financing objectives are to diversify funding sources, to minimise refinancing risk and maintain appropriate standby liquidity. Sainsbury's has drawn debt facilities of £2.7 billion and an un-drawn, committed credit facility of £0.7 billion at its disposal.

The principal elements of Sainsbury's core funding comprise two long-term loans of £1,002 million, due 2018, and £841 million, due 2031, secured over property assets. In addition, Sainsbury's has unsecured loans totalling £510 million with maturities ranging from 2014 to 2018, a £190 million convertible bond due July 2014 and £160 million of hire purchase facilities and other finance leases.

Sainsbury's maintains a £690 million syndicated revolving credit facility due October 2015 for standby purposes. There were £nil drawings under the facility as at 16 March 2013 (2011/12: £nil drawings).

Capital expenditure

Core capital expenditure decreased by £200 million year-on-year to £1,040 million (2011/12: £1,240 million), due to a reduced supermarket opening and extension programme, partly offset by an increase in the convenience openings and supermarket refurbishments. Sainsbury's stepped up its convenience opening programme in the year with 87 new convenience stores (2011/12: 73 convenience stores) and completed 35 refurbishments (2011/12: 35 refurbishments), including 20 supermarkets (2011/12: seven supermarkets) and 15 convenience stores (2011/12: 28 convenience stores).

Core capital expenditure as a percentage of sales (including fuel, including VAT) was 4.1 per cent (2011/12: 5.1 per cent).

Sainsbury's also took advantage of continued good property yields in the year to achieve £202 million in sale and leaseback proceeds (2011/12: £303 million), although this was a reduction of £101 million year-on-year. This contributed to a total profit on disposal of properties of £66 million (2011/12: £83 million). Net capital expenditure was £875 million (2011/12: £962 million).

Capital expenditure 52 weeks to 16 March 2013	**2013** **£m**	2012 £m
New store development	**593**	599
Extensions and refurbishments	**271**	478
Other – including supply chain and IT	**176**	163
Core capital expenditure	**1,040**	1,240
Acquisition of freehold and trading properties	**37**	25
Proceeds from property transactions	**(202)**	(303)
Net capital expenditure	**875**	962

In 2013/14, Sainsbury's expects core capital expenditure of around £1.1 billion, before any capital investment associated with Sainsbury's Bank, with core capital expenditure as a percentage of sales (including fuel, including VAT) to be similar to 2012/13. In the medium term, the Group expects core capital expenditure as a percentage of sales (including fuel, including VAT) to fall to below 3.5 per cent.

Summary balance sheet

Shareholders' funds as at 16 March 2013 were £5,734 million (2011/12: £5,629 million), an increase of £105 million. This is mainly attributable to the continued profitable growth of the underlying business and investment in space to support future growth, offset by the increase in the net retirement benefit obligation (net of deferred tax) and net debt.

The book value of property, plant and equipment, including land and buildings, has grown by £475 million, as a result of increased space growth, offset by the sale and leaseback of stores with no further development potential.

Net debt was £182 million higher than at 17 March 2012 due to investment in property, plant and equipment and lower cash balances at year-end as a result of lower sale and leaseback proceeds, a small increase in working capital and higher corporation tax payments.

Adjusted net debt to EBITDAR was in line with last year at 4.1 times (2011/12: 4.1 times) and interest cover improved to 7.8 times (2011/12: 7.5 times). Fixed charge cover was in line with last year at 3.1 times (2011/12: 3.1 times). Gearing increased year-on-year to 37.7 per cent (2011/12: 35.2 per cent) mainly as a result of the increase in net debt. Excluding the pension deficit, gearing reduces to 33.7 per cent (2011/12: 32.5 per cent).

Summary balance sheet at 16 March 2013	**2013** **£m**	2012 £m	Movement £m
Land and buildings (freehold and long leasehold)	**7,156**	6,802	354
Land and buildings (short leasehold)	**675**	648	27
Fixtures and fittings	**1,973**	1,879	94
Property, plant and equipment	**9,804**	9,329	475
Other non-current assets	**909**	911	(2)
Inventories	**987**	938	49
Trade and other receivables	**306**	286	20
Cash and cash equivalents	**517**	739	(222)
Debt	**(2,679)**	(2,719)	40
Net debt	**(2,162)**	(1,980)	(182)
Trade and other payables and provisions	**(3,422)**	(3,400)	(22)
Retirement benefit obligations, net of deferred tax	**(688)**	(455)	(233)
Net assets	**5,734**	5,629	105

Key financial ratios:		
Adjusted net debt to EBITDAR[1]	**4.1 times**	4.1 times
Interest cover[2]	**7.8 times**	7.5 times
Fixed charge cover[3]	**3.1 times**	3.1 times
Gearing[4]	**37.7%**	35.2%
Gearing (excluding pension deficit)[5]	**33.7%**	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.
3 Underlying EBITDAR divided by net rent and underlying net finance costs.
4 Net debt divided by net assets.
5 Net debt divided by net assets, excluding pension deficit.

As at 16 March 2013, Sainsbury's estimated market value of properties, including our 50 per cent share of properties held within property JVs, was £11.5 billion (2011/12: £11.2 billion). The £0.3 billion increase year-on-year was driven by property value added of £0.5 billion, partly offset by sale and leasebacks of £0.2 billion. The yield remained constant at 4.9 per cent.

Pensions

As at 16 March 2013, the post-tax pension deficit was £233 million higher at £688 million (17 March 2012: £455 million) mainly due to a fall in the discount rate from 5.0 per cent to 4.6 per cent and a rise in RPI inflation expectations from 3.3 per cent to 3.5 per cent, partially offset by a 12.5 per cent increase in the value of plan assets.

Retirement benefit obligations at 16 March 2013	**2013** **£m**	2012 £m
Present value of funded obligations	**(6,594)**	(5,654)
Fair value of plan assets	**5,841**	5,192
Pension deficit	**(753)**	(462)
Present value of unfunded obligations	**(13)**	(9)
Retirement benefit obligations	**(766)**	(471)
Deferred income tax asset	**78**	16
Net retirement benefit obligations	**(688)**	(455)

The IAS 19 pension current service cost included within UPBT for the 52 weeks to 16 March 2013 was £59 million (52 weeks to 17 March 2012: £59 million).

In 2013/14, including the effect of the application of IAS 19 Revised, Sainsbury's expects the pensions service cost to increase by circa £5 million to £64 million; the pension financing charge reported outside of UPBT is expected to increase by £22 million to £27 million. Furthermore, all pension scheme expenses will now be shown as a charge outside of UPBT; Sainsbury's expects this cost to be circa £6 million in 2013/14. These changes are also expected to reduce the balance sheet pension deficit before tax by circa £135 million in 2013/14.

Pension costs

	2014 forecast IAS 19 Revised £m	**2013 IAS 19 £m**
Current service cost - defined benefit scheme	(64)	**(59)**
Charge within underlying profit	(64)	**(59)**
Interest cost	(294)	**(280)**
Interest income on assets	267	**275**
Financing charge (outside underlying profit)	(27)	**(5)**
Scheme expenses (charge outside underlying profit)	(6)	**-**
Total charge to income statement	(97)	**(64)**

The defined benefit pension 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.

On 10 April 2013, the Group entered into a consultation period regarding the proposed cessation of the future benefits accrual within its defined benefit pension scheme. Under this proposal, impacted colleagues will be offered membership to the Group's existing defined contributions plan.

If the proposal proceeds, it is expected to result in a decrease in the defined benefit pension scheme service cost and an increase in contribution to the defined contribution plans, as well as a reduction in the defined benefit pension liability. Subject to the proposal being accepted, the financial impact will depend on both the implementation date and the extent impacted colleagues continue membership in the defined contribution plans and, until consultation completes, cannot be estimated with any degree of certainty.

Group income statement
for the 52 weeks to 16 March 2013

	Note	**2013 £m**	2012 £m
Revenue	4	**23,303**	22,294
Cost of sales		**(22,026)**	(21,083)
Gross profit		**1,277**	1,211
Administrative expenses		**(457)**	(419)
Other income		**67**	82
Operating profit		**887**	874
Finance income	5	**19**	35
Finance costs	5	**(142)**	(138)
Share of post-tax profit from joint ventures		**24**	28
Profit before taxation		**788**	799
Analysed as:			
Underlying profit before tax		**756**	712
Profit on disposal of properties	3	**66**	83
Investment property fair value movements	3	**(10)**	-
Financing fair value movements	3	**(10)**	(16)
IAS 19 pension financing (charge)/credit	3	**(5)**	17
One-off items	3	**(9)**	3
		788	799
Income tax expense	6	**(174)**	(201)
Profit for the financial year		**614**	598
Attributable to:			
Owners of the parent		**614**	598
Non-controlling interests		**-**	-
		614	598
Earnings per share	7	**pence**	pence
Basic		**32.6**	32.0
Diluted		**32.1**	31.5
Underlying basic		**30.7**	28.1
Underlying diluted		**30.2**	27.8
Dividends per share	8	**pence**	pence
Interim		**4.8**	4.5
Proposed final (not recognised as a liability at balance sheet date)		**11.9**	11.6

Group statement of comprehensive income
for the 52 weeks to 16 March 2013

	2013 £m	2012 £m
Profit for the financial year	**614**	598
Other comprehensive income/(expense):		
Currency translation differences	**1**	-
Net actuarial losses on defined benefit pension scheme	**(366)**	(222)
Available-for-sale financial assets fair value movements		
Group	**11**	1
Joint ventures	**2**	2
Cash flow hedges effective portion of fair value movements		
Group	**17**	-
Joint ventures	**1**	2
Current tax on items recognised directly in other comprehensive income	**28**	59
Deferred tax on items recognised directly in other comprehensive income	**53**	11
Total other comprehensive expense for the financial year (net of tax)	**(253)**	(147)
Total comprehensive income for the financial year	**361**	451
Attributable to:		
Owners of the parent	**361**	451
Non-controlling interests	**-**	-
	361	451

Group balance sheet
At 16 March 2013 and 17 March 2012

	Note	2013 £m	2012 £m
Non-current assets			
Property, plant and equipment		**9,804**	9,329
Intangible assets		**171**	160
Investments in joint ventures		**532**	566
Available-for-sale financial assets		**189**	178
Other receivables		**38**	38
Derivative financial instruments		**47**	37
		10,781	10,308
Current assets			
Inventories		**987**	938
Trade and other receivables		**306**	286
Derivative financial instruments		**91**	69
Cash and cash equivalents	9	**517**	739
		1,901	2,032
Non-current assets held for sale		**13**	-
		1,914	2,032
Total assets		**12,695**	12,340
Current liabilities			
Trade and other payables		**(2,726)**	(2,740)
Borrowings		**(165)**	(150)
Derivative financial instruments		**(65)**	(88)
Taxes payable		**(148)**	(149)
Provisions		**(11)**	(9)
		(3,115)	(3,136)
Net current liabilities		**(1,201)**	(1,104)
Non-current liabilities			
Other payables		**(173)**	(137)
Borrowings		**(2,617)**	(2,617)
Derivative financial instruments		**(4)**	(1)
Deferred income tax liability		**(247)**	(286)
Provisions		**(39)**	(63)
Retirement benefit obligations	11	**(766)**	(471)
		(3,846)	(3,575)
Net assets		**5,734**	5,629
Equity			
Called up share capital		**541**	538
Share premium account		**1,075**	1,061
Capital redemption reserve		**680**	680
Other reserves		**(623)**	(365)
Retained earnings		**4,060**	3,715
Equity attributable to owners of the parent		**5,733**	5,629
Non-controlling interests		**1**	-
Total equity		**5,734**	5,629

Group cash flow statement

for the 52 weeks to 16 March 2013

	Note	**2013** **£m**	2012 £m
Cash flows from operating activities			
Cash generated from operations	9	**1,268**	1,291
Interest paid		**(143)**	(142)
Corporation tax paid		**(144)**	(82)
Net cash generated from operating activities		**981**	1,067
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,067)**	(1,227)
Purchase of intangible assets		**(26)**	(25)
Proceeds from disposal of property, plant and equipment		**205**	314
Acquisition of and investment in subsidiaries net of cash acquired		**(21)**	(1)
Increase in loans to joint ventures		**(5)**	(1)
Investment in joint ventures		**(1)**	-
Investment in financial assets		**-**	(1)
Proceeds from repayment of loan to joint venture		**16**	-
Proceeds from disposal of financial assets		**-**	40
Interest received		**19**	18
Dividends received		**18**	-
Net cash used in investing activities		**(862)**	(883)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**17**	14
Repayment of short-term borrowings		**(50)**	-
Proceeds from long-term borrowings		**75**	391
Repayment of long-term borrowings		**(61)**	(51)
Repayment of capital element of obligations under finance lease payments		**(20)**	(9)
Interest elements of obligations under finance lease payments		**(7)**	(5)
Dividends paid	8	**(308)**	(285)
Net cash (used in)/generated from financing activities		**(354)**	55
Net (decrease)/increase in cash and cash equivalents		**(235)**	239
Net opening cash and cash equivalents		**739**	500
Closing cash and cash equivalents	9	**504**	739

Group statement of changes in equity
for the 52 weeks to 16 March 2013

	Note	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 year		**-**	**-**	**-**	**614**	**614**	**-**	**614**
Other comprehensive income/(expense):								
Currency translation differences		**-**	**-**	**1**	**-**	**1**	**-**	**1**
Actuarial losses on defined benefit pension scheme (net of tax)		**-**	**-**	**(287)**	**-**	**(287)**	**-**	**(287)**
Available-for-sale financial assets fair value movements (net of tax):								
Group		**-**	**-**	**13**	**-**	**13**	**-**	**13**
Joint ventures		**-**	**-**	**2**	**-**	**2**	**-**	**2**
Cash flow hedges effective portion of changes in fair value (net of tax):								
Group		**-**	**-**	**17**	**-**	**17**	**-**	**17**
Joint ventures		**-**	**-**	**1**	**-**	**1**	**-**	**1**
Total comprehensive (expense)/income for the year ended 16 March 2013		**-**	**-**	**(253)**	**614**	**361**	**-**	**361**
Transactions with owners:								
Dividends paid	8	**-**	**-**	**-**	**(308)**	**(308)**	**-**	**(308)**
Amortisation of convertible bond equity component		**-**	**-**	**(5)**	**5**	**-**	**-**	**-**
Share-based payment (net of tax)		**-**	**-**	**-**	**36**	**36**	**-**	**36**
Shares issued		**-**	**-**	**-**	**-**	**-**	**1**	**1**
Shares vested		**-**	**-**	**-**	**1**	**1**	**-**	**1**
Allotted in respect of share option schemes		**3**	**14**	**-**	**(3)**	**14**	**-**	**14**
At 16 March 2013		**541**	**1,075**	**57**	**4,060**	**5,733**	**1**	**5,734**

At 20 March 2011	Note	535	1,048	467	3,374	5,424	-	5,424
Profit for the year		-	-	-	598	598	-	598
Other comprehensive (expense)/income:								
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):								
Group		-	-	-	-	-	-	-
Joint ventures		-	-	2	-	2	-	2
Total comprehensive (expense)/income for the year ended 17 March 2012		-	-	(147)	598	451	-	451
Transactions with owners:								
Dividends paid	8	-	-	-	(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

Notes to the financial information

1 Status of financial information

The financial information, which comprises the Group income statement, Group statement of comprehensive income, Group balance sheet, Group cash flow statement, Group statement of changes in equity and related notes, is derived from the full Group financial statements for the 52 weeks to 16 March 2013 and does not constitute full accounts within the meaning of section 435 (1) and (2) of the Companies Act 2006.

The Group Annual Report and Financial Statements 2013 on which the auditors have given an unqualified report and which does not contain a statement under section 498(2) or (3) of the Companies Act 2006, will be delivered to the Registrar of Companies in due course, and made available to shareholders in June 2013.

The financial year represents the 52 weeks to 16 March 2013 (prior financial year 52 weeks to 17 March 2012). The consolidated financial statements for the 52 weeks to 16 March 2013 comprise the financial statements of the Company and its subsidiaries ('Group') and the Group's interests in associates and joint ventures.

2 Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and International Financial Reporting Interpretations Committee ('IFRICs') interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs.

The financial statements are presented in sterling, rounded to the nearest million ('£m') unless otherwise stated. They have been prepared on a going concern basis under the historical cost convention, except for derivative financial instruments, investment properties and available-for-sale financial assets that have been measured at fair value.

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 adopted the following new and amended statements and interpretations as of 18 March 2012 and concluded that they are either not relevant to the Group or that they did not have a significant impact on the Group's financial statements.

- Amendments to IFRS 1 'First time adoption of IFRS', Severe hyperinflation and removal of fixed dates for first-time adopters.
- Amendments to IFRS 7 'Financial instruments: Disclosures', Disclosures on transfers of financial assets.

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 IFRSs 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:

	2013 £m	2012 £m
Underlying profit before tax	**756**	712
Profit on disposal of properties[1]	**66**	83
Investment property fair value movements	**(10)**	-
Financing fair value movements[2]	**(10)**	(16)
IAS 19 pension financing (charge)/credit	**(5)**	17
One-off items	**(9)**	3
Total adjustments	**32**	87
Profit before tax	**788**	799

1 Profit on disposal of properties for the financial year comprised of £67 million for the Group (2012: £82 million) and a £1 million loss for the property joint ventures (2012: £1 million profit).
2 Financing fair value movements for the financial year comprised a £7 million loss for the Group (2012: £11 million loss) and a £3 million loss for the joint ventures (2012: £5 million loss).

One-off items

Included within one-off items is £20 million of transaction and transition costs incurred relating to the ongoing purchase of the remaining 50 per cent of Sainsbury's Bank. Other one-off costs of £5 million have been incurred for internal restructuring. A disposal provision for indemnities of £16 million has also been released during the year as it is no longer required. This provision was initially recorded within one-off items outside underlying profit before tax.

The £3 million one-off item in the prior year relates 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 Segment reporting

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

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

Management have determined the operating segments based on the information provided to the Operating Board (the Chief Operating Decision Maker for the Group) to make operational decisions on the management of the Group. All material operations and assets are in the UK. The business of the Group is not subject to highly seasonal fluctuations although 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. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

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

52 weeks to 16 March 2013	Retailing £m	Financial services £m	Property investments £m	Group £m
Segment revenue	**23,303**	**-**	**-**	**23,303**
Underlying operating profit	**829**	**-**	**-**	**829**
Underlying finance income	**19**	**-**	**-**	**19**
Underlying finance costs	**(130)**	**-**	**-**	**(130)**
Underlying share of post-tax profit from joint ventures	**-**	**22**	**16**	**38**
Underlying profit before tax	**718**	**22**	**16**	**756**
Profit/(loss) on disposal of properties	**67**	**-**	**(1)**	**66**
Financing fair value movements	**(7)**	**-**	**(3)**	**(10)**
Investment property fair value movements	**-**	**-**	**(10)**	**(10)**
IAS 19 pension financing charge	**(5)**	**-**	**-**	**(5)**
One-off items	**11**	**(20)**	**-**	**(9)**
Profit before tax	**784**	**2**	**2**	**788**
Income tax expense				**(174)**
Profit for the financial period				**614**
Assets	**12,163**	**-**	**-**	**12,163**
Investment in joint ventures	**-**	**159**	**373**	**532**
Segment assets	**12,163**	**159**	**373**	**12,695**
Segment liabilities	**(6,961)**	**-**	**-**	**(6,961)**
Other segment items				
Capital expenditure[1]	**1,145**	**-**	**-**	**1,145**
Depreciation expense	**504**	**-**	**-**	**504**
Amortisation expense	**13**	**-**	**-**	**13**
Share-based payments	**33**	**-**	**-**	**33**

1 Capital expenditure consists of property, plant and equipment additions of £1,120 million and intangible asset additions of £25 million.

4 Segment reporting (continued)

52 weeks to 17 March 2012	Retailing £m	Financial services £m	Property investments £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 items	3	-	-	3
Profit before tax	771	16	12	799
Income tax expense				(201)
Profit for the financial period				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)
Other segment items				
Capital expenditure[2]	1,287	-	-	1,287
Depreciation expense	486	-	-	486
Amortisation expense	13	-	-	13
Share-based payments	27	-	-	27

2 Capital expenditure consists of property, plant and equipment additions of £1,265 million and intangible asset additions of £22 million.

5 Finance income and finance costs

	2013 £m	2012 £m
Interest on bank deposits and other financial assets	**19**	18
IAS 19 pension financing credit	**-**	17
Finance income	**19**	35
Borrowing costs:		
Secured borrowings	**(98)**	(108)
Unsecured borrowings	**(55)**	(46)
Obligations under finance leases	**(7)**	(5)
Provisions - amortisation of discount	**(2)**	(2)
Other	**-**	(1)
	(162)	(162)
Other finance costs:		
Interest capitalised - qualifying assets	**32**	35
Financing fair value losses[1]	**(7)**	(11)
IAS 19 pension financing charge	**(5)**	-
	20	24
Finance costs	**(142)**	(138)

1 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

	2013 £m	2012 £m
Current tax expense	**157**	77
Deferred tax expense	**17**	124
Total income tax expense in income statement	**174**	201

The effective tax rate of 22.1 per cent (2012: 25.2 per cent) is lower than (2012: lower than) the standard rate of corporation tax in the UK. The differences are explained below:

	2013 £m	2012 £m
Profit before taxation	**788**	799
Income tax at UK corporation tax rate of 24.08% (2012: 26.07%)	**190**	208
Effects of underlying items:		
Disallowed depreciation on UK properties	**29**	30
Over provision in prior years	**-**	(12)
Revaluation of deferred tax balances	**(21)**	(17)
Other	**(11)**	(1)
Effects of non-underlying items:		
Profit on disposal of properties	**(5)**	(23)
Investment property fair value movements	**2**	-
Revaluation of deferred tax balances	**(11)**	11
(Over)/under provision in prior years	**(1)**	4
Other	**2**	1
Total income tax expense in income statement	**174**	201

On 21 March 2012, the Chancellor announced that the main rate of UK corporation tax would reduce to 23.0 per cent from 1 April 2013. This was substantively enacted on 3 July 2012 and hence the effect of the change on the deferred tax balances has been included in the 2013 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.

	2013 million	2012 million
Weighted average number of shares in issue	**1,881.5**	1,870.3
Weighted average number of dilutive share options	**20.5**	13.6
Weighted average number of dilutive convertible bonds	**46.0**	45.6
Total number of shares for calculating diluted earnings per share	**1,948.0**	1,929.5

	£m	£m
Profit for the financial year	**614**	598
Add interest on convertible bonds, net of tax	**11**	10
Diluted earnings for calculating diluted earnings per share	**625**	608

	£m	£m
Profit for the financial year attributable to owners of the parent	**614**	598
(Less)/add (net of tax):		
Profit on disposal of properties	**(55)**	(80)
Investment property fair value movements	**10**	-
Financing fair value movements	**8**	13
IAS 19 pension financing charge/(credit)	**3**	(13)
One-off items	**8**	(3)
Revaluation of deferred tax balances	**(11)**	11
Underlying profit after tax	**577**	526
Add interest on convertible bonds, net of tax	**11**	10
Diluted underlying profit after tax	**588**	536

	pence per share	pence per share
Basic earnings	**32.6**	32.0
Diluted earnings	**32.1**	31.5
Underlying basic earnings	**30.7**	28.1
Underlying diluted earnings	**30.2**	27.8

8 Dividend

	2013 pence per share	2012 pence per share	2013 £m	2012 £m
Amounts recognised as distributions to equity holders in the year:				
Final dividend of prior financial year	**11.6**	10.8	**218**	201
Interim dividend of current financial year	**4.8**	4.5	**90**	84
	16.4	15.3	**308**	285

After the balance sheet date, a final dividend of 11.9 pence per share (2012: 11.6 pence per share) was proposed by the Directors in respect of the 52 weeks to 16 March 2013, resulting in a total final proposed dividend of £225 million (2012: £218 million). The proposed final dividend has not been included as a liability at 16 March 2013.

9 Notes to the cash flow statements

a. Reconciliation of operating profit to cash generated from operations

	2013 £m	2012 £m
Profit before tax	**788**	799
Net finance costs	**123**	103
Share of post-tax profits of joints ventures	**(24)**	(28)
Operating profit	**887**	874
Adjustments for:		
Depreciation expense	**504**	486
Amortisation expense	**13**	13
Profit on disposal of properties	**(67)**	(82)
Foreign exchange differences	**-**	(6)
Share-based payments expense	**33**	27
Retirement benefit obligations[1]	**(76)**	(74)
Operating cash flows before changes in working capital	**1,294**	1,238
Changes in working capital:		
Increase in inventories	**(57)**	(126)
Increase in trade and other receivables	**(34)**	-
Increase in trade and other payables	**87**	182
Decrease in provisions	**(22)**	(3)
Cash generated from operations	**1,268**	1,291

1 The adjustment for retirement benefit obligations reflects the difference between the service charge of £61 million (2012: £60 million) for the defined benefit scheme and the cash contributions of £137 million made by the Group to the defined benefit scheme (2012: £134 million).

b. Cash and cash equivalents

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

	2013 £m	2012 £m
Cash in hand and at bank	**115**	228
Money market funds and deposits	**402**	511
Bank overdrafts	**(13)**	-
Net cash and cash equivalents	**504**	739

10 Analysis of net debt

	2013 £m	2012 £m
Non-current assets		
Interest bearing available-for-sale financial assets	**34**	31
Derivative financial instruments	**47**	37
	81	68
Current assets		
Cash and cash equivalents	**517**	739
Derivative financial instruments	**91**	69
	608	808
Current liabilities		
Bank overdrafts	**(13)**	-
Borrowings	**(131)**	(131)
Finance leases	**(21)**	(19)
Derivative financial instruments	**(65)**	(88)
	(230)	(238)
Non-current liabilities		
Borrowings	**(2,478)**	(2,493)
Finance leases	**(139)**	(124)
Derivative financial instruments	**(4)**	(1)
	(2,621)	(2,618)
Total net debt	**(2,162)**	(1,980)

Reconciliation of net cash flow to movement in net debt

	2013 £m	2012 £m
Net debt at beginning of the year	**(1,980)**	(1,814)
Net (decrease)/increase in cash and cash equivalents	**(235)**	239
Decrease in interest bearing financial asset	**-**	(40)
Net decrease/(increase) in borrowings[1]	**27**	(262)
Net increase in derivatives[1]	**26**	-
Net increase of obligations under finance leases	**(17)**	(84)
Fair value movements	**17**	(17)
Other non-cash movements	**-**	(2)
Net debt at the end of the year	**(2,162)**	(1,980)

1 Excluding fair value movements.

11 Retirement benefit obligations

Retirement benefit obligations relate to a defined benefit scheme, the Sainsbury's Pension Scheme, (the 'Scheme') and an unfunded pension liability relating to senior employees. The Scheme was closed to new employees on 31 January 2002. 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 16 March 2013 have been based, where appropriate, on the most recent actuarial valuation and updated by KPMG as actuarial advisors to the Group to take account of the requirements of IAS 19.

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 amounts recognised in the balance sheet are as follows:

	2013 **£m**	2012 £m
Present value of funded obligations	**(6,594)**	(5,654)
Fair value of plan assets	**5,841**	5,192
	(753)	(462)
Present value of unfunded obligations	**(13)**	(9)
Retirement benefit obligations	**(766)**	(471)
Deferred income tax asset	**78**	16
Net retirement benefit obligations	**(688)**	(455)

	2013 **%**	2012 %
Discount rate	**4.6**	5.0
Inflation rate	**3.5**	3.3
Real discount rate	**1.1**	1.7

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

12 Post balance sheet events

On 7 May 2013, the Group signed a share purchase agreement with Lloyds Banking Group to purchase the remaining 50 per cent of Sainsbury's Bank and take sole ownership. The Group intends to fund the future consideration from internal resources. The transaction, subject to regulatory approval, is expected to complete in January 2014.

On 10 April 2013, the Group entered into a consultation period regarding the proposed cessation of the future accrual of benefits within its defined benefit pension scheme. Under this proposal, impacted colleagues will be offered membership of the Group's existing defined contribution plans.

If the proposal proceeds, it is expected to result in a decrease in the defined benefit pension scheme service cost and an increase in contributions to the defined contribution plans, as well as a reduction in the defined benefit pension liability. Subject to the proposal being accepted, the financial impact will depend on both the implementation date and the extent to which impacted colleagues continue membership of the defined contribution plans and therefore until the consultation completes, cannot be estimated with any degree of certainty.