Preliminary results for the 52 weeks to 15 March 2014

Good sales and profit growth

Financial summary (1)

- Underlying Group sales (inc VAT) up 2.8 per cent to £26,353 million (2012/13: £25,632 million)(2)
- Retail sales (inc VAT, ex fuel) up 2.7 per cent
- Like-for-like sales (inc VAT, ex fuel) up 0.2 per cent
- Underlying profit before tax up 5.3 per cent to £798 million (2012/13: £758 million)(3)
- Underlying basic earnings per share up 6.5 per cent to 32.8 pence (2012/13: 30.8 pence)(4)
- Return on capital employed up 19 bps to 11.3 per cent (2012/13: 11.1 per cent)(5)
- Return on capital employed excluding pension fund deficit of 10.4 per cent (2012/13: 10.4 per cent)(5)
- Proposed full year dividend of 17.3 pence, up 3.6 per cent, cover 1.90 times (2012/13: 16.7 pence, cover 1.84 times)

Statutory

- Group sales (ex VAT, inc fuel) up 2.8 per cent to £23,949 million (2012/13: £23,303 million)
- Profit before tax up 16.3 per cent to £898 million (2012/13: £772 million)
- Items excluded from underlying results contributed £100 million of profit (2012/13: £14 million profit)
- Basic earnings per share up 17.8 per cent to 37.7 pence (2012/13: 32.0 pence)

Operating performance

- Market share maintained in tough retail environment; still at highest for a decade at 16.8 per cent(6)
- Operational cost savings of around £120 million
- Capital expenditure reduced to £888 million (3.4 per cent of sales) and year end net debt £2.4 billion
- Underlying operating margin improved by 8 bps (up 7 bps at constant fuel prices)
- Acquisition of Sainsbury's Bank completed as planned on 31 January 2014; transition remains on track
- Defined benefit pension fund triennial valuation complete resulting in funding deficit of £592 million, a £635 million improvement on the 2009 valuation. Recovery plan agreed in 2009 remains unchanged
- Awarded:
    - FTSE100 Business of the Year 2013 – QBE National Business Awards
    - Supermarket of the Year – Retail Industry Awards (sixth time in eight years)
    - Online Retailer of the Year – Grocer Gold awards (second consecutive year)
    - Convenience Retailer of the Year – Retail Industry Awards (fourth consecutive year)
    - Gold Accreditation – Investors In People (only supermarket to achieve this)

Strategy highlights

- *Great food:* Our own-brand ranges and our focus on the quality and integrity of our food give us a clear competitive advantage. In both sales and volumes, own-brand is growing at over twice the rate of branded goods. The re-launched *by Sainsbury's* range now has over 7,000 lines, while *Taste the Difference* is showing double-digit growth and has achieved over £1.1 billion in annual sales
- *Compelling general merchandise & clothing:* Sales are increasing at over twice the rate of food, and our non-food ranges are now on sale in over 400 stores; 34 per cent of our customers can now access, within a 15 minute drive, the full non-food offer compared with just 11 per cent six years ago. The relaunch of our *Tu* clothing brand represented the single biggest investment in our clothing business since 2004, and *Tu* generates annual sales of approximately £750 million
- *Complementary channels & services:* In our convenience channel, great locations and an emphasis on fresh food have helped us deliver sales growth of around 19 per cent. Our convenience stores now account for a third of Britain's convenience market growth. Our groceries online business grew sales by over 12 per cent and achieved over £1 billion in annual sales. This year we re-platformed our groceries online website to improve customer usability and customer satisfaction is at an all-time high. We acquired the remaining 50 per cent shareholding of Sainsbury's Bank from Lloyd's Banking Group on 31 January 2014
- *Developing new business:* Our 275 in-store pharmacies carried out over 290,000 consultations last year. *Sainsbury's Energy* has over 60 per cent more customers than last year as people seek out the best deal in the market. Our *Sainsbury's Entertainment* website has moved to a completely on-demand model

- *Growing space & creating property value:* We opened 13 supermarkets and 91 convenience stores, and extended six supermarkets, meeting our target of adding one million sq ft of additional space, with full year core capital expenditure of £888 million (excluding Sainsbury's Bank) below previous guidance of £1.1 billion. Our property portfolio now has a market value of £12.0 billion. This year we delivered profits of £52 million and over the past five years we have raised £1.2 billion through disposals, realising property profits of over £335 million. As announced at our interim results, following a review of our property pipeline we have identified some sites where we no longer wish to build a supermarket, resulting in a £92 million impairment within one-off items

David Tyler, Chairman, said: "Against a challenging backdrop, Sainsbury's has delivered another year of improving profits, and our market share remains at its highest level for a decade. We have grown underlying earnings per share by 6.5 per cent, to 32.8 pence. As a result the Board is recommending a full year dividend of 17.3 pence, an increase of 3.6 per cent.

"We announced in January that Justin King will step down in July after ten years as Chief Executive. His 'Making Sainsbury's Great Again' plan transformed our business and has seen Sainsbury's consistently outperform the growth of the market. Under his leadership, customer transactions have increased by ten million a week to around 24 million, annual sales have grown by £10.3 billion to £26.4 billion and underlying profit before tax has trebled to £798 million. He has been a truly exceptional leader and, on behalf of all our colleagues, I thank him for his outstanding achievements."

Justin King, Chief Executive said: "In a competitive retail environment we have focused on delivering high quality, affordable own-brand products across all our channels, helping customers to *Live Well for Less*.

"While the general economic outlook is showing some signs of improvement, conditions in the food retail sector are likely to remain challenging for the foreseeable future as customers continue to spend cautiously. We remain committed to investing for the future and continue to see significant opportunities for growth. We remain confident that our differentiated offer, supported by the 'value of values', Nectar data and Brand Match, will allow us to outperform our peers in the year ahead.

"After ten wonderful years at Sainsbury's, I will leave the business at our AGM in July and will hand over to Mike Coupe, our Group Commercial Director. I am delighted that Mike will lead Sainsbury's on the next phase of its journey. Mike played an instrumental role in our 'Making Sainsbury's Great Again' plan and is ideally equipped to lead Sainsbury's as the Company continues to develop and grow in tune with the changing consumer and industry environment."

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Notes:

1. 2012/13 financials have been restated as a result of the amendments made to IAS 19 'Employee Benefits' ('IAS 19 Revised')
2. Underlying group sales excludes a £3 million acquisition adjustment fair value unwind
3. Underlying profit before tax: Profit before tax before any profit or loss on the disposal of properties, investment property fair value movements, retailing financing fair value movements, impairment of goodwill, IAS 19 Revised pension financing element, defined benefit pension scheme expenses, acquisition adjustments and one-off items that are material and infrequent in nature.
4. 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 Employee Share Ownership Plan ESOP trusts, which are treated as cancelled.
5. 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). 2013/14 closing capital employed has been reduced by 50 per cent of Sainsbury's Bank closing net assets (£243 million) to reflect the fact that the Bank was only consolidated in the accounts for four weeks of the 2013/14 financial year.
6. Sainsbury's market share remained at 16.8 per cent (source: Kantar, 52 weeks ended 2 March 2014).
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 2014/15 First Quarter Trading Statement at 07:00 (GMT) on 11 June 2014.

A results presentation for analysts and investors will be held at 09:30 on 7 May 2014.

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

To listen to the results presentation: To listen to the live results presentation by telephone, please dial 0844 800 3850 (or +44 20 8996 3900 if you are unable to use the primary number). The pass code for the event is 409 904. A transcript of the presentation and an archive recording of this event will be available later in the day at www.j-sainsbury.co.uk.

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Marketplace

The changes in consumer behaviour we began to see a few years ago are now entrenched, with increasingly savvy shoppers shopping more frequently, topping up their supermarket and online shop in convenience stores and discounters throughout the week to manage their budget and food waste.

Although consumer confidence is gradually recovering, household budgets remain under pressure. Whilst disposable income is returning to growth, it remains below its pre-financial crisis level and a key concern for many shoppers. This, together with rising utility bills and housing costs, means that savvy shopping behaviour learned over the past five years has become the norm and is unlikely to change in the short term.

The UK grocery market remains intensely competitive and the lack of volume growth means that retailers must work harder than ever to attract and retain customers. The growth of the discounters has put pressure on the 'Big Four' and contributed to a high level of price investment across the sector, particularly on everyday food items, and conditions are likely to remain challenging for the foreseeable future. However, consumers continue to value quality, freshness and provenance when choosing where to shop.

Sainsbury's has a clearly differentiated offer, based on quality own-brand products, sourced with integrity, priced fairly and labelled transparently, and supported by a great in-store experience. Our high standards and investments in quality were evident during the horsemeat contamination issue in 2013 – with no horsemeat found in any Sainsbury's product. Our strong multi-channel presence has been a key reason why we were the only one of the 'Big Four' supermarkets to maintain market share over the last year – allowing customers to mix visits to supermarkets or convenience stores with shopping online.

Despite high levels of promotional activity across the sector, *Brand Match* continues to reinforce the competitiveness of our price position. Nectar gives us a key competitive advantage, and in conjunction with coupon-at-till technology, enables us to offer our customers truly targeted offers on products that they want to buy and to incentivise multi-channel shopping.

The non-food markets in which we operate have seen stronger volume and value growth in the last year and we expect these markets to be more buoyant as the economy returns to growth. In contrast to food retailing, the recession and the growth of online shopping have led to a reduction in the number of physical outlets in many non-food areas. This increases the attractiveness of supermarkets that offer a wide selection of non-food ranges which are convenient to purchase alongside the supermarket shop.

Great food

Providing great quality food at fair prices has been our passion for 145 years. We continually strive to help customers *Live Well for Less*, helping them manage the cost of their weekly shop without sacrificing quality.

From *basics* to *Taste the Difference,* our focus on the quality and integrity of our own-brand food gives us a clear competitive advantage. We continue to invest in our own-brand offer and whilst growth in own-brand is deflationary to the top line, it is growing at over twice the rate of branded goods and accounts for over 50 per cent of food sales.

Our re-launched *by Sainsbury's* range now has over 7,000 lines and is driving own-brand penetration, with 97 per cent of customers buying *by Sainsbury's* products. Our premium *Taste the Difference* range achieved double-digit growth and reached over £1.1 billion in annual sales. In September, a state-of-the-art factory opened in Fakenham to create *Taste the Difference* desserts using British ingredients and employing 200 people. This year, readers of Good Housekeeping Magazine voted *Taste the Difference* the most popular supermarket own-brand food range. Our *basics* brand remains the second largest value range in the market, bought by nearly 70 per cent of our customers. Although *basics* sales declined over the year, we re-launched the brand with new packaging and marketing to drive penetration.

Our popular fresh and hot food counters are in more than 500 stores and we have 316 award winning in-store cafes. To date, more than 29,000 colleagues have received City & Guilds-accredited training through our seven Food Colleges, and their knowledge and skills are helping to drive sales in this area. Our '*Make Your Roast Go Further*' campaign was a success with our customers, who appreciated the easy, budget-beating recipes from authentic food-lovers showing how to get the most out of leftovers.

We remained the most trusted food retailer of the 'Big Four' supermarkets before, during and after last year's horsemeat contamination – with no horsemeat found in any of our products. We have conducted isotope testing on foods for 20 years, and DNA testing for 10 years, to guarantee quality and provenance. This year we have increased our investment in food testing, expanding our laboratory and the number of unannounced supplier audits we undertake. In addition, we have strong working relationships with our 2,500 farmers and growers and have invested more than £40 million in our farmer development groups since 2006. In September 2013, we were the first of the 'Big Four' supermarkets to implement the Department of Health's new universal front of pack nutritional labelling.

Our customers want to buy British when it is available, and we are committed to doubling the amount of British food we sell by 2020. This year we achieved 100% British sourcing for all our fresh pork, breaded and roast chicken, frozen chickens and chicken portions - our fresh chicken has been British for over 10 years. In addition, our fresh and frozen beef is British or Irish and the beef in our fresh ready meals, pies, sandwiches, quiches and soups is British, as are our fresh pork sausages, ham and fresh lamb when in season. Extending the season is important to our growers and is another way we can buy more home-grown produce. Last summer we sold over 17 million punnets of British strawberries and in August we became the only 'Big Four' supermarket to sell UK-grown fresh figs. We have been the leading retailer of British apples and pears for the past five years, selling over 200 million pieces, accounting for one in every four sold in the UK.

Improved operating systems and the simplification of in-store and depot processes have increased productivity and reduced food waste without compromising the customer experience. Our new 'Real Time' supply chain system enables us to deliver to stores using the most up-to-date stock information - improving availability for customers and minimising waste. In addition, we are introducing an improved method of transporting and displaying our eggs which reduces breakages significantly, leading to less food waste.

Compelling general merchandise and clothing
Offering customers high-street quality at supermarket prices is key to our success. Sales are increasing at over twice the rate of food, with a strong performance in cookware, kitchen electricals and clothing.

Our general merchandise and clothing proposition has a strong focus on quality and design and this year we created a contemporary department store look and feel, with clothing and homeware co-ordinated and displayed to enhance customers' shopping experience. Currently in 53 stores, the response has been positive and this concept will be in over 150 stores by the end of next year.

The re-launch of our *Tu* clothing brand this autumn represented the single biggest investment in our clothing business since 2004. The range is now merchandised in more than 400 stores, and is the seventh biggest clothing line in the UK by volume, and 11th by value. More than 7.5 million customers buy the range and it generates annual sales of approximately £750 million. In January, we signed a new two-year deal with Gok Wan, extending a successful collaboration with the designer whose fashionable, flattering designs are hugely popular with our customers.

We are a destination shop for parents looking to buy good quality, reasonably priced clothing for their children. *Tu* is the sixth largest UK retailer of childrenswear by volume and we retained fourth position by volume in the schoolwear market. Our Back-to-School event in the summer was the most successful ever.

Annual sales in general merchandise are over £1 billion and continue to grow, making us the sixth largest retailer of homeware by value and taking us to record levels of market share. Building on the success of our *by Sainsbury's* food offer, we are extending the brand into all general merchandise categories. Our hero categories, such as cookware and kitchen electrical ranges, complement our food offer and have delivered double-digit growth this year. The premium *Collection* range has performed particularly well and our *Cook's Collection* cast iron range is now bigger than the UK's market-leading brand by volume.

We have outperformed the market by volume in all our entertainment categories - games, books, DVDs and CDs – enjoying particular success with PS4 and Xbox One consoles, own-brand cookery and children's books.

We continue to engage with our customers and enhance our reputation as a credible clothing and home retailer through point-of-sale material, blogs, videos, social media and our new website s*ainsburyshome.co.uk*. Our strong in-house buying team designs and sources attractive, good quality products and our offices in the Far East, India and Bangladesh build strong relationships with suppliers to ensure rigorous checks are carried out and that our ethical and quality standards are maintained.

Our non-food ranges are on sale in over 400 stores and 34 per cent of our customers can now access, within a 15 minute drive, the full non-food offer, compared to just 11 per cent six years ago. However, with only one in five of our supermarkets merchandising the full non-food offer, we still have further opportunity for growth.

Complementary channels and services
Developing channels and services that complement our existing supermarket business is a key part of our long-term strategy for growth. By investing in our online and convenience businesses, and through the acquisition of Sainsbury's Bank, we are focused on driving sales through increasing customer loyalty.

The trend continues for customers to shop across a range of channels – supermarkets, convenience stores and online, from home and on the go. Helping people shop where, when and how they want, across all channels, is a key driver of loyalty, and where customers shop all three channels their total spend is more than double the average of a supermarket-only shopper.

As well as doing their main supermarket shop, our customers increasingly top up locally, helping them to stick to a budget and cut waste and fuel consumption. We opened 91 convenience stores last year and, with over 600 stores, we now have more convenience stores than supermarkets in our store estate. Our convenience stores now account for a third of Britain's convenience market growth. We recently opened our first Convenience Training College in Brixton, London, which will provide training to colleagues and support our growth in this market. Thanks to the hard work of over 16,000 convenience colleagues we were named Convenience Retailer of the Year for the fourth year running at the Retail Industry Awards in September 2013.

Great locations and an emphasis on fresh food have helped our convenience stores deliver sales growth of around 19 per cent year-on-year, with around six million customer transactions each week and an annual turnover of over £1.8 billion. Christmas Eve was our biggest ever day in convenience – with sales of almost £7 million recorded. Securing appropriate sites has become increasingly competitive, but with fewer than one in ten of the population living within a 15 minute walk of a Sainsbury's Local, there is plenty of opportunity for us to grow, creating jobs for local people and helping revitalise high streets through the increased footfall and trade our stores often bring.

This year our groceries online business reached the significant milestone of £1 billion in annual sales. Our focus on quality, customer service and product availability has resulted in customer satisfaction scores that are at an all-time high. We were named Online Retailer of the Year for the second consecutive year at the Grocer Gold Awards – a testament to the commitment of the 14,000 colleagues who make our online operation a success. Over the past year we have enhanced our groceries online website to give customers faster and more intuitive product search, and an improved recipe and ideas section. In addition, our new mobile website gives us a strategic platform on which to build new functionality in future years. Our groceries online business has grown by over 12 per cent during the year, delivering to over 190,000 customers each week. There was a reduction in the growth of marketing spend whilst we re-platformed the website which impacted on sales growth in the short term. Over 30,000 online customers have already purchased our annual online delivery pass, which we launched in November. We also announced plans to open a dedicated online fulfilment centre within the next few years in Bromley-by-Bow to help meet the growing demand for our online grocery service in London and the South East. When fully operational this new facility will allow us to serve an additional 20,000 online customers each week.

Our general merchandise website offers thousands of own-brand and branded products across home, garden, appliances, technology, toys, sports and leisure. We are continuing to rebalance the online product mix, focusing on categories such as cookware and kitchen electricals, away from high-ticket, less profitable electrical items. Over half our customers collect their orders in-store via our Click & Collect service, available in more than 1,000 of our stores.

Sainsbury's Bank

We acquired the remaining 50 per cent shareholding of Sainsbury's Bank from Lloyds Banking Group on 31 January 2014. Our strategy is to increase the number of Bank customers and enhance loyalty.

Sainsbury's Bank is committed to offering Sainsbury's customers banking and financial services tailored to their specific needs. We consistently offer competitive financial products built on value, quality and reward. Now that the Bank is a wholly owned subsidiary of Sainsbury's, our finance products will be even more closely integrated with the Sainsbury's shopping experience.

With the aim of sustaining prudent growth, the Bank will continue to manage a 42-month transition to become a stand-alone bank. In this time, we will build a new banking platform, migrating from Lloyds Banking Group systems and contact centres and evolve our risk and control framework. We will also build greater people capability including the transfer of banking contact centre colleagues. The new platform has been designed with our customers in mind and will offer additional functionality that will make doing business with us even easier. As we build the new systems, profit growth will be constrained by double running costs. We will incur a total of £260 million in transition costs and capital expenditure moving to the new platform.

In a challenging marketplace, we have continued to see growth in banking against a backdrop of falling net interest margins. Sainsbury's Bank offers a range of insurance products, savings accounts, credit cards, loans and travel money. We currently have 1.6 million active customer accounts and, on average 1.8 million visitors to sainsburysbank.co.uk each month. 27 per cent of these visits are from mobile devices, an increase of 54 per cent year-on-year. We see significant opportunities for growth as only one in 20 Sainsbury's customers has a Sainsbury's Bank product.

Our financial products and services are designed specifically for our customers. These include a Nectar Credit Card which gives extra points on Sainsbury's purchases. Customers are also rewarded for their ongoing loyalty with a range of Bank products offering double Nectar points for two years. We have seen a 31 per cent year-on-year increase in Nectar points awarded to our banking customers.

Our loans regularly feature in best buy tables, with Moneynet naming us Most Consistent Best Buy Loan Provider 2014. The insurance market has become increasingly price-driven, reducing retention 0and profitability; despite this, Sainsbury's Home Insurance recorded its best ever sales in July and August 2013. In addition, our 138 in-store Travel Money bureaux recorded their best ever performance last summer with sales increasing 23 per cent compared to 2012. We also opened 107 ATMs in the last year and now have over 1,400 across our store estate.

We continue to report industry-low levels of customer complaints. Over the last year, complaints per 1,000 customers have reduced by 30 per cent, a reflection of our commitment to delivering the quality of service customers expect from Sainsbury's.

Our strategy for long-term growth is focused on unlocking value by offering shoppers compelling reasons to bank and shop with Sainsbury's. Customers who take out a Bank product spend more with us in-store (up to 15 per cent more per month once they have been with us 24 months), demonstrating increased brand loyalty.

Developing new business

Developing new business and investing beyond our core is part of our long-term strategy for the future. All new ventures carry a certain amount of risk and require investment and time to grow, and some of the businesses in this area are not yet progressing as quickly as we would have liked.

We are committed to providing in-store healthcare services to our customers. Last year, pharmacists in our 275 in-store pharmacies carried out over 290,000 consultations, giving 86,000 flu vaccinations and conducting over 85,000 cholesterol checks. Our stores host 35 NHS GP or nurse-led surgeries and 24 private dental surgeries – our convenient locations and good parking facilities lend themselves perfectly to these services. We have four hospital outpatient pharmacies offering excellent levels of service to the NHS and to patients.

Our mobile phone network - *Mobile by Sainsbury's* - is still in its first year of business and, although we have not progressed as quickly as expected, we continue to test and learn from the dynamic market in which the business operates. *Mobile by Sainsbury's* is a joint venture with Vodafone, offering value-for-money mobile phone tariffs and handsets, and incentivising customers by offering double Nectar points on their grocery and fuel spend in Sainsbury's. As part of our strategy, we have introduced dedicated phone shops in some of our larger stores, offering customers specialist service and advice. In addition, we sell SIM cards in our stores, with 300 stores also offering a range of handsets.

I^2C, our joint venture with Aimia, the operators of Nectar, has marked its first full year of operation. I^2C manages multi-media campaigns to Sainsbury's customers through a unique range of cross-channel tools including coupon-at-till, online, in-store sampling and Sainsbury's Magazine. It also markets customer insights to our supply base.

To address the competition in the entertainment market, we are trialling a range of services for our customers to keep pace with the fast-growing trend for downloading and streaming entertainment. We have moved to a completely on-demand model for our entertainment website, whilst continuing to sell physical products in our supermarkets. Although still very small, in its first year of trading, *eBooks by Sainsbury's* has trialled a number of initiatives, including being the first to offer free ebooks for those buying the physical version.

Sainsbury's Energy offers great value gas and electricity, with the reward of Nectar points. We also offer cost-saving products such as solar panels and energy efficient boilers. We have gained over 60 per cent more customers than last year as people look for the best deals in this highly regulated market.

Growing space and creating property value

In the past five years, our property portfolio has grown by £4.5 billion, and its market value is now £12.0 billion. Activity during the year delivered property profits of £52 million and, over five years we have raised £1.2 billion through disposals, realising property profits of over £335 million.

This year we opened 13 new supermarkets, 91 convenience stores and extended six supermarkets, a total of one million sq ft of additional space, in line with our targets. We continue to invest strategically in our store estate through a programme of extensions and refurbishments.

Our convenience stores accounted for a third of Britain's convenience market growth, with sales of over £1.8 billion and year-on-year growth of around 19 per cent. We reached a milestone in January with the opening of our Ballsall Common Local, when the number of convenience stores in our estate overtook the number of supermarkets. Convenience stores deliver higher returns and make a valuable contribution to the local community, bringing increased trade and footfall and providing jobs for local people. We continue to open around two new Sainsbury's Locals per week.

Our supermarket opening programme included a 50,000 sq ft store in Penzance which opened in November, giving a welcome economic and employment boost to the area. We recruited 300 local people, many of whom had previously faced tough barriers to employment.

We have continued to maximise the value of our property assets, working with joint venture partners to deliver new leisure, residential, and commercial opportunities whilst adding trading space to our estate. We are delivering a £500 million project with Barratt London at Nine Elms, building 737 new homes, a new 80,000 sq ft Sainsbury's store and 27,000 sq ft of local shops, restaurants and office space, complementing the new Nine Elms tube station development on the Northern Line extension.

We are also investing in our logistics infrastructure and opened a new £30 million convenience depot in Thameside and when fully operational the facility will employ over 600 colleagues, to support the growth of our convenience store network in London and the South East. Our first dedicated online fulfilment centre will also open in the next few years and work has begun on a new one million sq ft distribution facility in Daventry which will create over 900 jobs and support our growing general merchandise business. Due to open in 2015, it has both road and rail operations including a new intermodal terminal connected to the existing railway infrastructure. Separately, we have relocated some other roles from London to our store support centres in Coventry and Manchester.

Following a review of our property pipeline we identified a number of sites that we no longer wish to develop, resulting in a £92 million impairment within one-off items. Our property valuation as at 15th March 2014 is £12.0 billion mainly as a result of an improvement in yields to 4.7 per cent. We continued to take advantage of these good property yields, achieving over £300 million in property disposal proceeds, generating a profit on disposal of £52 million.

To reduce our operational carbon emissions by 30 per cent, we have started to build highly sustainable, low carbon stores such as our new 'Triple Zero' stores in Leicester and Weymouth. In both these stores we use power generated from waste in our supply chain, and have achieved 'water neutral' status through offsetting partnerships in the local community, ensuring that the total amount of water used within the catchment area will not increase as a result of our stores.

Values

Our promise to help customers *Live Well for Less* is about more than just price. Our values are integral to our relationships with suppliers, colleagues and other stakeholders. We aim to ensure they differentiate us from our competitors and give us a real commercial advantage.

Over the year we have continued to make good progress across our five values and against our *20x20 Sustainability Plan*, with highlights including:

Best for food and health

- First major supermarket to introduce the Department of Health's nutritional labelling
- Over 32% growth in the volume of lighter alcohol wines sold since 2010 and calorie labelling introduced on own-brand *Winemakers' Selection* wine
- Over 290,000 consultations by in-store pharmacists this year

Sourcing with integrity

- Achieved 100 per cent British sourcing for our fresh pork
- Gold Award and joint first in Marine Conservation Society survey; leading retailer of Marine Stewardship Council-certified fish and RSPCA Freedom Food products in the UK
- Awarded £1 million in British farming grants and established a unique agricultural apprenticeship scheme

Respect for our environment

- Achieved 53 per cent relative reduction in operational water use compared with 2005/06, saving one billion litres per year; first retailer to achieve the Carbon Trust Water Standard
- All operational waste put to positive use, avoiding landfill; general waste is recycled or recovered, surplus food goes to charity, or is used as animal feed or to generate power via anaerobic digestion
- Green Retailer of the Year at the Grocer Gold Awards; ranked in the top ten of Carbon Clear's FTSE 100 companies with the best carbon management

Making a positive difference to our community

- With the support of our customers, colleagues and suppliers we have raised over £40 million for good causes this year, including over £6.5 million for Sport Relief, over £4.5 million for The Royal British Legion and over £2 million for local charities and community groups
- £136 million worth of Active Kids equipment and experiences have been donated since 2005. Over 51,000 schools, clubs, nurseries and youth groups are now registered through the scheme
- Sponsored Sainsbury's Summer Series, including Sainsbury's Anniversary Games and Sainsbury's School Games. Sponsorship of the British Paralympic Association helped support athletes competing at the Sochi Winter Games
- We are proud to pay our fair share of tax. Whilst we are obliged to pay tax in accordance with the law, we also ensure that our taxation policy is aligned with our corporate values. We maintain good corporate practice and strict controls in order to protect our shareholders' funds

A great place to work

- Awarded second consecutive Gold Investors in People accreditation– the only supermarket to receive this accolade
- Nearly 5,000 new job opportunities created through store openings and expansions this year
- Created 150 fast-track Trainee Manager places; continue to train apprentices through a mix of vocational training and nationally recognised qualifications
- To date, over 29,000 colleagues who work on our fresh food counters, bakeries and cafes have received job-specific City & Guilds-accredited training in our seven Food Colleges
- Over 21,000 colleagues started saving in our Sharesave scheme this year – the largest uptake yet

Financial Review

Despite the continuing tough economic environment, Sainsbury's grew underlying Group sales (including VAT) by 2.8 per cent to £26,353 million[1] (2012/13: £25,632 million) and underlying profit before tax ('UPBT') by 5.3 per cent to £798 million (2012/13[2]: £758 million). We maintained market share at 16.8 per cent despite the strong growth of the discounters in the retail sector, outperforming our 'Big Four' peers.

The continued progress of our multi-channel strategy, allowing customers to choose where, when and how they shop, enabled us to differentiate our offer from that of our competitors. Our convenience business grew at around 19 per cent, well ahead of the market, and annual sales are now over £1.8 billion. Our online grocery business grew at over 12 per cent and annual sales are now over £1.0 billion. Own-brand continues to go from strength to strength with strong growth in the *by Sainsbury's* and *Taste the Difference* ranges. *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.

We completed the purchase of the remaining 50 per cent of Sainsbury's Bank on 31 January 2014. Our research shows that Sainsbury's shoppers who also have a Bank product are more loyal and spend more in-store, and full ownership provides us with significant opportunities to unlock further value by driving additional sales through both our financial services and retail businesses.

Sainsbury's Bank has been equity accounted for the 46 weeks to 31 January 2014 and 100 per cent consolidated for the four weeks to 28 February 2014. Sainsbury's Bank contributed £24 million to UPBT in 2013/14, compared to £22 million in 2012/13.

Sainsbury's achieved around £120 million of operational cost savings which offset the impact of inflationary pressures on costs during the year. Retail underlying operating profit increased by 5.1 per cent to £873 million (2012/13: £831 million), with retail operating margin improving by eight basis points (seven basis points at constant fuel prices).

Following a review of our property pipeline, we identified some sites where we no longer wish to build a supermarket, resulting in a £92 million impairment included within one-off items.

Accounting for VAT on the redemption of Nectar points has been the subject of a legal case over a number of years between HMRC and Aimia, the company which administers the Nectar scheme. A Supreme Court ruling in June 2013 ruled in favour of Aimia, thereby enabling Sainsbury's to recognise a credit of £76 million relating to historic VAT overpayments.

In July 2013, we confirmed we would proceed with the proposal to close the Sainsbury's defined benefit pension scheme to future accrual. The closure generated a one-off net credit of £148 million within one-off items, including £10 million of defined contribution transition payments. The defined benefit pension scheme was subject to a triennial valuation as at 17 March 2012 that resulted in an actuarial deficit of £592 million. This was a decrease of £635 million from the March 2009 deficit, mainly as a result of the scheme's £600 million interest in a property partnership. As a result, the Company will continue with the recovery plan that was agreed after the March 2009 valuation, that included a £49 million annual cash contribution towards the deficit.

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 retail capital expenditure this year lower at £888 million (2012/13: £1,040 million). New space delivered a 2.5 per cent contribution to sales growth, in line with our expectations.

Return on capital employed ('ROCE') is impacted by the consolidation of Sainsbury's Bank, which increased closing capital employed by £243 million for only the final four weeks of the year. Adjusting for this, ROCE increased by 19 basis points to 11.3 per cent, enhanced by the movement in the net pension deficit, which reduces capital employed. Excluding the pension fund deficit and adjusting for Sainsbury's Bank, ROCE was 10.4 per cent, in line with the prior year. ROCE growth was held back by slower sector growth and reduced industry profitability, although this was offset by an improved Sainsbury's underlying operating margin and the property pipeline review which resulted in an impairment of £92 million, reducing closing capital employed.

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 £301 million of proceeds through property transactions (2012/13: £202 million). This delivered a profit from the disposal of properties of £52 million (2012/13: £66 million). The estimated market value of the Group's overall property portfolio increased by £0.5 billion to £12.0 billion (16 March 2013: £11.5 billion).

The balance sheet remained strong and the business has funding in place of over £3.5 billion, including a new revolving credit facility of over £1.1 billion, of which only £0.2 billion was drawn at the year-end. Net debt ended the year at £2.4 billion, slightly lower than expected, driven by lower capital expenditure.

Underlying basic earnings per share increased to 32.8 pence (2012/13: 30.8 pence), a 6.5 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 17.8 per cent to 37.7 pence (2012/13: 32.0 pence), higher than the underlying measure as a result of a profit of £100 million on items excluded from underlying results.

The Board has recommended a final dividend of 12.3 pence (2012/13: 11.9 pence), making a full year dividend of 17.3 pence, up 3.6 per cent year-on-year (2012/13: 16.7 pence) and covered 1.90 times by underlying earnings.

Despite the challenging economic climate, next year will be an exciting one for Sainsbury's as we progress with the programme to integrate Sainsbury's Bank into the business and continue the pace of our convenience opening programme. Alongside this, our priority is to maintain tight cost control including an increased focus on delivering cross-functional efficiency savings, improving operational cash flow and working capital management and driving returns from our investments.

Summary income statement 52 weeks to 15 March 2014	**2014** **£m**	2013[2] £m	Change %
Underlying Group sales (including VAT)[1]	**26,353**	25,632	2.8
Retail sales (including VAT)	**26,328**	25,632	2.7
Underlying Group sales (excluding VAT)[1]	**23,946**	23,303	2.8
Retail sales (excluding VAT)	**23,921**	23,303	2.7
Underlying operating profit			
Retailing	**873**	831	5.1
Financial services – Sainsbury's Bank	**6**	-	n/a
Total underlying operating profit	**879**	831	5.8
Underlying net finance costs[3]	**(111)**	(111)	-
Underlying share of post-tax profit from JVs[4]	**30**	38	(21.1)
Underlying profit before tax	**798**	758	5.3
Items excluded from underlying results	**100**	14	614.3
Profit before tax	**898**	772	16.3
Income tax expense	**(182)**	(170)	(7.1)
Profit for the financial period	**716**	602	18.9
Underlying basic earnings per share	**32.8p**	30.8p	6.5
Basic earnings per share	**37.7p**	32.0p	17.8
Dividend per share	**17.3p**	16.7p	3.6

1 Underlying Group sales excludes a £3 million acquisition adjustment fair value unwind.
2 The prior year financial information has been restated to reflect the adoption of IAS 19 Revised.
3 Net finance costs before financing fair value movements and the IAS 19 Revised pension financing charge.
4 The underlying share of post-tax profit from JVs is stated before investment property fair value movements, financing fair value movements, profit on disposal of properties and Sainsbury's Bank one-off costs.

Retailing

Retail sales (including VAT) and space

Retail sales (including fuel) increased by 2.7 per cent to £26,328 million (2012/13: £25,632 million).

This includes a 2.7 per cent contribution from new space (excluding extensions and replacements) and flat like-for-like ('LFL') sales.

Retail sales growth (including VAT, including fuel) 52 weeks to 15 March 2014	**2014** **%**	2013 %
Like-for-like sales	**-**	2.1
Net new space (excluding extensions and replacements)	**2.7**	2.5
Total sales growth	**2.7**	4.6

Retail sales (excluding fuel) grew by 2.7 per cent, with LFL growth of 0.2 per cent, which was higher than the sales including fuel number due to a LFL fuel sales decline, with retail price deflation in fuel more than offsetting growth in LFL fuel volumes. The LFL growth reflected the continued challenging market conditions and was below Sainsbury's full year guidance of 1.0 to 1.5 per cent. Sainsbury's growth was in line with the market, with market share flat year-on-year at 16.8 per cent for the 52 weeks to 2 March 2014 (as measured by Kantar) and growth ahead of our 'Big Four' peers.

LFL sales growth (excluding fuel) reduced from 1.4 per cent in the first half to a decline of 1.1 per cent in the second half. Sainsbury's delivered LFL growth of 0.2 per cent in the third quarter, driven by a very tough sales environment throughout October and November. LFL growth declined by 3.1 per cent in the fourth quarter, as Sainsbury's annualised strong performance in the previous year driven by the horse meat cross-contamination issue which impacted competitors.

The contribution from net new space (excluding extensions and replacements) of 2.5 per cent was in line with Sainsbury's expectations.

Our multi-channel strategy enables customers to shop where, when and how they want. The convenience business grew sales by around 19 per cent to over £1.8 billion, well ahead of the market, and groceries online delivered over £1.0 billion of sales, a year-on-year increase of over 12 per cent, lower than the previous year's growth, reflecting a reduction in the growth of marketing spend whilst the new website was launched. Sainsbury's non-food offer continued to grow ahead of the market and at over twice the rate of the food business, supported by continued range development and the roll back of our new 'department store' concept to 53 stores.

Sales growth (including VAT, excluding fuel) 52 weeks to 15 March 2014	**2014** **%**	2013 %
Like-for-like sales[1]	**0.2**	1.8
Net new space (excluding extensions and replacements)	**2.5**	2.5
Total sales growth	**2.7**	4.3

1 This includes a 0.2 per cent contribution from stores extended in 2013/14, net of disruptions.

Average trading intensity ('TI') excluding fuel declined to £18.93 per sq ft per week (2012/13: £19.27 per sq ft), caused by the higher proportion of space for general merchandise and clothing (which trades less intensively than food) and a drop in TI in the underlying estate due to the challenging economic environment. Convenience TIs continued to grow driven by improving TIs in the mature estate, supported by the strong performance of new stores.

New space, excluding extensions and replacements, contributed 2.5 per cent of the 2.7 per cent sales growth (excluding fuel). Sainsbury's added a gross 1,013,000 sq ft of selling space in the year (including replacements and extensions), an increase of 4.8 per cent (2012/13: 1,007,000 sq ft and 4.9 per cent). Including the impact of closures, this translated into net space growth of 895,000 sq ft, an increase of 4.2 per cent since the start of the year (2012/13: 918,000 sq ft and 4.5 per cent). Hurdle rates for new supermarkets have been raised to ensure that we continue to deliver good returns on our future developments and a rationalisation of the property pipeline in the year resulted in a £92 million impairment.

Space growth included 13 new supermarkets, of which three were replacement stores (2012/13: 14 new supermarkets, of which two were replacements). These generated an additional 582,000 sq ft of gross selling space (a net 470,000 sq ft), with one store closure. Sainsbury's reduced the number of supermarket refurbishments to 15 stores and also reduced the number of extensions to six, adding 218,000 sq ft of selling space (2012/13: eight extensions and 20 refurbishments added 185,000 sq ft). As part of the refurbishment programme we regularly review stores to ensure that we maintain the high standards our customers expect.

Convenience continues to be a key area of growth, with 91 stores added during the year (2012/13: 87 stores). Three stores were closed (2012/13: four stores closed) and 39 refurbished (2012/13: 15 stores), with net convenience space growth of 207,000 sq ft, an increase of 17.1 per cent since the start of the year (2012/13: 182,000 sq ft and 17.7 per cent), meeting our target of opening around two new stores per week.

Net of replacements, closures and disposals, closing space of 22,160,000 sq ft was 4.2 per cent higher than last year (2012/13: 21,265,000 sq ft).

Store numbers and retailing space 52 weeks to 15 March 2014	**Supermarkets** Number	Area 000 sq ft	**Convenience** Number	Area 000 sq ft	**Total** **Number**	**Area 000 sq ft**
At 16 March 2013	583	20,056	523	1,209	**1,106**	**21,265**
New stores	13	582	91	215	**104**	**797**
Disposals/closures	(4)	(112)	(3)	(6)	**(7)**	**(118)**
Extensions/refurbishments/downsizes	-	218	-	(2)	**-**	**216**
At 15 March 2014	**592**	**20,744**	**611**	**1,416**	**1,203**	**22,160**
Memorandum:						
Extensions	6	143	-	-	**6**	**143**
Refurbishments/downsizes	15	75	39	(2)	**54**	**73**
Total projects	**21**	**218**	**39**	**(2)**	**60**	**216**

In 2014/15, Sainsbury's expects LFL sales and the contribution from extensions (net of disruptions) to be similar to 2013/14. Contribution from new space (excluding extensions and replacements) is expected to be around 2.0 per cent.

In 2014/15, Sainsbury's expects to deliver around 750,000 sq ft of gross new space, with around two new convenience store openings per week.

Retail underlying operating profit

Retail underlying operating profit increased by 5.1 per cent to £873 million (2012/13: £831 million), reflecting cost savings of around £120 million in the year, offsetting the impact of cost inflation.

Retail underlying operating margin improved by eight basis points year-on-year to 3.65 per cent (2012/13: 3.57 per cent), which was a seven basis point improvement at constant fuel prices. Retail underlying EBITDAR margin increased by 21 basis points to 8.05 per cent, an 18 basis point improvement at constant fuel prices.

In 2014/15, Sainsbury's expects cost inflation towards the lower end of the two to three per cent range and efficiency savings of around £120 million to £130 million.

Sainsbury's would not expect profit consensus[1] to change as a result of the preliminary announcement[2]. Market consensus reflects a wide range of possible outcomes, reflecting the market uncertainty.

Retail underlying operating profit 52 weeks to 15 March 2014	**2014**	2013[7]	Change	Change at constant fuel prices
Retail underlying operating profit (£m)[3]	**873**	831	5.1%	
Retail underlying operating margin (%)[4]	**3.65**	3.57	8 bps	7 bps
Retail underlying EBITDAR (£m)[5]	**1,926**	1,826	5.5%	
Retail underlying EBITDAR margin (%)[6]	**8.05**	7.84	21 bps	18 bps

1 2014/15 UPBT consensus estimate of £762 million as published on www.j-sainsbury.co.uk/investor-centre/analyst-consensus/ at 17.00 on 6 May 2014.
2 Preliminary announcement on 7 May 2014.
3 Underlying earnings before interest, tax, Sainsbury's Bank underlying operating profit and Sainsbury's underlying share of post-tax profits from JVs.
4 Retail underlying operating profit divided by retail sales excluding VAT.
5 Retail underlying operating profit before rent, depreciation and amortisation.
6 Retail underlying EBITDAR divided by retail sales excluding VAT.
7 The prior year financial information has been restated to reflect the adoption of IAS 19 Revised.

Financial Services - Sainsbury's Bank

Sainsbury's completed its purchase of the remaining 50 per cent of Sainsbury's Bank on 31 January 2014. Sainsbury's Bank has been equity accounted for the 46 weeks to 31 January 2014 and 100 per cent consolidated for the four weeks to 28 February 2014. The Bank contributed £24 million to 2013/14 UPBT (2012/13: £22 million).

Sainsbury's Bank results	**2014**[1]	2013[2]	Change %
Total income (£m)[3]	**229**	239	(4.2)
Underlying operating profit (£m)	**53**	59	(10.2)
Recognised as a joint venture (£m)	**18**	22	(18.2)
Consolidated as a subsidiary (£m)	**6**	-	n/a
Impact on Group underlying profit before tax (£m)	**24**	22	9.1
Net interest margin (%)[4]	**3.1**	2.7	35 bps
Bad debt as a percentage of lending (%)[5]	**1.1**	1.3	21 bps
Tier one capital ratio (%)[6]	**13.6**	12.6	98 bps

1 50 weeks to 28 February 2014.
2 52 weeks to 16 March 2013.
3 Net interest and net commission income.
4 Interest receivable divided by average interest-bearing assets.
5 Bad debt expense divided by gross lending as at year-end.
6 Year-end tier one capital divided by year-end risk-weighted assets.

Sainsbury's Bank total income fell by 4.2 per cent to £229 million (2012/13: £239 million), mainly due to a reduction in the earned interest rate on the loans book driven by strong competition and a decline in commission income driven by price deflation in insurances, particularly car insurance.

Sainsbury's Bank delivered an underlying operating profit of £53 million, a 10.2 per cent decrease year-on-year. This reduction was driven by reduced total income and a provision relating to potential customer redress payable in respect of Card Protection Plan insurance and similar products. This provision is in line with the outcome of a market review by the Financial Conduct Authority, which found that these had been widely mis-sold by several financial institutions. This was partly offset by favourable bad debt levels, which as a percentage of lending improved to 1.1 per cent (2012/13: 1.3 per cent).

Net interest margin increased by 35 basis points year-on-year to 3.1 per cent (2012/13: 2.7 per cent) mainly driven by changes to the funding structure. The tier one capital ratio increased by 98 basis points year-on-year to 13.6 per cent (28 February 2013: 12.6 per cent), reflecting the improvements in the underlying capital position.

In 2014/15, Sainsbury's Bank is expected to make a similar level of underlying operating profit to 2013/14.

Property and other joint ventures ('JV')

Sainsbury's underlying share of post-tax profit from its JV with British Land was £14 million (2012/13: £14 million). Its underlying share of post-tax profits from the JV with Land Securities was £2 million (2012/13: £2 million).

At the year-end, there was no surplus or loss on revaluation recognised within the share of post-tax profit from the JVs in the income statement (2012/13: £10 million loss). An increase in the average yield to 5.2 per cent (2012/13: 5.1 per cent) was offset by rental increases.

Two JVs were set up post half-year 2012/13, *Mobile by Sainsbury's* and I^2C, which recognised a net loss of £4 million, driven by initial start-up costs.

In 2014/15, Sainsbury's expects the property JVs to make a similar level of profit to 2013/14. The start-up JVs are expected to make a similar level of loss to 2013/14.

Underlying net finance costs
Underlying net finance costs were in line with the prior year at £111 million (2012/13: £111 million), with a reduction in capitalised interest offset by savings on gross interest mainly due to a decrease in the inflation rate on the Group's inflation-linked debt[1].

Underlying net finance costs 52 weeks to 15 March 2014	**2014** **£m**	2013 £m
Underlying finance income[2]	**20**	19
Interest costs	**(157)**	(162)
Capitalised interest	**26**	32
Underlying finance costs[2]	**(131)**	(130)
Underlying net finance costs[2]	**(111)**	(111)

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 Revised pension financing charge.

Sainsbury's expects underlying net finance costs in 2014/15 to remain broadly flat year-on-year, with capitalised interest of around £20 million.

Items excluded from underlying results
Items excluded from underlying results totalled £100 million (2012/13: £14 million), mainly due to one-off items, profit on disposal of properties and acquisition adjustments, partly offset by the IAS 19 Revised pension financing charge.

Items excluded from underlying results 52 weeks to 15 March 2014	**2014** **£m**	2013 £m
Profit on disposal of properties	**52**	66
Investment property fair value movements	**-**	(10)
Financing fair value movements	**(8)**	(10)
IAS 19 Revised pension financing charge	**(23)**	(16)
Defined benefit pension scheme expenses	**(7)**	(7)
Acquisition adjustments	**18**	-
One-off items	**68**	(9)
Total items excluded from underlying results	**100**	14

One-off items
A credit to one-off items of £68 million (2012/13: £9 million charge) includes: the impact of a past service credit net of compensation payments of £148 million as a result of the closure of Sainsbury's defined benefit pension scheme to future accrual (including £10 million of defined contribution transition payments); an impairment of £92 million to write down the value of certain sites where the Group no longer intends to build a supermarket to their recoverable amount; £76 million relating to historic VAT overpayments made in relation to Nectar redemptions of points in-store; £45 million in relation to the purchase of the remaining 50 per cent of Sainsbury's Bank and transitioning the Bank to a new, more flexible banking platform; and other one-off costs of £19 million mainly in relation to internal restructuring and a provision for a commercial item, for which we intend to defend our position.

One-off items 52 weeks to 15 March 2014	**2014** **£m**	2013 £m
Pension past service credit	**148**	-
Land impairment	**(92)**	-
Nectar VAT	**76**	-
Sainsbury's Bank costs	**(45)**	(20)
Other	**(19)**	11
Total one-off items	**68**	(9)

In 2014/15, Sainsbury's expects items recognised outside UPBT to include transition payments in relation to the closure of the defined benefit pension scheme of £17 million. Sainsbury's Bank costs for transitioning to a new, more flexible banking platform are expected to be around £45 million (capital costs relating to the transition are expected to be around £60 million).

Taxation

The income tax charge was £182 million (2012/13[1]: £170 million), with an underlying tax rate of 21.9 per cent (2012/13[1]: 23.6 per cent) and an effective tax rate of 20.3 per cent (2012/13[1]: 22.0 per cent). The underlying and effective tax rates were lower than last year, primarily as a result of the one per cent lower statutory corporation tax rate and the impact of further reductions in the statutory rate on the revaluation of deferred tax balances.

Underlying tax rate 52 weeks to 15 March 2014	**Profit £m**	**Tax £m**	**Rate %**
Profit before tax, and tax thereon	898	(182)	20.3
Adjustments (and tax thereon) for:			
Profit on disposal of properties	(52)	(1)	
Financing fair value movements	8	(1)	
IAS 19 Revised pension financing charge	23	(5)	
Pension scheme expenses	7	(2)	
Acquisition adjustments	(18)	1	
One-off items	(68)	35	
Deferred tax rate change	-	(20)	
Underlying profit before tax, and tax thereon	**798**	**(175)**	**21.9**

1 The prior year financial information has been restated to reflect the adoption of IAS 19 Revised.

In 2014/15, Sainsbury's expects the underlying tax rate to be between 23.5 and 24.5 per cent. In 2013/14, the revaluation of deferred tax balances reduced the underlying tax rate, but there will be no such adjustment in 2014/15, causing the rate to increase despite the one per cent fall in next year's statutory corporation tax rate.

In the UK, there are a large number of taxes, of which many are relevant for Sainsbury's. In 2013/14, Sainsbury's paid £1.8 billion (2012/13: £1.5 billion) to the UK government, of which £825 million (2012/13: £773 million) was borne by Sainsbury's and the remaining £949 million (2012/13: £761 million) was collected on behalf of our colleagues, customers and suppliers. Sainsbury's participate in the Total Tax Contribution PwC Survey for The 100 Group of Finance Directors. In the year to March 2013, our total taxes borne ranked seventh amongst the survey participants.

The key taxes paid by Sainsbury's were business rates of £432 million (2012/13: £396 million), employers' national insurance of £141 million (2012/13: £128 million) and UK corporation tax of £140 million (2012/13: £143 million). Other taxes including customs duty, excise duty, VAT and energy taxes totalled £112 million (2012/13: £106 million).

Earnings per share

Underlying basic earnings per share increased by 6.5 per cent to 32.8 pence (2012/13: 30.8 pence), reflecting the improvement in UPBT and the lower underlying tax rate year-on-year, partially offset by the effect of additional shares issued during the year.

The weighted average number of shares in issue was 1,896.8 million (2012/13: 1,881.5 million), an increase of 15.3 million shares or 0.8 per cent. Basic earnings per share increased to 37.7 pence (2012/13: 32.0 pence). Basic earnings per share were higher than the underlying basic earnings per share due to the items excluded from underlying results.

Underlying earnings per share 52 weeks to 15 March 2014	**2014 pence per share**	2013 pence per share[1]
Basic earnings per share	**37.7**	32.0
Adjustments (net of tax) for:		
Profit on disposal of properties	**(2.8)**	(2.8)
Investment property fair value movements	**-**	0.5
Financing fair value movements	**0.4**	0.4
IAS 19 Revised pension financing charge	**0.9**	0.6
Pension scheme expenses	**0.3**	0.3
Acquisition adjustments	**(0.9)**	-
One-off items	**(1.7)**	0.4
Deferred tax rate change	**(1.1)**	(0.6)
Underlying basic earnings per share	**32.8**	30.8

1 The prior year financial information has been restated to reflect the adoption of IAS 19 Revised.

Dividends

The Board has recommended a final dividend of 12.3 pence per share (2012/13: 11.9 pence), which will be paid on 11 July 2014 to shareholders on the Register of Members at the close of business on 16 May 2014, subject to approval by shareholders at the AGM. This will increase the full year dividend by 3.6 per cent to 17.3 pence per share (2012/13: 16.7 pence). The dividend is covered 1.90 times by underlying earnings (2012/13[1]: 1.84 times).

The proposed final dividend was recommended by the Board on 6 May 2014 and, as such, has not been included as a liability as at 15 March 2014.

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, although cover may fall in 2014/15 given the updated tax rate guidance.

1 The prior year financial information has been restated to reflect the adoption of IAS 19 Revised.

Financing

The Group's key financing objectives are to diversify funding sources, to minimise refinancing risk and to maintain appropriate standby liquidity. As at 15 March 2014, the Group had drawn borrowing facilities of £2.7 billion and undrawn but committed borrowing facilities of £950 million at its disposal.

The principal elements of the Group's core borrowings comprise of two long-term loans of £929 million due 2018 and £829 million due 2031, both secured over property assets. In addition, the Group has unsecured borrowings totalling £204 million with maturities ranging from 2014 to 2017, unsecured private placement loans totalling £184 million with maturities ranging from 2015 to 2017, a £190 million public issue convertible bond due July 2014 and £188 million of hire purchase facilities and other finance leases.

In February 2014, the Group entered into a new syndicated committed revolving credit facility for £1,150 million, replacing the £690 million facility which was due to mature in October 2015. The new facility is split into two tranches, a £500 million facility maturing in March 2017 and a £650 million facility maturing in March 2019. As at 15 March 2014, £200 million had been drawn under the £500 million facility (2012/13: £nil). The £1,150 million facility, bank loans and private placement loans contain only one financial covenant, being the ratio of EBITDAR to consolidated net interest plus net rental expenditure, the 'Fixed Charge Cover' ratio. As at the year-end, Sainsbury's comfortably passed this covenant test.

Net debt and cash flows

Sainsbury's net debt includes the cost of acquiring Sainsbury's Bank, but excludes Sainsbury's Bank's own net debt balances. As at 15 March 2014, net debt was £2,384 million (2012/13: £2,162 million), an increase of £222 million year-on-year. This was driven primarily by the additional funding used to acquire Sainsbury's Bank and an increase in working capital, offset by cash generated from sale and leasebacks and lower investments in new space.

Operating cash flow before changes in working capital increased by 5.6 per cent to £1,366 million (2012/13: £1,294 million), but cash generated from operations decreased by 3.2 per cent to £1,227 million (2012/13: £1,268 million, 1.8 per cent decrease) due to an adverse movement in working capital.

Working capital increased by £139 million year-on-year (2012/13: £26 million increase) mainly driven by a decrease in trade payables of £62 million driven by the phasing of Easter, a decrease in other payables of £67 million and £10 million of other working capital movements.

The net cash used in investing activities of £590 million was £272 million lower year-on-year (2012/13: £862 million) driven by lower capital expenditure and higher proceeds from property transactions.

The £1,016 million acquisition of Sainsbury’s Bank net of cash acquired consists of £1,259 million cash acquired offset by the £243 million cash payment. Sainsbury’s Bank cash balances of £1,225 million, and derivatives, which relate to the working capital of Sainsbury’s Bank are excluded from the Group net debt definition.

Receipt of new debt of £450 million during the year relates to a £200 million bank loan maturing in July 2014, a £50 million hire purchase facility maturing in June 2018 and a £200 million drawing under the new £1,150 million syndicated committed revolving credit facility part maturing in 2017 and 2019. The new debt offsets £439 million of borrowings repaid during the year.

Summary cash flow statement		
52 weeks to 15 March 2014	**2014**	2013
	£m	£m
Operating cash flow before changes in working capital	**1,366**	1,294
Increase in retail working capital	**(128)**	(26)
Increase in Sainsbury's Bank working capital	**(11)**	-
Cash generated from operations	**1,227**	1,268
Interest paid	**(148)**	(143)
Corporation tax paid	**(140)**	(144)
Net cash from operating activities	**939**	981
Net cash used in investing activities	**(590)**	(862)
Acquisition of Sainsbury's Bank net of cash acquired	**1,016**	-
Proceeds from issue of shares	**19**	17
Receipt of new debt	**450**	75
Repayment of borrowings	**(439)**	(138)
Dividends paid	**(320)**	(308)
Increase/(decrease) in cash and cash equivalents	**1,075**	(235)
Elimination of net increase in Sainsbury's Bank cash and cash equivalents	**(1,225)**	-
(Increase)/decrease in debt	**(27)**	36
Fair value and other non-cash movements	**(45)**	17
Movement in net debt	**(222)**	(182)

Sainsbury’s expects 2014/15 year-end net debt to be similar to 2013/14.

Retail capital expenditure
Core retail capital expenditure decreased by £152 million year-on-year to £888 million (2012/13: £1,040 million), due to a reduction in the value of land purchases and expenditure on future new stores, driven by the phasing of spend on larger-scope projects. Sainsbury’s stepped up its convenience opening programme in the year with 91 new convenience stores (2012/13: 87 convenience stores) and completed 54 refurbishments (2012/13: 35 refurbishments), including 15 supermarkets (2012/13: 20 supermarkets) and 39 convenience stores (2012/13: 15 convenience stores).

Core retail capital expenditure as a percentage of sales (including fuel, including VAT) was 3.4 per cent (2012/13: 4.1 per cent).

Sainsbury's also took advantage of continued good property yields in the year to achieve £301 million in sale and leaseback proceeds (2012/13: £202 million), which contributed to a total profit on disposal of properties of £52 million (2012/13: £66 million). Net retail capital expenditure was £628 million (2012/13: £875 million).

Retail capital expenditure 52 weeks to 15 March 2014	**2014**	2013
New store development (£m)	**418**	593
Extensions and refurbishments (£m)	**274**	271
Other – including supply chain and IT (£m)	**196**	176
Core retail capital expenditure (£m)	**888**	1,040
Acquisition of freehold and trading properties (£m)	**41**	37
Proceeds from property transactions (£m)	**(301)**	(202)
Net retail capital expenditure (£m)	**628**	875
Capex/sales ratio (%)[1]	**3.4**	4.1

1 Core retail capital expenditure divided by retail sales (including fuel, including VAT).

In 2014/15, Sainsbury's expects core retail capital expenditure (excluding Sainsbury's Bank) to be similar to 2013/14. Core retail capital expenditure as a percentage of retail sales (including fuel, including VAT) is expected to be in line with 2013/14 at 3.4 per cent, reducing to below 3.0 per cent from 2015/16 onwards.

Return on capital employed

Return on capital employed ('ROCE') is impacted by the consolidation of Sainsbury's Bank, which increased closing capital employed by £243 million. Adjusting for this, ROCE over the 52 weeks to 15 March 2014 was 11.3 per cent (2012/13: 11.1 per cent), an increase of 19 basis points year-on-year, enhanced by the increase in the net pension deficit, which reduces capital employed.

ROCE excluding the net pension deficit and adjusting for Sainsbury's Bank over the 52 weeks to 15 March 2014 was 10.4 per cent (2012/13: 10.4 per cent). ROCE growth was held back by slower sector growth and reduced industry profitability, although this was offset by an improved Sainsbury's operating margin and the property pipeline review which resulted in an impairment of £92 million, reducing closing capital employed.

Return on capital employed 52 weeks to 15 March 2014	**2014**	2013[2]
Underlying operating profit (£m)	**879**	831
Underlying share of post-tax profit from JVs (£m)	**30**	38
Underlying profit before interest and tax (£m)	**909**	869
Average capital employed[1] (£m)	**8,073**	7,851
Return on capital employed (%)	**11.3**	11.1
Return on capital employed (excluding pension fund deficit) (%)	**10.4**	10.4
52 week ROCE movement to 15 March 2014	**19 bps**	
52 week ROCE movement to 15 March 2014 (excluding pension fund deficit)	**-**	

1 Average of opening and closing net assets before net debt. 2013/14 closing capital employed has been reduced by 50 per cent of Sainsbury's Bank consolidated closing net assets (£243 million) to reflect the fact that the Bank was only consolidated in the accounts for four weeks of the 2013/14 financial year.
2 The prior year financial information has been restated to reflect the adoption of IAS 19 Revised.

Summary balance sheet

Shareholders' funds as at 15 March 2014 were £6,005 million (2012/13: £5,838 million), an increase of £167 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 £58 million (£76 million when Sainsbury's Bank is consolidated by line). This was driven by continued space growth offset by the sale and leaseback of stores with no further development potential and a £92 million write-down of certain sites where the Group no longer intends to build a supermarket.

Net debt was £222 million higher than at 16 March 2013 driven by a £243 million increase attributable to the acquisition of Sainsbury's Bank and an increase in working capital. These increases were partly offset by the continued profitable growth of the underlying business and a reduction in capital expenditure year-on-year.

Net assets of £485 million as a result of the full consolidation of Sainsbury's Bank have been included and separately identified.

Retail adjusted net debt to EBITDAR is 3.9 times (2012/13: 3.8 times) and interest cover improved to 8.2 times (2012/13: 7.8 times). Fixed charge cover remained consistent at 3.1 times (2012/13: 3.1 times). Gearing increased year-on-year to 39.7 per cent (2012/13: 37.0 per cent) mainly as a result of the increase in net debt. Excluding the pension deficit, gearing reduced to 35.7 per cent (2012/13: 33.7 per cent).

Summary balance sheet at 15 March 2014	**2014** **£m**	2013[7] £m	Movement £m
Land and buildings (freehold and long leasehold)	**7,127**	7,156	(29)
Land and buildings (short leasehold)	**751**	675	76
Fixtures and fittings	**1,984**	1,973	11
Property, plant and equipment	**9,862**	9,804	58
Other non-current assets	**790**	909	(119)
Inventories	**1,005**	987	18
Trade and other receivables	**290**	306	(16)
Sainsbury's Bank assets[1]	**4,113**	-	4,113
Cash and cash equivalents	**367**	517	(150)
Debt	**(2,751)**	(2,679)	(72)
Net debt	**(2,384)**	(2,162)	(222)
Trade and other payables and provisions	**(3,364)**	(3,422)	58
Retirement benefit obligations, net of deferred tax	**(679)**	(584)	(95)
Sainsbury's Bank liabilities[1]	**(3,628)**	-	(3,628)
Net assets	**6,005**	5,838	167

Key financial ratios		
Retail adjusted net debt to EBITDAR[2]	**3.9 times**	3.8 times[8]
Interest cover[3]	**8.2 times**	7.8 times
Fixed charge cover[4]	**3.1 times**	3.1 times
Gearing[5]	**39.7%**	37.0%
Gearing (excluding pension deficit)[6]	**35.7%**	33.7%

1 As at 28 February 2014.
2 Net debt of £2,384 million plus capitalised lease obligations of £5,095 million (5.5 per cent discount rate), divided by retail underlying EBITDAR of £1,926 million, calculated on a rolling 52 week basis.
3 Underlying profit before interest and tax divided by underlying net finance costs.
4 Retail underlying EBITDAR divided by net rent and underlying net finance costs.
5 Net debt divided by net assets.
6 Net debt divided by net assets, excluding pension deficit.
7 The prior year financial information has been restated to reflect the adoption of IAS 19 Revised.
8 Restated to reflect more detailed analysis of lease length beyond five years.

As at 15 March 2014, Sainsbury's estimated market value of properties, including our 50 per cent share of properties held within property JVs, was £12.0 billion (2012/13: £11.5 billion). The £0.5 billion increase year-on-year was driven by a 27 basis point improvement in the yield to 4.7 per cent (2012/13: 4.9 per cent) contributing £0.6 billion and property value added of £0.2 billion, partly offset by sale and leasebacks of £0.3 billion.

The summary balance sheet presented above discloses Sainsbury's Bank assets and liabilities separately to aid interpretation. A summary balance sheet is also presented with Sainsbury's Bank consolidated by line.

Summary balance sheet at 15 March 2014	**2014** **£m**	2013[1] £m	Movement £m
Land and buildings (freehold and long leasehold)	**7,127**	7,156	(29)
Land and buildings (short leasehold)	**751**	675	76
Fixtures and fittings	**2,002**	1,973	29
Property, plant and equipment	**9,880**	9,804	76
Other non-current assets	**2,234**	909	1,325
Inventories	**1,005**	987	18
Trade and other receivables	**1,716**	306	1,410
Sainsbury's Bank cash and cash equivalents	**1,225**	-	1,225
Cash and cash equivalents	**367**	517	(150)
Debt	**(2,751)**	(2,679)	(72)
Net debt	**(2,384)**	(2,162)	(222)
Trade and other payables and provisions	**(6,992)**	(3,422)	(3,570)
Retirement benefit obligations, net of deferred tax	**(679)**	(584)	(95)
Net assets	**6,005**	5,838	167

1 The prior year financial information has been restated to reflect the adoption of IAS 19 Revised.

Defined benefit pensions

As a result of the amendments made under IAS 19 Revised, the Group has restated prior year financial information in accordance with the revised standard. Application of the revised standard has resulted in an increase to UPBT of £1 million (2012/13: £2 million) and an additional charge of £23 million outside of UPBT during the 52 weeks to 15 March 2014 (2012/13: £18 million charge). Net assets increased by £104 million as at 17 March 2013 as a result of the removal of the expense reserve from the pension liability.

Retirement benefit obligations at 15 March 2014	**2014** **£m**	2013[1] £m
Present value of funded obligations	**(6,855)**	(6,460)
Fair value of plan assets	**6,131**	5,841
Pension deficit	**(724)**	(619)
Present value of unfunded obligations	**(13)**	(13)
Retirement benefit obligations	**(737)**	(632)
Deferred income tax asset	**58**	48
Net retirement benefit obligations	**(679)**	(584)

1 The prior year financial information has been restated to reflect the adoption of IAS 19 Revised.

Following a comprehensive consultation, we announced the closure of Sainsbury's defined benefit ('DB') pension scheme to future accrual from 28 September 2013. This plan amendment generates a past service credit of £172 million, offset by £14 million of enhanced early retirement costs. Additional transitional contributions of £10 million were also made to active members' defined contribution ('DC') plans across the second half of the year.

As at 15 March 2014, the post-tax pension deficit was £679 million, £95 million higher year-on-year (16 March 2013: £584 million). The one-off past service credit as a result of the closure of the scheme to future accrual reduced the deficit by £158 million, however this was more than offset by a 0.3 per cent fall in the real discount rate and changes in other assumptions that increased the liability by £416 million. This was partly offset by a slight outperformance of assets, which returned 5.7 per cent over the year.

The DB pension scheme was subject to a triennial valuation at March 2012 by Towers Watson, the scheme's independent actuaries. On the basis of the assumptions agreed, the actuarial deficit at 17 March 2012 was £592 million, a decrease of £635 million from the March 2009 deficit of £1,227 million, mainly as a result of the scheme's circa £600 million interest in a property partnership. As a result, the Company will continue with the recovery plan that was agreed with the Group after the valuation as at March 2009. This incorporates a £49 million annual cash contribution towards the deficit.

The IAS 19 Revised pension service cost included within UPBT for the 52 weeks to 15 March 2014 was £34 million (2012/13: £59 million). Sainsbury's will not incur an IAS 19 Revised service cost post closure of the DB scheme to future accrual. Contributions to the DB scheme have been replaced by contributions to the DC schemes.

Group income statement
for the 52 weeks to 15 March 2014

	Note	2014 £m	Restated 2013 £m
Revenue	4	**23,949**	23,303
Cost of sales		**(22,562)**	(22,026)
Gross profit		**1,387**	1,277
Administrative expenses		**(444)**	(462)
Other income		**66**	67
Operating profit		**1,009**	882
Finance income	5	**20**	19
Finance costs	5	**(159)**	(153)
Share of post-tax profit from joint ventures and associates		**28**	24
Profit before taxation		**898**	772
Analysed as:			
Underlying profit before tax		**798**	758
Profit on disposal of properties	3	**52**	66
Investment property fair value movements	3	**-**	(10)
Retailing financing fair value movements	3	**(8)**	(10)
IAS 19 Revised pension financing charge	3	**(23)**	(16)
Defined benefit pension scheme expenses	3	**(7)**	(7)
Acquisition adjustments	3	**18**	-
One-off items	3	**68**	(9)
		898	772
Income tax expense	6	**(182)**	(170)
Profit for the financial year		**716**	602
Attributable to:			
Owners of the parent		**716**	602
Non-controlling interests		**-**	-
		716	602
Earnings per share	7	**pence**	pence
Basic		**37.7**	32.0
Diluted		**36.9**	31.5
Underlying basic		**32.8**	30.8
Underlying diluted		**32.2**	30.3
Dividends per share	8	**pence**	pence
Interim		**5.0**	4.8
Proposed final (not recognised as a liability at balance sheet date)		**12.3**	11.9

Certain amounts here have been restated and do not correspond to the Annual Report for the 52 weeks to 16 March 2013. These reflect adjustments made as a result of IAS 19 Revised as detailed in Note 2.

Group statement of comprehensive income

for the 52 weeks to 15 March 2014

	Note	2014 £m	Restated 2013 £m
Profit for the financial year		**716**	602
Items that will not be reclassified subsequently to the income statement:			
Remeasurements on defined benefit pension schemes		**(326)**	(339)
Current tax relating to items not reclassified	6	**34**	23
Deferred tax relating to items not reclassified	6	**19**	53
		(273)	(263)
Items that may be reclassified subsequently to the income statement:			
Currency translation differences		**(2)**	1
Available-for-sale financial assets fair value movements			
Group		**34**	11
Joint ventures and associates		**-**	2
Cash flow hedges effective portion of fair value movements			
Group		**(43)**	22
Joint ventures and associates		**2**	1
Items reclassified from cash flow hedge reserve		**4**	(5)
Current tax relating to items that may be reclassified	6	**(1)**	1
Deferred tax relating to items that may be reclassified	6	**(2)**	1
		(8)	34
Total other comprehensive expense for the financial year (net of tax)		**(281)**	(229)
Total comprehensive income for the financial year		**435**	373
Attributable to:			
Owners of the parent		**435**	373
Non-controlling interests		**-**	-
		435	373

Certain amounts here have been restated and do not correspond to the Annual Report for the 52 weeks to 16 March 2013. These reflect adjustments made as a result of IAS 19 Revised as detailed in Note 2.

Group balance sheet

At 15 March 2014, 16 March 2013 and 18 March 2012

	Note	2014 £m	Restated 2013 £m	Restated 2012 £m
Non-current assets				
Property, plant and equipment		**9,880**	9,804	9,329
Intangible assets		**286**	171	160
Investments in joint ventures and associates		**404**	532	566
Available-for-sale financial assets		**255**	189	178
Other receivables		**26**	38	38
Amounts due from Sainsbury's Bank customers		**1,292**	-	-
Derivative financial instruments		**28**	47	37
		12,171	10,781	10,308
Current assets				
Inventories		**1,005**	987	938
Trade and other receivables		**433**	306	286
Amounts due from Sainsbury's Bank customers		**1,283**	-	-
Derivative financial instruments		**49**	91	69
Cash and bank balances	9	**1,592**	517	739
		4,362	1,901	2,032
Non-current assets held for sale		**7**	13	-
		4,369	1,914	2,032
Total assets		**16,540**	12,695	12,340
Current liabilities				
Trade and other payables		**(2,692)**	(2,726)	(2,740)
Amounts due to Sainsbury's Bank customers		**(3,245)**	-	-
Borrowings		**(534)**	(165)	(150)
Derivative financial instruments		**(65)**	(65)	(88)
Taxes payable		**(189)**	(148)	(149)
Provisions		**(40)**	(11)	(9)
		(6,765)	(3,115)	(3,136)
Net current liabilities		**(2,396)**	(1,201)	(1,104)
Non-current liabilities				
Other payables		**(204)**	(173)	(137)
Amounts due to Sainsbury's Bank customers		**(302)**	-	-
Borrowings		**(2,250)**	(2,617)	(2,617)
Derivative financial instruments		**(21)**	(4)	(1)
Deferred income tax liability		**(227)**	(277)	(317)
Provisions		**(29)**	(39)	(63)
Retirement benefit obligations	11	**(737)**	(632)	(348)
		(3,770)	(3,742)	(3,483)
Net assets		**6,005**	5,838	5,721
Equity				
Called up share capital		**545**	541	538
Share premium account		**1,091**	1,075	1,061
Capital redemption reserve		**680**	680	680
Other reserves		**127**	140	111
Retained earnings		**3,560**	3,401	3,331
Equity attributable to owners of the parent		**6,003**	5,837	5,721
Non-controlling interests		**2**	1	-
Total equity		**6,005**	5,838	5,721

Certain amounts here have been restated and do not correspond to the Annual Report for the 52 weeks to 16 March 2013. These reflect adjustments made as a result of IAS 19 Revised as detailed in Note 2.

Group cash flow statement
for the 52 weeks to 15 March 2014

	Note	**2014 £m**	2013 £m
Cash flows from operating activities			
Cash generated from operations	9	**1,227**	1,268
Interest paid		**(148)**	(143)
Corporation tax paid		**(140)**	(144)
Net cash generated from operating activities		**939**	981
Cash flows from investing activities			
Purchase of property, plant and equipment		**(916)**	(1,067)
Purchase of intangible assets		**(13)**	(26)
Proceeds from disposal of property, plant and equipment		**335**	205
Acquisition of subsidiaries net of cash acquired		**1,016**	(21)
Increase in loans to joint ventures		**(7)**	(5)
Investment in joint ventures		**(13)**	(1)
Investment in subsidiaries		**-**	-
Proceeds from repayment of loan to joint venture		**4**	16
Interest received		**20**	19
Dividends received		**-**	18
Net cash generated from/(used in) investing activities		**426**	(862)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares		**19**	17
Proceeds from short-term borrowings		**200**	-
Repayment of short-term borrowings		**(200)**	(50)
Proceeds from long-term borrowings		**250**	75
Repayment of long-term borrowings		**(206)**	(61)
Repayment of capital element of obligations under finance lease payments		**(25)**	(20)
Interest elements of obligations under finance lease payments		**(8)**	(7)
Dividends paid	8	**(320)**	(308)
Net cash used in financing activities		**(290)**	(354)
Net increase/(decrease) in cash and cash equivalents		**1,075**	(235)
Net opening cash and cash equivalents		**504**	739
Closing cash and cash equivalents	9	**1,579**	504

Group statement of changes in equity
for the 52 weeks to 15 March 2014

	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 17 March 2013 Restated		**541**	**1,075**	**820**	**3,401**	**5,837**	**1**	**5,838**
Profit for the year		**-**	**-**	**-**	**716**	**716**	**-**	**716**
Other comprehensive (expense)/income:								
Currency translation differences		**-**	**-**	**(2)**	**-**	**(2)**	**-**	**(2)**
Remeasurements on defined benefit pension schemes (net of tax)		**-**	**-**	**-**	**(273)**	**(273)**	**-**	**(273)**
Available-for-sale financial assets fair value movements (net of tax):								
Group		**-**	**-**	**31**	**-**	**31**	**-**	**31**
Cash flow hedges effective portion of changes in fair value (net of tax):								
Group		**-**	**-**	**(43)**	**-**	**(43)**	**-**	**(43)**
Joint ventures		**-**	**-**	**2**	**-**	**2**	**-**	**2**
Items reclassified from cash flow hedge reserve		**-**	**-**	**4**	**-**	**4**	**-**	**4**
Total comprehensive (expense)/income for the year ended 15 March 2014		**-**	**-**	**(8)**	**443**	**435**	**-**	**435**
Transactions with owners:								
Dividends paid	8	**-**	**-**	**-**	**(320)**	**(320)**	**-**	**(320)**
Amortisation of convertible bond equity component		**-**	**-**	**(5)**	**5**	**-**	**-**	**-**
Share-based payment (net of tax)		**-**	**-**	**-**	**31**	**31**	**-**	**31**
Shares issued		**-**	**-**	**-**	**-**	**-**	**1**	**1**
Shares vested		**-**	**-**	**-**	**12**	**12**	**-**	**12**
Allotted in respect of share option schemes		**4**	**16**	**-**	**(12)**	**8**	**-**	**8**
At 15 March 2014		**545**	**1,091**	**807**	**3,560**	**6,003**	**2**	**6,005**

	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
IAS 19 Revised restatement		-	-	476	(384)	92	-	92
At 18 March 2012 Restated		538	1,061	791	3,331	5,721	-	5,721
Profit for the year		-	-	-	602	602	-	602
Other comprehensive income/(expense):								
Currency translation differences		-	-	1	-	1	-	1
Remeasurements on defined benefit pension schemes (net of tax)		-	-	-	(263)	(263)	-	(263)
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		-	-	22	-	22	-	22
Joint ventures		-	-	1	-	1	-	1
Items reclassified from cash flow hedge reserve		-	-	(5)	-	(5)	-	(5)
Total comprehensive income for the year ended 16 March 2013		-	-	34	339	373	-	373
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 Restated		541	1,075	820	3,401	5,837	1	5,838

Certain amounts here have been restated and do not correspond to the Annual Report for the 52 weeks to 16 March 2013. These reflect adjustments made as a result of IAS 19 Revised as detailed in Note 2.

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 15 March 2014 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 2014 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 2014.

The financial year represents the 52 weeks to 15 March 2014 (prior financial year 52 weeks to 16 March 2013). The consolidated financial statements for the 52 weeks to 15 March 2014 comprise the financial statements of the Company and its subsidiaries (the 'Group') and the Group's share of the post-tax results of its joint ventures and associates.

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') 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 considered the following new standards, interpretations and amendments as of 17 March 2013:

- IAS 19 (revised 2011) 'Employee benefits'
- IFRS 13, 'Fair value measurement'
- Amendments to IFRS 7 'Financial instruments asset and liability offsetting'
- Amendment to IAS 1 'Presentation of financial statements' on Other Comprehensive Income
- Amendment to IAS 12 'Income taxes' on deferred tax
- Annual improvements 2011

An amended version of IAS 19 'Employee Benefits' was issued in June 2011 ('IAS 19 Revised') and became effective for the Group's financial year ended 15 March 2014. Changes under the amended standard have been applied retrospectively in accordance with IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors', resulting in an adjustment of prior year financial information. The changes to the Group's accounting policies have been to immediately recognise all past service costs and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability. The defined benefit obligation no longer includes a reserve for scheme expenses; defined benefit pension scheme expenses are presented separately within the income statement and included within the Group's definition of adjusted items to arrive at underlying profit before tax as detailed in Note 3.

2 Basis of preparation (continued)

The change in accounting policy impacted the results for the 52 weeks to 15 March 2014 and 52 weeks to 16 March 2013 as follows:

	52 weeks to 15 March 2014 £m	52 weeks to 16 March 2013 £m
Impact on the income statement:		
Increase in administrative expenses	**(5)**	(5)
Increase in finance costs	**(17)**	(11)
Decrease in profit before tax	**(22)**	(16)
Increase in underlying profit before tax	**1**	2
Impact on other comprehensive expense:		
Decrease in remeasurements on defined benefit pension schemes	**82**	27
Decrease in tax credit on other comprehensive expense	**(17)**	(3)
Decrease in other comprehensive expense	**65**	24
Impact on the balance sheet:		
Decrease in retirement benefit obligations	**194**	134
Decrease in deferred income tax asset	**(15)**	(30)
Increase in net assets	**179**	104

As a result of the retrospective application of IAS 19 Revised, an opening balance sheet at 18 March 2012 has been presented. The retirement benefit obligation at this date has reduced by £123 million, with a £31 million increase in the associated deferred tax liability, resulting in an overall increase of £92 million in net assets from the previously published amounts in the 2013 annual report.

IFRS 13 ‘Fair value measurement’ has impacted the measurement criteria of fair value for certain assets and liabilities and also introduced new disclosures. No retrospective changes were required as a result of the adoption of the Standard.

The amendments to IFRS 7 ‘Financial Instruments’ for the offsetting of financial assets and financial liabilities have increased the disclosure requirements where netting arrangements are in place.

The amendments to IAS 1 ‘Presentation of financial statements’ require items of other comprehensive income and expense to be grouped into those items that will not be reclassified subsequently to the income statement and those items which may be reclassified in accordance with the respective IFRS to which they relate, including their associated income tax. This presentational amendment has been applied retrospectively to the Group statement of other comprehensive income and does not affect the Group’s financial position.

The Group has concluded that the remaining above new standards, interpretations and amendments are either not relevant to the Group or that they do not have a significant impact on the Group financial statements, apart from additional disclosure.

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

- Profit/loss on disposal of properties;
- Investment property fair value movements – these reflect the difference between the fair value of an investment property at the reporting date and its carrying amount at the previous reporting date;
- Retailing 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 Revised;
- Defined benefit pension scheme expenses;
- Acquisition adjustments – these reflect the adjustments arising from the Sainsbury's Bank acquisition including the fair value unwind, the remeasurement of the previously held equity interest in Sainsbury's Bank and the amortisation of acquired intangibles; and
- One-off items – these are items which are material and infrequent in nature and do not relate to the Group's underlying performance.

The adjustments made to reported profit before tax to arrive at underlying profit before tax are:

	2014 £m	Restated 2013 £m
Underlying profit before tax	**798**	758
Profit on disposal of properties[1]	**52**	66
Investment property fair value movements	**-**	(10)
Retailing financing fair value movements[2]	**(8)**	(10)
IAS 19 Revised pension financing charge	**(23)**	(16)
Defined benefit pension scheme expenses	**(7)**	(7)
Acquisition adjustments (note 12(d))	**18**	-
One-off items	**68**	(9)
Total adjustments	**100**	14
Profit before tax	**898**	772

1 Profit on disposal of properties for the financial year comprised £51 million for the Group (2013: £67 million) and £1 million for the property joint ventures (2013: £1 million loss).

2 Financing fair value movements for the financial year comprised a £5 million loss for the Group (2013: £7 million loss) and a £3 million loss for the joint ventures (2013: £3 million loss).

The tax impact of adjusted items is included within note 6.

One-off items

The credit to one-off items of £68 million includes: the impact of a past service credit net of compensation payments of £148 million as a result of the closure of the Sainsbury's defined benefit pension scheme to future accrual; an impairment of £92 million; costs of £45 million in relation to the Sainsbury's Bank acquisition; a Nectar VAT upside of £76 million and other one-off costs of £19 million mainly in relation to internal restructuring and a provision for a commercial item, for which we intend to defend our position.

3 Non-GAAP performance measures (continued)

The past service credit net of compensation payments of £148 million includes £10 million of compensation payments to employees on transition to the Group's defined contribution schemes.

An impairment of £92 million has been recognised within administrative expenses to write-down the value of certain sites where the Group no longer intends to build a supermarket following a review of the Group's property pipeline. The recoverable amount of these sites has been determined on a fair value less costs to dispose basis.

Costs of £45 million have been incurred in finalising the transaction to purchase the remaining 50 per cent of Sainsbury's Bank and transitioning the Bank to a new, more flexible banking platform.

Accounting for VAT on the redemption of Nectar points has been the subject of a legal case over a number of years between HMRC and Aimia, the company who administer the Nectar scheme. A Supreme Court ruling in June 2013 ruled in favour of Aimia, thereby enabling Sainsbury's to recognise an upside of £76 million relating to historic VAT overpayments.

The prior year one-off item of £9 million included £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 incurred for internal restructuring; and the release of a disposal provision for indemnities of £16 million which was no longer required.

4 Segment reporting

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

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

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

The Group has continued to include additional disclosure analysing the Group's Financial services and Property investment joint ventures into separate reportable segments. Sainsbury's Bank has been accounted for as a 50 per cent owned joint venture for the forty-six weeks to 31 January 2014 and consolidated as a 100 per cent owned subsidiary for the four weeks to 28 February 2014. Results for the periods pre and post the acquisition of the additional 50 per cent of shares in Sainsbury's Bank are included in the Financial services segment.

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

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

4 Segment reporting (continued)

52 weeks to 15 March 2014	Retailing £m	Financial services £m	Property investments £m	Group £m
Segment revenue				
Retailing sales to external customers	23,921	-	-	23,921
Financial services to external customers	-	25	-	25
Underlying revenue	23,921	25	-	23,946
Acquisition adjustment fair value unwind[1]	-	3	-	3
Revenue	**23,921**	**28**	**-**	**23,949**
Underlying operating profit	**873**	**6**	**-**	**879**
Underlying finance income	**20**	**-**	**-**	**20**
Underlying finance costs	**(131)**	**-**	**-**	**(131)**
Underlying share of post-tax (loss)/profit from joint ventures and associates	**(4)**	**18**	**16**	**30**
Underlying profit before tax	**758**	**24**	**16**	**798**
Profit on disposal of properties	**51**	**-**	**1**	**52**
Retailing financing fair value movements	**(5)**	**-**	**(3)**	**(8)**
IAS 19 Revised pension financing charge	**(23)**	**-**	**-**	**(23)**
Defined benefit pension scheme expenses	**(7)**	**-**	**-**	**(7)**
Acquisition adjustments	**-**	**18**	**-**	**18**
One-off items	**113**	**(45)**	**-**	**68**
Profit before tax	**887**	**(3)**	**14**	**898**
Income tax expense				**(182)**
Profit for the financial period				**716**
Assets	**12,023**	**4,113**	**-**	**16,136**
Investment in joint ventures and associates	**3**	**-**	**401**	**404**
Segment assets	**12,026**	**4,113**	**401**	**16,540**
Segment liabilities	**(6,907)**	**(3,628)**	**-**	**(10,535)**
Other segment items				
Capital expenditure (including acquisitions through business combinations)[2]	**994**	**131**	**-**	**1,125**
Depreciation expense	**536**	**-**	**-**	**536**
Amortisation expense[3]	**14**	**1**	**-**	**15**
Share-based payments	**33**	**-**	**-**	**33**

1 Represents fair value unwind on loans and advances to customers resulting from the Sainsbury's Bank acquisition, as detailed in note 12(d).

2 Retail capital expenditure consists of property, plant and equipment additions of £975 million and intangible asset additions of £19 million. Financial Services capital expenditure consists of property, plant and equipment additions of £18 million acquired as part of the bank acquisition and intangible asset additions (including goodwill) of £113 million of which £88 million was acquired as part of the bank acquisition.

3 Amortisation expense within the Financial services segment includes £1 million of intangible asset amortisation arising from acquisition fair value adjustments, as detailed in note 12(d).

4 Segment reporting (continued)

52 weeks to 16 March 2013 Restated	Retailing £m	Financial services £m	Property investments £m	Group £m
Segment revenue	23,303	-	-	23,303
Underlying operating profit	831	-	-	831
Underlying finance income	19	-	-	19
Underlying finance costs	(130)	-	-	(130)
Underlying share of post-tax profit from joint ventures and associates	-	22	16	38
Underlying profit before tax	720	22	16	758
Profit/(loss) on disposal of properties	67	-	(1)	66
Retailing financing fair value movements	(7)	-	(3)	(10)
Investment property fair value movements	-	-	(10)	(10)
IAS 19 Revised pension financing charge	(16)	-	-	(16)
Defined benefit pension scheme expenses	(7)	-	-	(7)
One-off items	11	(20)	-	(9)
Profit before tax	768	2	2	772
Income tax expense				(170)
Profit for the financial period				602
Assets	12,163	-	-	12,163
Investment in joint ventures and associates	-	159	373	532
Segment assets	12,163	159	373	12,695
Segment liabilities	(6,857)	-	-	(6,857)
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.

5 Finance income and finance costs

	2014 £m	Restated 2013 £m
Interest on bank deposits and other financial assets	**20**	19
Finance income	**20**	19
Borrowing costs:		
Secured borrowings	**(91)**	(98)
Unsecured borrowings	**(56)**	(55)
Obligations under finance leases	**(8)**	(7)
Provisions – amortisation of discount	**(2)**	(2)
	(157)	(162)
Other finance costs:		
Interest capitalised – qualifying assets	**26**	32
Retailing financing fair value movements[1]	**(5)**	(7)
IAS 19 Revised pension financing charge	**(23)**	(16)
	(2)	9
Finance costs	**(159)**	(153)

1 Fair value movements 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

	2014 £m	Restated 2013 £m
Current tax expense	**214**	153
Deferred tax (credit)/expense	**(32)**	17
Total income tax expense in income statement	**182**	170

The effective tax rate of 20.3 per cent (2013: 22.0 per cent) is lower than (2013: lower than) the standard rate of corporation tax in the UK. The differences are explained below:

	2014 £m	Restated 2013 £m
Profit before taxation	**898**	772
Income tax at UK corporation tax rate of 23.04% (2013: 24.08%)	**207**	186
Effects of underlying items:		
Disallowed depreciation on UK properties	**31**	29
Over provision in prior years	**(7)**	-
Revaluation of deferred tax balances	**(31)**	(21)
Other	**(3)**	(11)
Effects of non-underlying items:		
Profit on disposal of properties	**(16)**	(5)
Investment property fair value movements	**-**	2
Revaluation of deferred tax balances	**(20)**	(11)
Under/(over) provision in prior years	**3**	(1)
Property impairments	**21**	-
Other	**(3)**	2
Total income tax expense in income statement	**182**	170

On 20 March 2013, the Chancellor announced that the main rate of UK corporation tax would reduce to 21.0 per cent from 1 April 2014 and to 20.0 per cent from 1 April 2015. This was substantively enacted on 2 July 2013 and hence the effect of the change on the deferred tax balances has been included in the 2014 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, retailing financing fair value movements, impairment of goodwill, IAS 19 Revised pension financing element, defined benefit pension scheme expenses, acquisition adjustments and one-off items that are material and infrequent in nature. This alternative measure of earnings per share is presented to reflect the Group's underlying trading performance.

All operations are continuing for the periods presented.

	2014 million	2013 million
Weighted average number of shares in issue	**1,896.8**	1,881.5
Weighted average number of dilutive share options	**25.4**	20.5
Weighted average number of dilutive convertible bonds	**46.3**	46.0
Total number of shares for calculating diluted earnings per share	**1,968.5**	1,948.0

	£m	Restated £m
Profit for the financial year	**716**	602
Add interest on convertible bonds, net of tax	**11**	11
Diluted earnings for calculating diluted earnings per share	**727**	613

	£m	£m
Profit for the financial year attributable to owners of the parent	**716**	602
(Less)/add (net of tax):		
Profit on disposal of properties	**(53)**	(55)
Investment property fair value movements	**-**	10
Retailing financing fair value movements	**7**	8
IAS 19 Revised pension financing charge	**18**	12
Defined benefit pension scheme expenses	**5**	5
Acquisition adjustments	**(17)**	-
One-off items	**(33)**	8
Revaluation of deferred tax balances	**(20)**	(11)
Underlying profit after tax	**623**	579
Add interest on convertible bonds, net of tax	**11**	11
Diluted underlying profit after tax	**634**	590

	pence per share	Restated pence per share
Basic earnings	**37.7**	32.0
Diluted earnings	**36.9**	31.5
Underlying basic earnings	**32.8**	30.8
Underlying diluted earnings	**32.2**	30.3

8 Dividend

	2014 pence per share	2013 pence per share	2014 £m	2013 £m
Amounts recognised as distributions to equity holders in the year:				
Final dividend of prior financial year	**11.9**	11.6	**225**	218
Interim dividend of current financial year	**5.0**	4.8	**95**	90
	16.9	16.4	**320**	308

After the balance sheet date, a final dividend of 12.3 pence per share (2013: 11.9 pence per share) was proposed by the Directors in respect of the 52 weeks to 15 March 2014, resulting in a total final proposed dividend of £234 million (2013: £225 million). The proposed final dividend has not been included as a liability at 15 March 2014.

9 Notes to the cash flow statement

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

	2014 £m	Restated 2013 £m
Profit before tax	**898**	772
Net finance costs	**139**	134
Share of post-tax profits of joints ventures	**(28)**	(24)
Operating profit	**1,009**	882
Adjustments for:		
Depreciation expense	**536**	504
Amortisation expense	**15**	13
Non-cash acquisition adjustments	**(19)**	-
Sainsbury's Bank impairment losses on loans and advances	**2**	-
Profit on disposal of properties	**(51)**	(67)
Impairment of property, plant and equipment	**92**	-
Impairment of intangible assets	**1**	-
Nectar VAT recovery	**(14)**	-
Foreign exchange differences	**6**	-
Share-based payments expense	**33**	33
Retirement benefit obligations[1]	**(244)**	(71)
Operating cash flows before changes in working capital	**1,366**	1,294
Changes in working capital:		
Increase in inventories	**(19)**	(57)
Decrease/(increase) in trade and other receivables	**13**	(34)
Increase in amounts due from Sainsbury's Bank customers	**(23)**	-
(Decrease)/increase in trade and other payables	**(118)**	87
Increase in amounts due to Sainsbury's Bank customers	**6**	-
Increase/(decrease) in provisions	**2**	(22)
Cash generated from operations	**1,227**	1,268

1 The adjustment for retirement benefit obligations reflects the difference between the service charge of £34 million (2013: £59 million) for the defined benefit scheme, defined benefit pension scheme expenses of £7 million (2013: £7 million), one-off past service credit of £(158) million (2013: £nil) and the cash contributions of £127 million made by the Group to the defined benefit scheme (2013: £137 million).

9 Notes to the cash flow statement (continued)
(b) Cash and cash equivalents

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

	2014 £m	2013 £m
Cash in hand and bank balances	**409**	115
Money market funds and deposits	**656**	402
Treasury bills	**527**	-
Cash and bank balances	**1,592**	517
Bank overdrafts	**(13)**	(13)
Net cash and cash equivalents	**1,579**	504

10 Analysis of net debt

	Group 2014 £m	Sainsbury's Bank 2014 £m	Adjusted Group 2014[1] £m	Group 2013 £m
Non-current assets				
Interest bearing available-for-sale financial assets	**37**	-	**37**	34
Derivative financial instruments	**28**	(1)	**27**	47
	65	(1)	**64**	81
Current assets				
Cash and cash equivalents	**1,592**	(1,225)	**367**	517
Derivative financial instruments	**49**	-	**49**	91
	1,641	(1,225)	**416**	608
Current liabilities				
Bank overdrafts	**(13)**	-	**(13)**	(13)
Borrowings	**(494)**	-	**(494)**	(131)
Finance leases	**(27)**	-	**(27)**	(21)
Derivative financial instruments	**(65)**	-	**(65)**	(65)
	(599)	-	**(599)**	(230)
Non-current liabilities				
Borrowings	**(2,089)**	-	**(2,089)**	(2,478)
Finance leases	**(161)**	-	**(161)**	(139)
Derivative financial instruments	**(21)**	6	**(15)**	(4)
	(2,271)	6	**(2,265)**	(2,621)
Total net debt	**(1,164)**	(1,220)	**(2,384)**	(2,162)

1 The Group's definition of net debt includes the cost of acquiring Sainsbury's Bank, but excludes Sainsbury's Bank's own net debt balances.

Reconciliation of net cash flow to movement in net debt

	2014 £m	2013 £m
Net debt at beginning of the year	**(2,162)**	(1,980)
Net increase/(decrease) in cash and cash equivalents	**1,075**	(235)
Elimination of net increase in Sainsburys Bank cash and cash equivalents	**(1,225)**	-
Net decrease in borrowings[2]	**1**	27
Net increase in derivatives[2]	**-**	26
Net increase of obligations under finance leases	**(28)**	(17)
Fair value movements	**(45)**	17
Net debt at the end of the year	**(2,384)**	(2,162)

2 Excluding fair value movements and Sainsbury's Bank derivative 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 is governed by a Trustee board, and the assets of the Scheme are held separately from the Group's assets. The Scheme is a Registered pension plan with HMRC, subject to UK legislation; and with oversight from the Pensions Regulator. The governance of the Scheme is the responsibility of the Trustee; the Trustee comprises 11 Directors – five selected from members, five appointed by the Company and one Independent Chairman. In accordance with legislation, the Trustee consults with the Company regarding the Scheme's investment strategy and agrees an appropriate funding plan with the Company.

The Scheme has three different benefit categories; Final Salary, Career Average and Cash Balance. For Final Salary and Career Average members, benefits at retirement are determined by length of service and salary. For Cash Balance members, benefits are determined by the accrued retirement account credits.

The Scheme was closed to new employees on 31 January 2002 and closed to future accrual on 28 September 2013. A one-off past service credit has been recognised as a result as disclosed in note 3. The assets of the Scheme are valued at bid price and are held separately from the Group's assets.

The Scheme was subject to a triennial actuarial valuation, carried out by Towers Watson, at 17 March 2012 on the projected unit basis. The results of this valuation were finalised in August 2013 and a recovery plan agreed. Under the Scheme's recovery plan, the Company will pay annual deficit contributions of £49 million per annum for eight consecutive financial years to 2020. This plan is reviewed once every three years, with the next valuation effective date in March 2015.

The retirement benefit obligations at the year-end have been calculated by KPMG, as actuarial advisers to the Group, using the projected unit credit method and based on adjusting the position at 17 March 2012 for known events and changes in market conditions as allowed under IAS 19 Revised.

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:

	2014	Restated 2013
	£m	£m
Present value of funded obligations	**(6,855)**	(6,460)
Fair value of plan assets	**6,131**	5,841
	(724)	(619)
Present value of unfunded obligations	**(13)**	(13)
Retirement benefit obligations	**(737)**	(632)
Deferred income tax asset	**58**	48
Net retirement benefit obligations	**(679)**	(584)

11 Retirement benefit obligations (continued)

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

	2014	2013
	%	%
Discount rate	**4.25**	4.60
Inflation rate - RPI	**3.40**	3.45
Inflation rate - CPI	**2.40**	2.55
Future salary increases	**n/a**	2.55
Future pension increases	**2.15 – 3.20**	2.15 – 3.25

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 Business combinations

On 31 January 2014 the Group acquired 50 per cent of the ordinary share capital of Sainsbury's Bank plc from Lloyds Banking Group for consideration of £193 million and at the same time purchased £25 million of floating rate subordinated undated loan capital and £30 million of floating rate subordinated dated loan capital. Sainsbury's Bank provides banking services and related financial services wholly within the UK.

Prior to the acquisition, the Group held 50 per cent of the ordinary share capital of Sainsbury's Bank, which was recorded within investments in joint ventures. The acquisition will benefit customers and shareholders, allowing the full future potential of the Bank to be realised. Accounting is on a provisional basis with the final consideration payment under negotiation with Lloyds Banking Group.

Details of the purchase consideration are as follows:

	2014
	£m
Purchase consideration (refer to (c) below):	
Cash paid	199
Deferred consideration	5
Acquisition-date fair value of the previously held equity interest	193
Total purchase consideration	**397**

The provisional assets and liabilities recognised as a result of the acquisition are as follows:

	Pre-acquisition carrying values	**Fair value adjustments**	**Provisional values on acquisition**
	£m	**£m**	**£m**
Cash and balances at central banks	1,259	-	1,259
Investment securities	31	-	31
Loans and advances to customers	2,597	(46)	2,551
Property, plant and equipment	18	-	18
Intangible assets	4	39	43
Deferred tax assets	-	4	4
Other assets, prepayments and accrued income	164	-	164
Derivatives and other liabilities	(29)	-	(29)
Customer accounts and deposits by banks	(3,532)	(11)	(3,543)
Provisions for liabilities and charges	(14)	-	(14)
Accruals and deferred income	(33)	-	(33)
Other borrowed funds	(110)	11	(99)
Net identifiable assets acquired	**355**	**(3)**	**352**
Add: goodwill			45
Net assets acquired			**397**

12 Business combinations (continued)

Goodwill arising on the acquisition is attributable to the synergies expected to be achieved. None of the goodwill recognised is expected to be deductible for income tax purposes.

(a) Acquired receivables – loans and advances to customers

The fair value of loans and advances to customers is £2,551 million. The gross loans and advances to customers pre-fair value adjustments are £2,680 million against which an £83 million provision for impairment is held. The fair value adjustment to loans and advances in the table above represents movements in credit spreads on collectable assets.

(b) Revenue and profit contribution

From the date of acquisition, the acquired business has contributed £28 million of revenue and £6 million of underlying operating profit to the Group. If the acquisition date had been on the first day of the financial year (assuming 50 weeks to 28 February), Group revenues for the year would have been £24,221 million and Group underlying operating profit would have been £926 million. These amounts have been calculated using the Group's accounting policies. The information is provided for illustrative purposes only and is not necessarily indicative of the results of the combined Group that would have occurred had the purchase actually been made at the beginning of the year, or indicative of future results of the combined Group.

(c) Cash impact of acquisition

	2014 £m
Cash consideration	(199)
Fair value of subordinated loan note receivables acquired	(44)
Cash acquired	1,259
Acquisition of subsidiaries, net of cash acquired	**1,016**
Direct costs relating to the acquisition	(7)
Net cash impact	**1,009**

(d) Acquisition adjustments included in non-underlying profit before tax

The following items have been excluded from underlying profit before tax and are presented separately on the face of the income statement.

	2014 £m
Acquisition adjustment fair value unwind included in revenue	3
Remeasurement of the previously held equity interest included in other income	15
Acquisition adjustment fair value unwind included in cost of sales	1
Acquired intangible amortisation included in administrative expenses	(1)
Acquisition adjustments	**18**
Acquisition related costs included in administrative expenses	(7)
	11

Excluded from underlying profit before tax are costs of £45 million in relation to Sainsbury's Bank, of which £7 million are acquisition related and £38 million are the costs of transitioning to a new banking platform.