IFRS 16 Briefing

16 October 2019

J Sainsbury plc

Agenda

- IFRS 16 recap
- Overview
- Impact summary
- Q&A

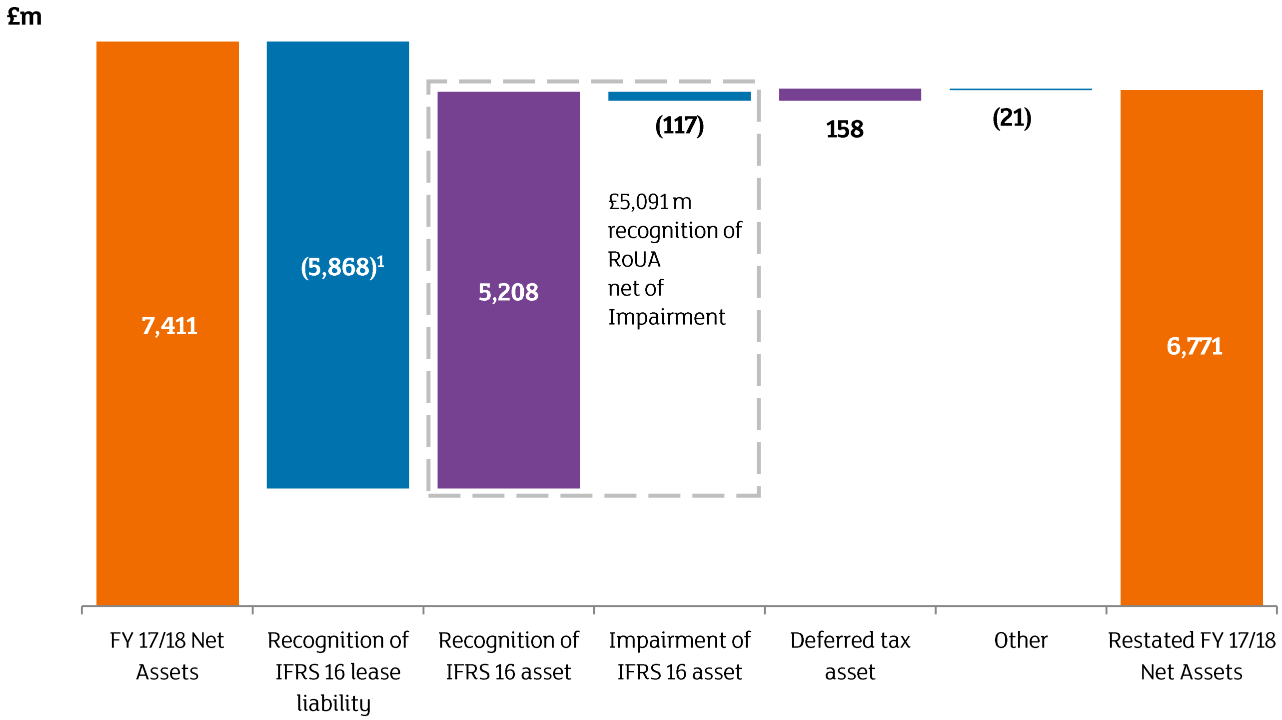
IFRS 16 recap

- Effective for the Group for 52 weeks ending 7 March 2020
- Our first Financial Statements to be prepared under IFRS 16 will be Interims 2019/20, to be reported on 7 November 2019
- The Group has adopted the fully retrospective transition approach:
  - Comparatives for FY18/19 restated
  - All transition adjustments assume IFRS 16 has always been applied
- Discount rate and lease length assumptions are specific to each lease
- Significant changes to the income statement:
  - Depreciation and interest replace rental cost
  - Total income statement charge profile changes, with EPS decreasing initially and operating profit increasing
- Significant changes to the balance sheet:
  - Recognition of right-of-use asset and lease liability
  - Transition adjustments to working capital and equity

Overview

- No change to how we run the business or make commercial decisions
- No impact on cash
- Underlying profit before tax for FY18/19 is restated from £635 million to £601 million and statutory profit before tax from £239 million to £202 million
- H1 18/19 UPBT restated from £302 million to £279 million
- Impact for FY19/20 on both underlying profit before tax and statutory profit before tax expected to be broadly in line with FY18/19, with the H1/H2 split more evenly weighted
- Transition balance sheet impact as at 11 March 2018:
  - Creation of right-of-use asset on transition of £5.1 billion
  - Lease liability on transition of £5.9 billion, included within net debt
  - Deferred tax asset on transition of £0.2 billion
  - Transition equity impact £(0.6) billion

Restated balance sheet – as at 11 March 2018



1 The incremental lease liability on transition is £(5,778) million, after accounting for the IAS 17 finance lease liability of £90 million included within 'Other' of £(21) million

Impact summary – 2018/19

- The financial impact on the restated 2018/19 balance sheet is:
  - Recognition of the right-of-use asset £4,993 million
  - Recognition of the lease liability £(5,822) million[1]
  - Recognition of deferred tax asset £162 million

- The impact on the restated 2018/19 income statement is:
  - Underlying profit before tax for FY18/19 is restated from £635 million to £601 million and statutory profit before tax from £239 million to £202 million
  - Underlying operating profit is £1,012 million, compared to previously reported value of £723 million

1 The incremental lease liability on the restated 2018/19 balance sheet is £(5,709) million, after accounting for the IAS 17 finance lease liability of £113 million included within 'borrowings' on the balance sheet over the page.

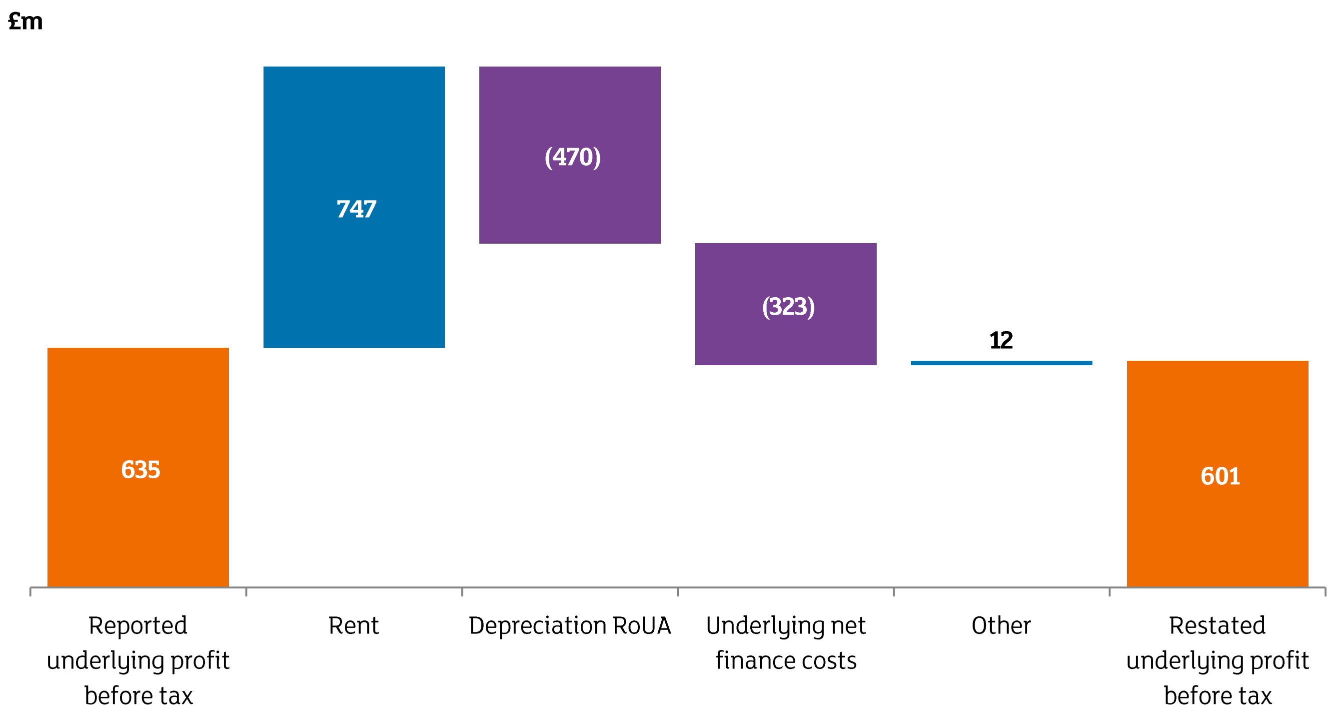
Summary balance sheet – as at 9 March 2019

	2019 (reported) £m	IFRS 16 Impact £m	2019 (restated) £m
Non-current assets			
Property, plant and equipment	9,708	(515)	9,193
Right-of-use asset	-	4,993	4,993
Other receivables	33	24	57
Other non-current assets	6,211	(1)	6,210
	15,952	4,501	20,453
Current assets	7,589	(31)	7,558
Total assets	23,541	4,470	28,011
Current liabilities			
Trade and other payables	(4,444)	71	(4,373)
Borrowings	(832)	(517)	(1,349)
Provisions	(123)	14	(109)
Other current liabilities	(6,018)	-	(6,018)
	(11,417)	(432)	(11,849)
Net current liabilities	(3,828)	(463)	(4,291)
Non-current liabilities			
Other payables	(340)	253	(87)
Borrowings	(950)	(5,192)	(6,142)
Deferred income tax liability	(397)	162	(235)
Provisions	(160)	65	(95)
Other non-current liabilities	(1,821)	-	(1,821)
	(3,668)	(4,712)	(8,380)
Net assets	8,456	(674)	7,782

Restated income statement – 52 weeks to 9 March 2019

	2019 (reported) £m	IFRS 16 Impact £m	2019 (restated) £m
Revenue	29,007	-	29,007
Cost of sales	(27,000)	281	(26,719)
Gross profit	2,007	281	2,288
Administrative expenses	(1,733)	8	(1,725)
Other income	38	-	38
Operating profit	312	289	601
Finance income	22	2	24
Finance costs	(99)	(328)	(427)
Share of post-tax profit from joint ventures and associates	4	-	4
Profit before tax	239	(37)	202
Analysed as:			
Underlying profit before tax	635	(34)	601
Non-underlying items	(396)	(3)	(399)
	239	(37)	202
Income tax credit/(expense)	(20)	4	(16)
Profit for the financial year	**219**	**(33)**	**186**

Restated income statement – 52 weeks to 9 March 2019



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Retail cash flow statement – 52 weeks to 9 March 2019

	2019 (restated) £m	IFRS 16 Impact £m	2019 (restated) £m
Adjusted retail operating cash flow before changes in working capital	**1,264**	**759**	**2,023**
Increase in working capital	(45)	7	(38)
Cash generated from operations	**1,219**	**766**	**1,985**
Pension cash contributions	(63)	-	(63)
Corporation tax paid	(61)	-	(61)
Net interest paid	(89)	(334)	(423)
Net cash generated from operating activities	**1,006**	**432**	**1,438**
Cash capital expenditure before strategic capital expenditure	(512)	4	(508)
Initial direct costs on right-of-use assets	-	(11)	(11)
Repayments of obligations under leases[1]	(5)	(425)	(430)
Proceeds from disposal of property, plant and equipment	64	-	64
Bank capital injections	(110)	-	(110)
Dividends and distributions received from JVs net of capital injections	13	-	13
Retail free cash flow[1]	**456**	**-**	**456**

1 Retail free cash flow has been redefined to include repayments of under leases. This results in a minor adjustment of £5 million pre IFRS 16, restating reported 2018/19 retail cash flow of £461 million to a represented retail free cash flow of £456 million. There is no overall impact to cash / cash equivalents at the end of the period.

Restated Group metrics – 52 weeks to 9 March 2019

	IAS 17	IFRS 16
Underlying operating profit	£723m	£1,012m
Underlying profit before tax	£635m	£601m
Retail underlying operating margin	2.43%	3.45%
Retail free cash flow (restated)	£456m	£456m
Retail net debt	£(1,142)m	£(6,844)m
Lease adjusted net debt: EBITDAR	3.2 times	
Net debt: EBITDAR		3.1 times
Earnings per share (pence):		
Basic earnings	9.1	7.6
Diluted earnings	8.9	7.5
Underlying basic earnings	22.0	20.7
Underlying diluted earnings	20.3	19.1