9 November 2017

J Sainsbury plc

Interim Results for the 28 weeks to 23 September 2017
Positive momentum across the business

Strategic Highlights

- More customers than ever chose to shop at Sainsbury's in the first half, responding to our clear focus on quality, price and innovation, and food transactions grew ahead of the market[1]
- Positive momentum across the business: 70 new and improved food ranges; 112 Argos stores open in Sainsbury's; exceeded cost savings target and will now deliver £540 million over three years ending 2017/18
- Continue to be competitive on price; customers don't have to wait for a promotion to get good value
- Strong growth in Groceries Online, up 7.2% and Convenience, up 8.2%
- General Merchandise growing market share in a challenging market[2]
- Our clothing business continues to outperform the market, with 6.8% sales growth[3]
- Continued progress at Sainsbury's Bank
- Well-developed plan to deliver at least £500 million in cost savings over three years from 2018/19

Financial Summary

- Group sales of £16,310 million, up 17%, primarily reflecting the full consolidation of Argos in H1 2017/18
- Like-for-like sales (excl. fuel)[4] up 1.6%
- Underlying profit before tax of £251 million, down 9%, reflecting previously guided price investment, wage cost inflation and consolidation of Argos H1 losses, partly offset by synergies and cost savings
- EBITDA synergies of £25 million (£23 million EBIT) in H1 2017/18; on track to deliver £160 million EBITDA (£142 million EBIT) synergy target from Argos acquisition six months ahead of schedule
- Underlying earnings per share down 22%, reflecting a full period's dilution impact of new shares issued to Home Retail Group plc shareholders on acquisition
- Strong balance sheet, with lease-adjusted net debt to EBITDAR down to 3.4x versus 4.0x a year ago
- Interim dividend of 3.1 pence per share in line with policy of paying 30% of prior full year dividend
- Outlook for full year underlying profit expectation remains in line with current market consensus[5]

	28 weeks to 23 September 2017	28 weeks to 24 September 2016	Variance
Business Performance[6]			
Underlying group sales (inc. VAT)	£16,310m	£13,923m	17%
Like-for-like sales (inc. VAT, excl. fuel)			1.6%
Underlying profit before tax	£251m	£277m	(9)%
Underlying basic earnings per share	8.7p	11.2p	(22)%
Net debt	£(1,387)m	£(1,341)m	£(46)m
Return on capital employed	8.3%	8.4%	(9)bp
Interim dividend	3.1p	3.6p	(14)%

	28 weeks to 23 September 2017	28 weeks to 24 September 2016
Statutory Reporting*		
Group sales (ex VAT, inc. fuel)	£14,644	£12,642m
Items excluded from underlying results	£(31)m	£95m
Profit before tax	£220m	£372m
Basic earnings per share	7.1p	14.8p

**Variation between Business Performance and Statutory Reporting is due to items excluded from underlying results*

- Profit before tax was £220 million. The prior year benefited from a £111 million one-off property gain from Nine Elms and £98 million profit from the sale of the pharmacy business in H1 2016/17

Commenting on the Interim Results 2017, Mike Coupe, Group Chief Executive of J Sainsbury plc, said:

"We have delivered a good performance across the Group in the last six months, with more customers choosing to shop at Sainsbury's in the first half than ever before. We are now three years into delivering our differentiated strategy and are seeing clear results.

"We are adapting to meet customers' changing shopping habits and, as a result, we are seeing positive momentum across the business. This half we have updated and improved 70 of our food ranges, covering around 40% of our food sales; improved our offer across 15% of our supermarket space and opened a further 73 Argos stores in Sainsbury's, giving customers more reasons to shop at Sainsbury's.

"We continue to focus on offering our customers great value, supported by our removal of multibuys. Customers can shop at Sainsbury's knowing they get good value every day without having to wait for products to be on promotion. We are also collaborating with suppliers and working hard within our own business to reduce our costs and limit the impact of price inflation on our customers.

"We are integrating Argos at pace: we have 112 Argos stores open in Sainsbury's supermarkets and will have 165 open by Christmas, in addition to nearly 200 digital collection points across our stores. We are rolling out Click & Collect for Argos and *Tu* clothing to 100 Sainsbury's Locals and Argos Fast Track same-day delivery and collection are now our fastest growing channels. We are on track to deliver our £160 million EBITDA synergy target from the Argos acquisition six months ahead of schedule.

"Both Groceries Online and Convenience sales grew strongly, up by over seven per cent and over eight per cent respectively and General Merchandise and Clothing both outperformed the market and grew market share. We have exceeded our cost savings target as a Group, saving £100 million this half, which gives us the flexibility to increase pay for our store colleagues and improve our customer offer while delivering returns to shareholders.

"We recently launched our Living Well Index, a long-term study which helps us understand our customers better. The results of this, combined with our customer data, will influence some of the choices we make around how we best serve our colleagues, customers and communities in the future."

Outlook

While the market remains competitive, we are well placed to navigate the external environment and we remain focused on delivering our strategy. The outlook for the full year underlying profit expectation remains in line with current market consensus[5].

Quarterly Trading Statement data

Like-for-like sales growth (including Argos in the base)	2016/17		2017/18		
	Q3	**Q4**	**Q1**	**Q2**	**H1**
Like-for-like sales (excl. fuel)	1.0%	0.3%	2.3%	0.6%	1.6%
Like-for-like sales (inc. fuel)	2.2%	0.9%	1.6%	0.9%	1.3%

Total sales growth (including Argos in base)[7]	2016/17		2017/18		
	Q3	**Q4**	**Q1**	**Q2**	**H1**
Grocery	0.3%	0.3%	3.0%	1.4%	2.3%
General Merchandise	3.7%	1.5%	1.0%	(1.6)%	(0.1)%
Clothing	9.4%	5.2%	7.2%	6.3%	6.8%
Total Retail (excl. fuel and excl. impact of sale of Pharmacy)	**1.6%**	**0.7%**	**2.7%**	**0.9%**	**1.9%**

Total sales growth (excluding Argos from base)	2016/17		2017/18		
	Q3	**Q4**	**Q1**	**Q2**	**H1**
Total Retail (inc. fuel)	28.6%	16.7%	18.9%	14.0%	16.8%

- Unless otherwise stated all sales figures contained in this trading statement are stated including VAT
- The sale of our Pharmacy business to Lloyds Pharmacy completed on 31 August 2016. The impact of this disposal is excluded from like-for-like sales for a period of one year from this date

Notes

1. Nielsen Panel (Total Grocery), rolling 12 weeks to 9 September 2017
2. BRC non-food non-clothing market, 28 weeks to 23 September 2017
3. Kantar Worldpanel (52 weeks ended 27 August 2017)
4. Includes all of Argos's sales for H1 2016/17 for comparative purposes but excludes the impact of the sale of our pharmacy business to Lloyds Pharmacy in August 2016
5. 2017/18 UPBT consensus estimate of £572 million, as published on 21 June 2017 on www.jsainsbury.co.uk/investors/analyst.consensus
6. Defined in Alternative Performance Measures on page 51
7. General Merchandise, Clothing and Total Retail sales growth performances include Argos in the prior year base

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.

Sainsbury's will report its 2017/18 15 week Third Quarter Trading Statement at 07:00 (BST) on 10 January 2018.

A results presentation for analysts and investors will be held at 09:30 on 9 November 2017.

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 0800 678 1161 (or +44 (0)1296 311 600 if you are unable to use the primary number). The pass code for the event is 734 648. 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.

Enquiries

Investor Relations	**Media**
James Collins	Rebecca Reilly
+44 (0) 20 7695 0080	+44 (0) 20 7695 7295

Strategic Highlights

The strategy we set out in November 2014 was designed to address the changing nature of retail and the way people shop. It is based on five pillars: knowing our customers better than anyone else; great products and services at fair prices; being there for our customers whenever and wherever they want; colleagues making the difference; and our values making us different.

To deliver this strategy we prioritised four key areas of our business where we can differentiate ourselves, grow and create value. We have made significant progress with each of these in the last six months:

Further enhance our differentiated food proposition

Food quality, innovation & value

- Food is the core of our business and we are consistently ranked ahead of our big four competitors for the quality of our food and customer service[8].
- More customers than ever shopped at Sainsbury's in the first half and our food transactions grew ahead of the market during the period[9].
- We are focused on continually improving the quality and value of our food. We work closely with our suppliers to ensure we remain competitive as we continue to offer our customers great value combined with an increasingly distinctive food range.
- We continue to invest to offer our customers low prices every day and we sell significantly fewer products on promotion than our big four competitors[10].
- We have improved 70 of our food ranges since the beginning of the financial year, covering over 40 per cent of our total food sales. We made improvements to our own-label products leading to growth in these in terms of volume and value during the half while we have a further 50 range reviews planned for the second half, covering an additional 18 per cent of food sales.
- We performed well in produce in the first half of the year. Our high-quality fresh British produce continues to be a differentiator for us and we have invested in improving both the range and quality. For example, our recently improved Ripe and Ready range has been popular with customers with sales volumes up circa eight per cent year-on-year in the first half. Over the summer we sold more strawberries than any other product, with our Murano strawberry, first exclusively sold by Sainsbury's in 2014, now the most widely-sold strawberry variety in the UK.
- We have accelerated our pace of food innovation and own-label development in the first half of the year. For example, our new *by Sainsbury's Just Cook* and *Slow Cook* ranges offer our customers excellent value restaurant quality food at home, helping them to live well for less. Following the 19 new Slow Cook lines we introduced in autumn 2016, we introduced a further 19 new seasonal lines in spring and autumn 2017, growing our share of the fast-growing £154 million Slow Cook market by over eight per cent since launch.[11] This included eight new seasonal lines introduced in April 2017 with a focus on summer eating, including beef ribs and brisket burnt ends. In addition, we launched 29 new and improved ready to eat chicken lines for customers who increasingly want convenient, healthy meals for lunch, dinner and snacking.
- We have expanded our *Deliciously FreeFrom* range and introduced it into more stores. This range is an increasingly popular option for customers with allergies, food intolerances or specific dietary requirements, while our total *FreeFrom* sales continue to outperform the market. We introduced four new lines during the first half of the year, including two new milk-free cheese alternatives, bringing the total number of lines in the range to over 100.

- We are committed to making our food offer more distinctive and giving customers more reasons to shop at Sainsbury's. During the first half of the year we increased our specialist food offer, adding Godiva and Off the Eaten Path to the exclusive and innovative brands we already work with such as Crussh, Patisserie Valerie and Sushi Gourmet.
- We monitor emerging food trends to add innovative products to our ranges. For example, during the first half of this year we were the first supermarket to sell edible flowers, all British grown, and we also launched living Japanese greens, such as Komatsuna, which can be picked as and when needed.

Grocery channels

- Our multi-channel proposition makes it easy and convenient for people to shop with us whenever and wherever they want.
- We have improved our offer across 15% of our supermarket space during the first half of this year and now have 112 Argos stores in Sainsbury's supermarkets, 196 digital collection points, and 30 Sushi Gourmet and 28 Patisserie Valerie concessions within our supermarkets. We are rolling out Smart Shop, our new service that enables customers to scan their shopping with a handset or mobile phone and pay at a dedicated checkout. This will be available in 45 stores by mid-November. We also completed a checkout free shopping trial in our London Euston convenience store in September, with further trials planned.
- Groceries Online sales increased by over seven per cent, with order growth of seven per cent. Our Groceries Online app now contributes around 15 per cent of Grocery Online orders and we have introduced a new picking system and started the roll-out of new picking handsets, which have improved productivity by 10 per cent. We have doubled the reach of our same day grocery delivery service and by Christmas will offer same-day delivery from 93 supermarkets. Our one hour Chop Chop grocery delivery service was a supermarket first and has been extended to five more stores in central London, taking the total to seven, covering 1.7 million potential customers. We are also currently trialing a 30 minute Click & Collect service in our Pimlico store in London.
- Convenience sales outperformed the market in the half, growing by over eight per cent. We opened 18 convenience stores and our Euro Garages trial continues, with nine Sainsbury's Locals now open in petrol forecourt stations. We also opened two supermarkets during the half.

Customer service

- We have seen a continual improvement in our Net Promoter Score[12] during the first half of 2017/18. Our product quality perception has remained above that of our big four competitors and we remain ahead of our big four competitors for customer satisfaction[13].
- Our colleagues deliver market-leading customer service every day. We won the annual Grocer Gold Awards for both Best Service and Best Availability for the fifth consecutive year, while our Redhill supermarket won Grocer Gold Store Manager of the Year.

Grow General Merchandise and Clothing and deliver synergies

General Merchandise

- The acquisition of Home Retail Group in September 2016 accelerated our strategy to be a multi-product, multi-channel retailer, serving customers whenever and wherever they want to shop. We continue to win market share in a challenging market despite a reduction in space due to the closure of Argos stores in Homebase.

- Since acquiring Argos in September 2016, we have opened 102 Argos stores in Sainsbury's supermarkets taking the total at the half-year to 112, including eight micro stores and 38 relocated stores. We plan to have 165 digital stores open within our supermarkets by the end of 2017 and are on track to have a total of 250 by March 2019, six months ahead of our original schedule. We continue to see a halo effect of one to two per cent on overall sales in supermarkets that offer an Argos store, while Argos like-for-like sales have grown by an average of around 20 per cent across the 15 Argos stores which have been in Sainsbury's supermarkets for more than a year.
- With customers increasingly wanting flexibility, speed and choice, our same day Fast Track delivery and collection services, available on over 20,000 products, are the fastest growing channels in our business, up 32 per cent and 59 per cent respectively.
- We performed well in key categories such as audio, mobile and nursery. Access to exclusive Star Wars merchandise and good availability on new Xbox and Nintendo console launches also helped to drive sales as well as Fast Track delivery and collection of fans and paddling pools during the summer.
- We continue to focus strongly on price, availability and improving customer experience in our stores and online. We have improved availability by opening two large Regional Fulfilment Centres (RFCs) in Reading and Birmingham increasing RFC space to around 250,000 square feet, further enhancing our same day and next day fulfilment capabilities across the UK.
- We have increased customer choice by adding to our portfolio of leading brands, such as Neff built-in kitchen appliances, Bodum kitchen accessories, DKNY and Boss Orange watches, Yale smart alarms and locks and Honeywell smart home thermostats.
- We have upgraded the Argos website, improving browsing, information and checkout and making the experience consistent across mobile and tablet. Argos was awarded Retail Week's Tech Retailer of the Year 2017 and two Retail Week Supply Chain Awards for 'Technology Initiative' and 'Customer Experience Transformation'.
- More people are shopping online, including via mobile phone and tablet, leading to a 10 per cent rise in Argos's online sales. 56 per cent of Argos sales start online and 63 per cent of online customers choose to collect their orders from an Argos or Sainsbury's store. We now have 196 digital collection points in Sainsbury's supermarkets where customers can collect *Tu* clothing, DPD, eBay and Argos orders. We are rolling out Click & Collect for Argos and *Tu* clothing to 100 Sainsbury's Locals.
- Habitat is focused on becoming more accessible to an increasingly online customer base. Over 60 per cent of Habitat sales originate online and we launched a Click & Collect service in September, enabling customers to order over 3,000 Habitat homeware products online and collect them from over 2,300 locations across the country, including over 200 Sainsbury's stores. Habitat had six mini stores within Sainsbury's supermarkets at the end of the half year.
- We expect to achieve our £160 million EBITDA (£142 million EBIT) synergies target by March 2019, six months ahead of the original schedule. We have developed a joint commercial strategy across Sainsbury's and Argos general merchandise for ranging, sourcing and promotional planning and cross-selling of products. We also recently announced proposals to integrate central and store support functions.

Clothing

- Clothing sales grew almost seven per cent, significantly outperforming the market and increasing our market share. Clothing online sales grew by 54 per cent, reflecting improvements to the website and to our Click & Collect proposition.
- Menswear now accounts for around 15 per cent of clothing sales and is the fastest growing category in *Tu* clothing by volume. Leveraging the success of our premium womenswear, we launched *Tu Premium* and *Tu Formal* for men in October 2017. This is the first time a supermarket has launched premium menswear ranges, strengthening our clothing brand and consolidating our position as a leading clothing retailer and a destination shop for great value, stylish clothing. The *Tu Formal* collection focuses on fabrics sourced from the UK and includes British wool three-piece suits and Harris Tweed jackets, while the *Tu Premium* range encapsulates key trends for the season with sharp tailoring and high-quality fabrics.
- We have also invested in branded menswear ranges such as Russell Athletics and Admiral, and negotiated an exclusive partnership with America's National Football League to sell officially licensed sportswear ahead of the start of the NFL season in September.
- We recognise the importance of attracting new and upcoming design talent to the *Tu* brand. With this in mind, we sponsored the womenswear and menswear design awards at Graduate Fashion Week in June. Two award-winning graduates will begin a year-long scholarship at Sainsbury's later this year, mentored by fashion designers Henry Holland and Oliver Spencer.

Diversify and grow Sainsbury's Bank

- Sainsbury's Bank is a growing part of our business and has had a good first half of the year, with a 56 per cent growth in total income and 17 per cent increase in underlying operating profit to £34 million, primarily reflecting the full consolidation of Argos Financial Services in H1 2017/18.
- Customer numbers were also up eight per cent to 1.85 million in the period. We now have over two million web visits, on average, every month. While the integration of Argos Financial Services is still in its early stages, we believe there are many opportunities for growth.
- Our new Insurance Panel model, launched in February this year, showed strong growth in the second quarter 2017/18, with sales of Car Insurance up 51 per cent and sales of Home Insurance up 26 per cent. This broker-led approach ensures we can offer quotes to an increasing number of potential Sainsbury's Home and Car Insurance customers, with even more competitive pricing. Our insurance products have been designed specifically for Sainsbury's customers, supported by tailored Nectar offers and discounts.
- Savings grew during the first half of the year. In a difficult market for savers, we achieved six per cent sales growth in savings, with highlights including fixed rate portfolio growth of 13 per cent and a six per cent increase in ISA balances.
- Travel Money continued to perform strongly, with sales up over 28 per cent as we attracted more customers and average transaction values increased. July 2017 was the biggest-ever month for our Travel Insurance business, with over 20 per cent of new policies originating from cross selling to Travel Money customers.

- While still in pilot phase during the first half, we saw early positive signs in mortgages. We offer a very competitive range of residential mortgage products, both directly to customers and through an intermediary, with a range of Loan to Value options. We have received approximately £150 million in mortgage applications, with a number of our products included in the Moneyfacts 'Best Buys' tables.
- New lending grew by 10 per cent during the first half and we saw active credit card accounts growth of 25 per cent. We maintain our low risk appetite to ensure we are lending responsibly and we remain confident in the strength of our lending portfolio. As part of our New Bank Programme, loans will move to the new banking platform by the end of 2017/18 and Credit Cards in Summer 2018.
- ATM transactions grew three per cent year-on-year to nearly £125 million during the first half. £1 in every £11 dispensed from a LINK ATM transaction in the UK continues to come from Sainsbury's Bank. We have over 50 advertising campaigns running on the ATM network, generating additional returns.
- We continue to report industry low levels of customer complaints, consistently recording less than 1.3 complaints per 1,000 customer accounts over the last two years. During the period, we were recognised by Moneyfacts as Best Card Provider (Introductory Rate), by Moneywise for its Trusted Rewards Credit Card and Best Online Personal Loan Provider by Your Money for the fifth year.

Continue cost savings and maintain balance sheet strength

Cost savings

- We achieved £100 million of cost savings in the first half of 2017/18 across a number of areas, including logistics, energy efficiency, labour efficiencies and structures, procurement and marketing.
- We are ahead of our cost savings target and now expect to deliver £185 million of cost savings this year and a total of £540 million of cost savings by the end of 2017/18, exceeding our £500 million target.
- We also have well-developed plans in place to deliver at least £500 million of cost savings over the next three years starting in 2018/19 as we continue to simplify the business.
- We are making changes to our in-store operating model at pace, helping us to reduce costs throughout our store estate and respond to changing customer shopping habits. We are improving product availability throughout the supply chain, making our checkouts more efficient, easier and faster to use, eliminating unnecessary complexity in our stores and simplifying our offer.
- Our focus on efficiency and cost reductions will allow us to continue to invest in innovating and improving our customer offer while delivering returns to shareholders.

Balance sheet strength

- Our balance sheet remains strong. We have reduced net debt by £90 million to £1,387 million. We have high levels of liquidity, with facilities of £3.9 billion, of which only £2.6 billion was drawn down at the half year. We refinanced our Revolving Credit Facility in October 2017, increasing it to £1.45 billion and extending its maturity.
- The ratio of lease adjusted net debt to earnings before interest, tax, depreciation and rent (EBITDAR) has improved to 3.4 times from 4.0 times a year ago.
- We achieved solid underlying cash generation, with free cash flow of £494 million in the first half of the year, compared to £420 million in the first half of 2016/17.

- Core retail capital expenditure of £239 million in the first half was in line with the prior year. This includes £36 million of Argos capital expenditure which was not in the prior half year total. Core retail capital expenditure is expected to be around £600 million for the full year.
- The market value of our property has increased slightly to £10.5 billion, as a result of a small shift in yields and market rental values.
- The combined Sainsbury's and HRG pension scheme deficit has decreased by £127 million from March 2017 to £723 million (net of deferred tax).
- The Board has approved an interim dividend of 3.1 pence per share, in line with our policy to pay 30 per cent of the previous full year dividend.

Notes

8. Morar HPI Brand Health Metrics; CSI Data – Customer Service tracking Q1 and Q2 2017/18
9. Nielsen Panel (Total Grocery), rolling 12 weeks to 9 September 2017
10. Nielsen Panel, rolling 4 weeks to 23 September 2017
11. Kantar Worldpanel, week ended 8 October 2017
12. 'Tell Sainsbury's' – our online customer satisfaction portal
13. Morar HPI Brand Health Metrics; CSI Data – Customer Satisfaction Index, tracking Q1 and Q2 2017/18

Financial Review

Summary income statement	28 weeks to 23 September 2017 £m	28 weeks to 24 September 2016 £m	Change %	52 weeks to 11 March 2017 £m
Underlying group sales (including VAT)	**16,310**	13,923	17.1	29,112
Underlying retail sales (including VAT)	**16,055**	13,750	16.8	28,705
Underlying group sales (excluding VAT)	**14,646**	12,642	15.9	26,224
Underlying retail sales (excluding VAT)	**14,391**	12,469	15.4	25,824
Underlying operating profit				
Retail	**272**	308	(11.7)	626
Financial services	**34**	29	17.2	62
Total underlying operating profit	**306**	337	(9.2)	688
Underlying net finance costs[1]	**(62)**	(65)	4.6	(119)
Underlying share of post-tax profit from JVs[2]	**7**	5	40.0	12
Underlying profit before tax	**251**	277	(9.4)	581
Items excluded from underlying results	**(31)**	95	(132.6)	(78)
Profit before tax	**220**	372	(40.9)	503
Income tax expense	**(54)**	(73)	26.0	(126)
Profit for the financial period	**166**	299	(44.5)	377
Underlying basic earnings per share	**8.7p**	11.2p	(22.3)	21.8p
Basic earnings per share	**7.1p**	14.8p	(52.0)	17.5p
Dividend per share	**3.1p**	3.6p	(13.9)	10.2p

1 Net finance costs including perpetual securities coupons before non-underlying finance movements.
2 The underlying share of post-tax profit from joint ventures and associates ('JVs') is stated before investment property fair value movements, non-underlying finance movements and profit on disposal of properties.

Group sales

Group sales (including VAT, including fuel) increased by 17.1 per cent year-on-year, mainly as a result of the acquisition of Argos. Retail sales (including VAT, including fuel) increased by 16.8 per cent. Including Argos in the base, retail sales (including VAT, excluding fuel) increased by 1.9 per cent due to a strong like-for-like performance. Fuel sales grew 0.8 per cent, largely driven by retail price inflation.

Total sales performance by category inc. Argos in base	**28 weeks to 23 September 2017 %**
Grocery (exc. Pharmacy)	2.3
General Merchandise	(0.1)
Clothing	6.8
Retail (exc. Fuel, exc. impact of sale of Pharmacy business)	**1.9**
Fuel Sales	0.8
Retail (inc. fuel, exc. impact of sale of Pharmacy business)	**1.7**

Grocery sales grew by 2.3 per cent as we continue to differentiate our food proposition from our competitors by investing in quality, innovation and price. Total General Merchandise sales were broadly flat year-on-year although we are growing our market share despite a reduction in space due to the closure of Argos concessions within Homebase, with strong performance in key areas such as electricals, toys and nursery. Clothing also continued to outperform the market with sales growth of nearly seven per cent year-on-year. We are the sixth biggest clothing retailer by volume.

Convenience growth was over eight per cent and Groceries Online sales growth was over seven per cent driven by order growth, supporting our ambition of becoming a multi-product, multi-channel retailer. There was like-for-like sales growth across all Sainsbury's channels – supermarkets, convenience and groceries online.

Total sales performance by channel	28 weeks to 23 September 2017 %
Supermarkets	0.7
Convenience	8.2
Groceries Online	7.2

Retail like-for-like sales, excluding fuel, increased by 1.6 per cent in the first half (2016/17: 1.0 per cent decline) mainly as a result of continued inflation.

Retail like-for-like sales performance inc. Argos in base	**28 weeks to 23 September 2017 %**	28 weeks to 24 September 2016 %
Like-for-like sales (exc. fuel)	**1.6**	(1.0)
Like-for-like sales (inc. fuel)	**1.3**	(0.7)

On a 52-week rolling basis, Sainsbury's market share (as measured by Kantar for the 52 weeks to 10 September 2017) declined 28 basis points, due to continued price investment and the continuing pace of new store expansion from the discounters. Discounters' combined market share increased by 119 basis points whilst the 'big four' combined market share declined by 119 basis points.

Space

In the first half of 2017/18, Sainsbury's opened two new supermarkets (2016/17: two new supermarkets). Convenience continues to grow, with 18 new stores opened in the first half, including two Euro Garages stores, and four stores closed (2016/17: 16 stores opened and six stores closed). Net of replacements, closures and disposals, closing Sainsbury's space was 23,324,000 sq ft (11 March 2017: 23,397,000 sq ft).

As at 23 September 2017, Argos had 815 stores (including 11 Habitat stores) and 196 collection points (including one Habitat collection point).

Store numbers and retailing space	As at 11 March 2017	New stores	Disposals/ closures	Extensions/ refurbishments/ downsizes	**As at 23 September 2017**
Supermarkets	605	2	-	-	**607**
Supermarkets area '000 sq ft[1]	21,512	60	-	(171)	**21,401**
Convenience[2]	806	18	(4)	-	**820**
Convenience area '000 sq ft	1,885	43	(6)	1	**1,923**
JS Total Store Numbers	1,411	20	(4)	-	**1,427**
Argos stores	715	3	(45)	-	**673**
Argos stores in Sainsbury's	39	73	-	-	**112**
Argos in Homebase	57	-	(38)	-	**19**
Temporary stores	2	-	(2)	-	**-**
Argos total store numbers	813	76	(85)	-	**804**
Argos collection points[3]	37	159	-	-	**196**
Habitat	8	3	-	-	**11**

1 Of the 171,000 sq ft reduction in Sainsbury's supermarket space, 152,000 sq ft now belongs to Argos stores in Sainsbury's.
2 Includes Euro Garages stores.
3 Includes one Habitat collection point.

In 2017/18, Sainsbury's expects to open three new supermarkets and around 25 new convenience stores.

In 2017/18, Sainsbury's expects to open around 145 Argos stores in supermarkets, resulting in around 185 Argos stores in supermarkets by the end of the year. In addition, we expect to open eight Habitat stores within supermarkets in 2017/18.

In 2017/18, Sainsbury's expects to close 41 Argos stores within Homebase, with 16 to remain open longer.

Retail underlying operating profit

Retail underlying operating profit decreased by 11.7 per cent to £272 million (2016/17: £308 million), reflecting continued investment in the customer offer, cost inflation and the consolidation of the Argos first half operating loss, partly offset by cost savings of £100 million and EBITDA synergies of £25 million (EBIT of £23 million).

Retail underlying operating margin declined by 58 basis points year-on-year to 1.89 per cent (2016/17: 2.47 per cent), equivalent to a 56 basis point decline at constant fuel prices, as a result of the consolidation of Argos sales and the lower underlying operating profit.

Retail underlying operating profit

	28 weeks to 23 September 2017	28 weeks to 24 September 2016	Change	Change at constant fuel prices	52 weeks to 11 March 2017
Retail underlying operating profit (£m)[1]	**272**	308	(11.7)%		626
Retail underlying operating margin (%)[2]	**1.89**	2.47	(58)bps	(56)bps	2.42
Retail underlying EBITDAR (£m)[3]	**1,037**	934	11.0%		1,912
Retail underlying EBITDAR margin (%)[4]	**7.21**	7.49	(28)bps	(22)bps	7.40

1 Retail underlying earnings before interest, tax and Sainsbury's underlying share of post-tax profit from joint ventures.
2 Retail underlying operating profit divided by underlying retail sales excluding VAT.
3 Retail underlying operating profit before rent of £391 million and underlying depreciation and amortisation of £374 million.
4 Retail underlying EBITDAR divided by underlying retail sales excluding VAT.

In 2017/18, Sainsbury's expects cost inflation in the two to three per cent range. We expect efficiency savings of around £185 million in 2017/18. We are on track to deliver savings of £540 million over three years by the end of 2017/18 and we have a well-developed plan to deliver a further three year cost saving target of at least £500 million from 2018/19 onwards as we simplify the business.

Our full year underlying profit expectation for the combined Group remains in line with current market consensus (2017/18 UPBT consensus estimate of £572 million, as published on 21 June 2017 on www.j-sainsbury.co.uk/investors/analyst-consensus).

We expect depreciation and amortisation of around £700 million, an increase of approximately £70 million as a result of the consolidation of a full year of Argos results.

Synergies arising from the acquisition of Argos

In the first half of 2017/18, Sainsbury's achieved £25 million of EBITDA synergies (£23 million EBIT), of which £18 million were incremental to 2016/17 full year. As part of the transaction to acquire Home Retail Group ('HRG'), Sainsbury's initially announced that the Group expected to achieve £160 million of EBITDA synergies (£142 million EBIT) by the end of the first half of 2019/20. Due to the acceleration of some of the activity, we later announced that we expect to deliver these in 2018/19.

In order to achieve these synergies, a total of £130 million of exceptional integration costs and £140 million of exceptional integration capital expenditure will be required. Exceptional costs will include the relocation of property, dilapidations, lease break costs and redundancy costs. Exceptional capital expenditure is required to reformat supermarket space and for fitting out the new Argos stores. The updated expected phasing of the synergies, exceptional costs and exceptional capital expenditure is shown below:

£m	**FY 2016/17**	H1 2017/18	H2 2017/18e	**FY 2017/18e**	**FY 2018/19e**	**Total**
EBITDA Synergies (incremental year-on-year)	**7**	18	40	**58**	**95**	**160**
EBIT Synergies (incremental year-on-year)	**6**	17	35	**52**	**84**	**142**
Exceptional costs	**(27)**	(27)	(33)	**(60)**	**(43)**	**(130)**
Exceptional capital expenditure	**(18)**	(35)	(55)	**(90)**	**(32)**	**(140)**

In 2017/18, we expect incremental EBITDA synergies of £58 million, resulting in total EBITDA synergies of £65 million since acquisition. EBITDA synergies of £160 million will be realised in 2018/19 (six months early). Argos integration costs are expected to be around £60 million; integration capital expenditure is expected to be around £90 million in 2017/18.

Homebase separation

HRG announced on 18 January 2016 that the sale of Homebase would give rise to £75 million of additional exceptional costs in relation to transaction, separation and restructuring. Up to the date of the acquisition, HRG had incurred £30 million of these costs, a further £4 million was incurred to 11 March 2017 and £2 million in the first half of 2017/18.

It is currently anticipated that the total exceptional costs will now only be £45 million, a reduction of £30 million from the original estimate, with the remaining £9 million to be incurred in the second half of 2017/18.

Sainsbury's Bank

Sainsbury's Bank results
Six months to 31 August 2017

	2017	2016	Change
Revenue (£m)	**255**	173	47%
Interest payable (£m)	**(30)**	(29)	3%
Total income (£m)	**225**	144	56%
Underlying operating profit (£m)	**34**	29	17%
Cost:income ratio (%)[1]	**68**	74	600bps
Active customers (m) - Bank	**1.85**	1.72	8%
Active customers (m) - AFS	**1.80**	-	-
Net interest margin (%)[2]	**5.1**	3.8	130bps
Bad debt as a percentage of lending (%)[3]	**1.4**	0.5	(90)bps
Tier 1 capital ratio (%)[4]	**13.9**	14.4	(50)bps
Loan balances (£m)[5]	**5,141**	4,183	23%

1 Excludes Argos Financial Services ('AFS').
2 Net interest receivable divided by average interest-bearing assets. Excluding AFS, net interest margin was 3.8 per cent.
3 Bad debt expense divided by gross lending. Excluding AFS, bad debt as a percentage of lending was 1.0 per cent.
4 Tier 1 capital divided by risk-weighted assets.
5 Net of provisions.

Sainsbury's Bank total income increased by 56 per cent year-on-year to £225 million mainly as a result of the consolidation of Argos Financial Services ('AFS').The consolidation also contributed to the 17 per cent increase year-on-year in Sainsbury's Bank underlying operating profit of £34 million.

Sainsbury's Bank cost:income ratio has decreased by 600 basis points driven by an increase in income in Sainsbury's Bank partially offset by an increase in administrative expenses. The number of Sainsbury's Bank active customers increased by eight per cent year-on-year to 1.85 million (2016/17: 1.72 million).

Net interest margin increased by 130 basis points year-on-year to 5.1 per cent (2016/17: 3.8 per cent) reflecting the acquisition of AFS that operates a higher risk and return operating model. Excluding AFS, net interest margin was flat at 3.8 per cent. The acquisition also contributed towards the adverse movement in bad debt levels as a percentage of lending to 1.4 per cent (2016/17: 0.5 per cent). Excluding AFS, bad debt as a percentage of lending was in line with expectations at 1.0 per cent.

The Tier 1 capital ratio decreased by 50 basis points year-on-year to 13.9 per cent (2016/17: 14.4 per cent), the primary drivers were increases to intangible assets and growth in customer lending. Loan balances increased by 23 per cent to £5,141 million, due to increases in personal loans and credit card balances and the introduction of mortgages in April 2017.

We have made good progress with our Bank transition programme. We have now delivered our flexible core platform, a new website and a new contact centre. Migration of our savings customers took place successfully in September 2016, along with the migration of all our ATMs. We launched our new insurance offer in early 2017 and our new mortgage offer in April 2017, and we expect our loans platform build to be operational by the end of 2017/18. Following the acquisition of HRG, we will now take the opportunity to create a common cards operating platform which we expect to launch by summer 2018.

In 2017/18, Sainsbury's Bank underlying operating profit growth is expected to be ten per cent.

Capital injections into the Bank are expected to be £190 million in 2017/18 (of which £110 million was injected in the first half). This is to cover card and loan platforms, regulatory capital and growth in loans, cards and mortgages.

Sainsbury's Bank transition costs are expected to be around £55 million (2016/17: £60 million) and transition capital costs are expected to be around £30 million (2016/17: £16 million).

Underlying net finance costs

Underlying net finance costs decreased by £3 million year-on-year to £62 million (2016/17: £65 million), due to lower interest costs as a result of lower average net debt.

Sainsbury's expects net finance costs in 2017/18 to be similar year-on-year.

Items excluded from underlying results

In order to provide shareholders with insight into the underlying performance of the business, items recognised in reported profit or loss before tax which, by virtue of their size and or nature, do not reflect the Group's underlying performance are excluded from the Group's underlying results and shown as items excluded from underlying results.

Items excluded from underlying results	**28 weeks to 23 September 2017 £m**	28 weeks to 24 September 2016 £m
Property-related	**5**	69
Argos	**(29)**	(30)
Sainsbury's Bank transition	**(20)**	(16)
Divestments	**-**	69
Restructuring costs	**-**	(13)
Other	**13**	16
Items excluded from underlying results	**(31)**	95

- Property-related in the prior year includes £113 million of profit on disposal of properties, predominantly due to the completion of the Nine Elms store, a mixed use development that opened in August 2016, offset by a decrease in investment property fair value and net impairment and onerous contract charge.
- Argos integration costs for the half of £27 million were part of the previously announced £130 million required over the three years in order to achieve the synergies of £160 million. Homebase separation and restructuring costs were £2 million.
- Sainsbury's Bank transition costs of £20 million (2016/17: £16 million) were part of the previously announced costs incurred in transitioning to a new, more flexible banking platform.
- Divestments for the prior year include £98 million profit on disposal of the Pharmacy business, offset by £29 million of costs incurred closing non-core businesses to enable the Group to focus on its core strategy.
- Restructuring costs in the prior year of £13 million relate to changes to our store colleague structures and working practices.

Taxation

The income tax charge was £54 million (2016/17: £73 million), with an underlying tax rate of 23.9 per cent (2016/17: 21.3 per cent) and an effective tax rate of 24.5 per cent (2016/17: 19.6 per cent).

The underlying tax rate was higher year-on-year mainly due to the revaluation of underlying deferred tax balances in the prior year, with a benefit of one per cent in the prior year compared to no revaluation expected in the current year. This also resulted in a higher effective tax rate year-on-year. Transactions for which non-taxable accounting profits exceeded taxable profit in the first half of 2016/17 also drove a lower effective tax rate in the prior year, such as the disposal of the Nine Elms property and the Pharmacy business.

In 2017/18, Sainsbury's expects the full year underlying tax rate to be between 23 and 24 per cent.

Earnings per share

Underlying basic earnings per share decreased to 8.7 pence (2016/17: 11.2 pence) reflecting the additional shares issued as a result of the HRG acquisition, a fall in underlying profit and a slightly higher underlying tax rate. Basic earnings per share decreased to 7.1 pence (2016/17: 14.8 pence), more than the fall in underlying basic earnings per share, mainly as a result of the £31 million charge for items excluded from underlying results (2016/17: £95 million gain).

Dividends

The Board has approved an interim dividend of 3.1 pence per share (2016/17: 3.6 pence), equivalent to 30 per cent of the previous full year dividend. This will be paid on 2 January 2018 to shareholders on the Register of Members at the close of business on 17 November 2017, subject to approval by shareholders at the AGM.

Sainsbury's plans to maintain a full-year dividend covered two times by our full-year underlying earnings.

Net debt and retail cash flows

Group net debt includes the capital injections in to Sainsbury's Bank, but excludes Sainsbury's Bank's own net debt balances. Sainsbury's Bank balances are excluded because they are required for business as usual activities. As at 23 September 2017, net debt was £1,387 million (11 March 2017: £1,477 million), a decrease of £90 million from year-end. If the perpetual securities were treated as debt, net debt would be £1,881 million (11 March 2017: £1,971 million).

Summary cash flow statement[1]	**Retail 28 weeks to 23 September 2017 £m**	Retail 28 weeks to 24 September 2016 £m	Retail 52 weeks to 11 March 2017 £m
Retail operating cash flow before changes in working capital[2]	**629**	582	1,179
Decrease in working capital[3]	**269**	222	61
Cash generated from retail operations[4]	**898**	804	1,240
Pension contribution	**(26)**	(12)	(112)
Net interest paid[5]	**(61)**	(64)	(108)
Corporation tax paid	**(40)**	(51)	(87)
Net cash generated from retail operating activities[6]	**771**	677	933
Cash capital expenditure before strategic capital expenditure[7]	**(277)**	(257)	(588)
Retail free cash flow	**494**	420	345
Dividends paid on ordinary shares	**(144)**	(151)	(230)
Exceptional pension contributions	**-**	(199)	(199)
Property related including strategic capital expenditure[5]	**25**	(36)	28
Bank capital injections	**(110)**	(100)	(130)
HRG acquisition and AFS loan book refinancing[5]	**-**	457	457
Repayment of borrowings including finance leases[5]	**(81)**	(81)	(211)
Other[5]	**(17)**	(13)	(10)
Net increase in cash and cash equivalents	**167**	297	50
Decrease in debt	**81**	81	211
Acquisition movements	**-**	39	39
Fair value, other non-cash and net interest movements[8]	**(158)**	68	49
Movement in net debt	**90**	485	349
Opening net debt	**(1,477)**	(1,826)	(1,826)
Closing net debt	**(1,387)**	(1,341)	(1,477)
Closing net debt (inc. hybrid securities as debt)	**(1,881)**	(1,835)	(1,971)

1 See note 4 for a reconciliation between the Retail and Group cash flows.
2 Excludes working capital, pension contributions and exceptional pension contributions.
3 The Group cash flow statement comparatives have been reclassified, refer to note 2 for further details.
4 Excludes pension contributions and exceptional pension contributions.
5 Refer to the Alternative Performance Measures on page 51 for reconciliation.
6 Excludes exceptional pension contributions.
7 Excludes purchase of Chiswick freehold and Argos integration capital expenditure.
8 Net interest excluding dividends paid on perpetual securities.

Operating cash flow before changes in working capital increased by £47 million year-on-year to £629 million (2016/17: £582 million) and working capital improved by £47 million. Capital expenditure before strategic capital expenditure was £277 million (2016/17: £257 million) driven by the addition of Argos core retail capital expenditure.

Free cash flow increased by £74 million in the half to £494 million (2016/17: £420 million). Free cash flow was used to fund dividends, capital injections into the Bank and to repay debt. Dividends of £144 million were paid in the half, which are covered 3.4 times by free cash flow (2016/17: 2.8 times). Bank capital injections of £110 million were made in the first half (2016/17: £100 million). Property related cash flow movements including strategic capital expenditure was £61 million favourable year-on-year mainly as a result of no freehold purchase in the current year (2016/17: £74 million purchase of Chiswick).

Fair value, other non-cash and interest movements of £158 million were primarily driven by a £138 million reduction in the value of US Dollar foreign exchange derivatives held to mitigate the Group's exposure to fluctuations in US Dollar denominated purchases. The weighted average hedge rate ('WAHR') at 23 September 2017 was below the spot rate generating an unrealised fair value loss (2016/17: £39 million unrealised profit as the WAHR at 24 September 2016 was above the spot rate).

As at 23 September 2017, Sainsbury's had drawn debt facilities of £2,627 million (including the perpetual securities) and undrawn committed credit facilities of £1,150 million. The Group also held £85 million of uncommitted facilities, of which £3 million was drawn as at 23 September 2017.

On 17 October 2017 the Group refinanced its syndicated committed revolving credit facility. The revised facility of £1,450 million has three, four and five year tranches with an initial final maturity for the longer dated tranche of April 2023.

Sainsbury's expects 2017/18 year-end net debt to remain around £1.5 billion. We expect net debt to reduce over the medium term.

Capital expenditure
Core retail capital expenditure was £239 million (2016/17: £236 million). Net retail capital expenditure was £274 million (2016/17: £315 million) as increased 2017/18 Argos integration capital expenditure was more than offset by the acquisition of the Chiswick freehold in the prior year.

In 2017/18, Sainsbury's expects core retail capital expenditure including business as usual Argos capital expenditure (excluding Sainsbury's Bank and Argos integration capital expenditure) to be around £600 million. Core retail capital expenditure is expected to be around £600 million per annum over the medium term.

We expect Argos integration capital expenditure to be around £90 million.

Financial ratios

Key financial ratios	**As at 23 September 2017**	As at 24 September 2016	As at 11 March 2017
Return on capital employed (%)[1]	**8.3**	8.4	8.8
Return on capital employed (exc. pension deficit) (%)[1]	**7.5**	8.0	8.0
Adjusted net debt to EBITDAR[2]	**3.4 times**	4.0 times	3.7 times
Interest cover[3]	**5.0 times**	5.3 times	7.3 times
Fixed charge cover[4]	**2.4 times**	2.6 times	2.7 times
Gearing[5]	**20.0%**	20.6%	21.5%
Gearing (excluding pension deficit)[6]	**18.1%**	17.2%	19.1%

Key financial ratios (with perpetual securities treated as debt)[7]			
Adjusted net debt to EBITDAR	**3.6 times**	4.3 times	4.0 times
Gearing	**29.2%**	30.6%	30.9%
Gearing (excluding pension deficit)	**26.2%**	25.1%	27.3%

Key financial ratios (with perpetual securities coupons excluded from net underlying finance costs)			
Interest cover[8]	**6.4 times**	6.6 times	5.9 times
Fixed charge cover[9]	**2.5 times**	2.7 times	2.6 times

1 The 14 point period includes the opening capital employed as at 25 September 2016 and the closing capital employed for each of the 13 individual four week periods to 23 September 2017.
2 Net debt of £1,387 million plus capitalised lease obligations of £5,830 million, divided by Group underlying EBITDAR of £2,113 million, calculated for a 52 week period to 23 September 2017. Perpetual securities treated as equity.
3 Underlying profit before interest and tax divided by underlying net finance costs, where interest on perpetual securities is included in underlying finance costs.
4 Group underlying EBITDAR divided by net rent and underlying net finance costs, where interest on perpetual securities is included in underlying finance costs.
5 Net debt divided by net assets. Perpetual securities treated as equity.
6 Net debt divided by net assets, excluding pension deficit. Perpetual securities treated as equity.
7 On a statutory basis, the perpetual securities are accounted for as equity on the Balance Sheet. Treating the perpetual securities, net of transaction fees, as debt increases net debt to £1,881 million, and reduces net assets to £6,443 million.
8 Underlying profit before interest and tax divided by underlying net finance costs, where interest on perpetual securities is excluded from underlying finance costs.
9 Group underlying EBITDAR divided by net rent and underlying net finance costs, where interest on perpetual securities is excluded from underlying finance costs.

Property value

As at 23 September 2017, Sainsbury's estimated market value of properties, including our 50 per cent share of properties held within property joint ventures, was £10.5 billion (11 March 2017: £10.3 billion). The £0.2 billion increase was a result of a small yield movement.

Defined benefit pensions

At 23 September 2017, the net defined benefit obligation for the Group was £723 million (including HRG and the unfunded obligation). The decrease in the deficit from 11 March 2017 was primarily driven by a rise in the discount rate from 2.70 per cent to 2.75 per cent since year-end.

Following agreement of the valuation of both schemes, the Group is committed to make annual contributions of £124 million to the scheme (Sainsbury's scheme: £84 million; Argos scheme: £40 million). The next triennial valuations are for the March 2018 year-ends for both schemes.

Retirement benefit obligations	**Sainsbury's As at 23 September 2017 £m**	**Argos As at 23 September 2017 £m**	**Group As at 23 September 2017 £m**	Group As at 24 September 2016 £m	Group As at 11 March 2017 £m
Present value of funded obligations	**(9,257)**	**(1,369)**	**(10,626)**	(11,305)	(10,854)
Fair value of plan assets	**8,645**	**1,207**	**9,852**	9,816	9,920
IFRIC 14 additional liability	**-**	**(4)**	**(4)**	-	-
Pension deficit	**(612)**	**(166)**	**(778)**	(1,489)	(934)
Present value of unfunded obligations	**(22)**	**(15)**	**(37)**	(39)	(40)
Retirement benefit obligations	**(634)**	**(181)**	**(815)**	(1,528)	(974)
Deferred income tax asset	**54**	**38**	**92**	216	124
Net retirement benefit obligations	**(580)**	**(143)**	**(723)**	(1,312)	(850)

Group income statement (unaudited)
for the 28 weeks to 23 September 2017

	Note	**28 weeks to 23 September 2017 £m**	28 weeks to 24 September 2016 £m	52 weeks to 11 March 2017 £m
Revenue	4	**14,644**	12,642	26,224
Cost of sales		**(13,658)**	(11,877)	(24,590)
Gross profit		**986**	765	1,634
Administrative expenses		**(731)**	(527)	(1,207)
Other income		**28**	219	215
Operating profit		**283**	457	642
Finance income	7	**11**	24	34
Finance costs	7	**(75)**	(73)	(136)
Share of post-tax profit/(loss) from joint ventures and associates		**1**	(36)	(37)
Profit before taxation		**220**	372	503
Analysed as:				
Underlying profit before tax		**251**	277	581
Non-underlying items	3	**(31)**	95	(78)
		220	372	503
Income tax expense	8	**(54)**	(73)	(126)
Profit for the financial period		**166**	299	377

The notes on pages 25 to 47 form an integral part of these Condensed Consolidated Interim Financial Statements.

Group statement of comprehensive income (unaudited)
for the 28 weeks to 23 September 2017

	Note	**28 weeks to 23 September 2017 £m**	28 weeks to 24 September 2016 £m	52 weeks to 11 March 2017 £m
Profit for the financial period		**166**	299	377
Items that will not be reclassified subsequently to the income statement:				
Remeasurement on defined benefit pension schemes	13	**147**	(869)	(407)
Current tax relating to items not reclassified		**-**	27	41
Deferred tax relating to items not reclassified		**(25)**	118	28
		122	(724)	(338)
Items that may be reclassified subsequently to the income statement:				
Currency translation differences		**(3)**	2	5
Available-for-sale financial assets fair value movements		**6**	3	10
Items reclassified from available-for-sale financial assets reserve		**-**	(1)	(1)
Cash flow hedges effective portion of fair value movements		**(121)**	72	115
Items reclassified from cash flow hedge reserve		**13**	(29)	(87)
Current tax on items that may be reclassified		-	-	(1)
Deferred tax relating to items that may be reclassified		**19**	8	5
		(86)	55	46
Total other comprehensive income/(expense) for the period (net of tax)		**36**	(669)	(292)
Total comprehensive income/(expense) for the period		**202**	(370)	85

The notes on pages 25 to 47 form an integral part of these Condensed Consolidated Interim Financial Statements.

Group balance sheet (unaudited)
at 23 September 2017

	Note	**28 weeks to 23 September 2017 £m**	28 weeks to 24 September 2016 Restated £m	52 weeks to 11 March 2017 Restated £m
Non-current assets				
Property, plant and equipment		**9,949**	10,036	10,006
Intangible assets		**833**	795	803
Investments in joint ventures and associates		**233**	284	237
Available-for-sale financial assets	12b	**465**	389	435
Other receivables		**39**	68	69
Amounts due from Financial Services customers	12a	**2,121**	1,768	1,916
Derivative financial instruments	12b	**1**	17	10
		13,641	13,357	13,476
Current assets				
Inventories		**1,928**	1,903	1,775
Trade and other receivables		**595**	788	574
Amounts due from Financial Services customers	12a	**3,020**	2,415	2,686
Available-for-sale financial assets	12b	**134**	124	100
Derivative financial instruments	12b	**18**	136	94
Cash and cash equivalents	11	**1,335**	1,185	1,083
		7,030	6,551	6,312
Assets held for sale		**8**	30	10
		7,038	6,581	6,322
Total assets		**20,679**	19,938	19,798
Current liabilities				
Trade and other payables		**(4,184)**	(4,263)	(3,741)
Amounts due to Financial Services customers and other deposits	12a	**(4,803)**	(3,766)	(4,284)
Borrowings		**(696)**	(227)	(172)
Derivative financial instruments	12b	**(78)**	(40)	(22)
Taxes payable		**(141)**	(90)	(219)
Provisions		**(119)**	(171)	(148)
		(10,021)	(8,557)	(8,586)
Net current liabilities		**(2,983)**	(1,976)	(2,264)
Non-current liabilities				
Other payables		**(309)**	(308)	(304)
Amounts due to Financial Services customers and other deposits	12a	**(762)**	(633)	(637)
Borrowings		**(1,443)**	(2,113)	(2,039)
Derivative financial instruments	12b	**(39)**	(48)	(38)
Deferred income tax liability		**(171)**	(63)	(162)
Provisions		**(182)**	(194)	(186)
Retirement benefit obligations	13	**(815)**	(1,528)	(974)
		(3,721)	(4,887)	(4,340)
Net assets		**6,937**	6,494	6,872
Equity				
Called up share capital		**626**	625	625
Share premium account		**1,123**	1,118	1,120
Capital redemption reserve		**680**	680	680
Merger reserve		**568**	568	568
Other reserves		**102**	205	193
Retained earnings		**3,342**	2,802	3,190
Total equity before perpetual securities		**6,441**	5,998	6,376
Perpetual capital securities		**248**	248	248
Perpetual convertible bonds		**248**	248	248
Total equity		**6,937**	6,494	6,872

The notes on pages 25 to 47 form an integral part of these Condensed Consolidated Interim Financial Statements.

The prior year restatements relate to hindsight adjustments to the acquired Home Retail Group balance sheet as permitted under IFRS 3 ‘Business Combinations’. See note 14 for more information.

Group cash flow statement (unaudited)
for the 28 weeks to 23 September 2017

	Note	**28 weeks to 23 September 2017 £m**	28 weeks to 24 September 2016 £m	52 weeks to 11 March 2017 £m
Cash flows from operating activities				
Profit before tax		**220**	372	503
Net finance costs		**64**	49	102
Share of post-tax (profit)/loss from joint ventures and associates		**(1)**	36	37
Operating profit		**283**	457	642
Adjustments for:				
Depreciation expense		**343**	310	600
Amortisation expense		**19**	17	28
Non-cash adjustments arising from acquisitions		**1**	(2)	12
Financial Services impairment losses on loans and advances		**35**	9	33
Profit on sale of properties	3	**(10)**	(116)	(101)
Loss on disposal of intangibles		**2**	-	36
Profit on disposal of Pharmacy business		**-**	(98)	(98)
Impairment charge of property, plant and equipment		**-**	11	55
Share-based payments expense		**19**	21	32
Retirement benefit obligations		**(26)**	(211)	(311)
Operating cash flows before changes in working capital		**666**	398	928
Changes in working capital				
Increase in inventories		**(153)**	(127)	(6)
Increase in current available-for-sale financial assets		**(58)**	(111)	(126)
(Increase)/decrease in trade and other receivables		**(19)**	(172)	37
Increase in amounts due from Financial Services customers and other deposits		**(571)**	(230)	(681)
Increase in trade and other payables		**403**	436	29
Increase in amounts due to Financial Services customers and other deposits		**644**	643	1,166
(Decrease)/increase in provisions and other liabilities		**(36)**	9	(24)
Cash generated from operations		**876**	846	1,323
Interest paid		**(45)**	(49)	(95)
Corporation tax paid		**(40)**	(51)	(75)
Net cash generated from operating activities		**791**	746	1,153
Cash flows from investing activities				
Purchase of property, plant and equipment		**(282)**	(307)	(634)
Purchase of intangible assets		**(56)**	(47)	(110)
Proceeds from disposal of property, plant and equipment		**44**	15	55
Acquisition of subsidiaries, net of cash acquired		**-**	101	101
Capital return to Home Retail Group plc shareholders		**-**	(226)	(226)
Share issuance costs on acquisition of Home Retail Group plc		**-**	(3)	(3)
Investment in joint ventures and associates		**(8)**	(16)	(16)
Interest received		**8**	9	18
Dividends and distributions received		**16**	23	65
Net cash used in investing activities		**(278)**	(451)	(750)
Cash flows from financing activities				
Proceeds from issuance of ordinary shares		**3**	3	6
Drawdown of short-term borrowings		**-**	448	448
Repayment of short-term borrowings		**-**	(448)	(492)
Repayment of long-term borrowings	5	**(67)**	(64)	(130)
Purchase of own shares		**(12)**	-	-
Repayment of capital element of obligations under finance lease borrowings	5	**(14)**	(17)	(37)
Interest elements of obligations under finance lease payments	5	**(4)**	(4)	(8)
Dividends paid on ordinary shares	10	**(144)**	(151)	(230)
Dividends paid on perpetual securities		**(20)**	(20)	(23)
Net cash used in financing activities		**(258)**	(253)	(466)
Net increase/(decrease) in cash and cash equivalents		**255**	42	(63)
Opening cash and cash equivalents		**1,077**	1,140	1,140
Closing cash and cash equivalents	11	**1,332**	1,182	1,077

The notes on pages 25 to 47 form an integral part of these Condensed Consolidated Interim Financial Statements.

Group statement of changes in equity (unaudited)
for the 28 weeks to 23 September 2017

	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Merger reserve £m	Retained earnings £m	Total equity before perpetual securities £m	Perpetual capital securities £m	Perpetual convertible bonds £m	Total equity £m
At 12 March 2017	**625**	**1,120**	**873**	**568**	**3,190**	**6,376**	**248**	**248**	**6,872**
Profit for the period	**-**	**-**	**-**	**-**	**164**	**164**	**-**	**2**	**166**
Other comprehensive (expense)/income	**-**	**-**	**(86)**	**-**	**122**	**36**	**-**	**-**	**36**
Total comprehensive (expense)/income for the period ended 23 September 2017	**-**	**-**	**(86)**	**-**	**286**	**200**	**-**	**2**	**202**
Transactions with owners:									
Dividends paid	**-**	**-**	**-**	**-**	**(144)**	**(144)**	**-**	**-**	**(144)**
Distribution to holders of perpetual subordinated convertible bonds (net of tax)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2)**	**(2)**
Amortisation of convertible bond equity component	**-**	**-**	**(5)**	**-**	**5**	**-**	**-**	**-**	**-**
Share-based payments (net of tax)	**-**	**-**	**-**	**-**	**17**	**17**	**-**	**-**	**17**
Purchase of own shares	**-**	**-**	**-**	**-**	**(12)**	**(12)**	**-**	**-**	**(12)**
Allotted in respect of share option schemes	**1**	**3**	**-**	**-**	**-**	**4**	**-**	**-**	**4**
At 23 September 2017	**626**	**1,123**	**782**	**568**	**3,342**	**6,441**	**248**	**248**	**6,937**

	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Merger reserve £m	Retained earnings £m	Total equity before perpetual securities £m	Perpetual capital securities £m	Perpetual convertible bonds £m	Total equity £m
At 13 March 2016	**550**	**1,114**	**835**	**-**	**3,370**	**5,869**	**248**	**248**	**6,365**
Profit for the period	-	-	-	-	297	297	-	2	299
Other comprehensive income/(expense)	-	-	55	-	(724)	(669)	-	-	(669)
Total comprehensive income/(expense) for the period ended 24 September 2016	-	-	55	-	(427)	(372)	-	2	(370)
Transactions with owners:									
Dividends paid	-	-	-	-	(155)	(155)	-	-	(155)
Acquisition of subsidiaries	75	-	-	568	(3)	640	-	-	640
Distribution to holders of perpetual subordinated convertible bonds (net of tax)	-	-	-	-	-	-	-	(2)	(2)
Amortisation of convertible bond equity component	-	-	(5)	-	5	-	-	-	-
Share-based payments (net of tax)	-	-	-	-	21	21	-	-	21
Purchase of own shares[1]	-	-	-	-	(9)	(9)	-	-	(9)
Allotted in respect of share option schemes	-	4	-	-	-	4	-	-	4
At 24 September 2016	625	1,118	885	568	2,802	5,998	248	248	6,494

1 Purchase of own shares in the prior year of £9 million relate to Home Retail Group treasury shares that converted to 0.321 J Sainsbury plc shares as part of the acquisition on 2 September 2016.

The notes on pages 25 to 47 form an integral part of these Condensed Consolidated Interim Financial Statements.

Group statement of changes in equity (continued) (unaudited)

	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Merger reserve £m	Retained earnings £m	Total equity before perpetual securities £m	Perpetual capital securities £m	Perpetual convertible bonds £m	Total equity £m
At 13 March 2016	550	1,114	835	-	3,370	5,869	248	248	6,365
Profit for the year	-	-	-	-	359	359	12	6	377
Other comprehensive income/(expense)	-	-	46	-	(338)	(292)	-	-	(292)
Total comprehensive income for the year ended 11 March 2017	-	-	46	-	21	67	12	6	85
Transactions with owners:									
Dividends paid	-	-	-	-	(232)	(232)	-	-	(232)
Acquisition of subsidiaries	75	-	-	568	(3)	640	-	-	640
Adjustment to consideration in respect of share options	-	-	-	-	3	3	-	-	3
Distribution to holders of perpetual securities (net of tax)	-	-	-	-	-	-	(12)	(6)	(18)
Amortisation of convertible bond equity component	-	-	(8)	-	8	-	-	-	-
Share-based payments (net of tax)	-	-	-	-	32	32	-	-	32
Purchase of own shares[1]	-	-	-	-	(9)	(9)	-	-	(9)
Allotted in respect of share option schemes	-	6	-	-	-	6	-	-	6
At 11 March 2017	625	1,120	873	568	3,190	6,376	248	248	6,872

1 Purchase of own shares in the prior year of £9 million relate to Home Retail Group treasury shares that converted to 0.321 J Sainsbury plc shares as part of the acquisition on 2 September 2016.

The notes on pages 25 to 47 form an integral part of these Condensed Consolidated Interim Financial Statements.

Notes to the Condensed Consolidated Interim Financial Statements (unaudited)

1 General information

J Sainsbury plc is a public limited company (the ‘Company’) incorporated in the United Kingdom, whose shares are publicly traded on the London Stock Exchange. The Company is domiciled in the United Kingdom and its registered address is 33 Holborn, London EC1N 2HT, United Kingdom.

The Condensed Consolidated Interim Financial Statements are unaudited but have been reviewed by the auditors whose report is set out on page 50. The financial information presented herein does not amount to statutory accounts within the meaning of Section 434 of the Companies Act 2006. The Annual Report and Financial Statements 2017 have been filed with the Registrar of Companies. The Independent Auditors’ report on the Annual Report and Financial Statements 2017 was unqualified and did not contain a statement under Section 498 of the Companies Act 2006.

The financial period represents the 28 weeks to 23 September 2017 (comparative financial period 28 weeks to 24 September 2016; prior financial year 52 weeks to 11 March 2017). The financial information comprises the results of the Company and its subsidiaries (the ‘Group’) and the Group’s interests in joint ventures and associates.

The Group’s principal activities are Food, General Merchandise & Clothing retailing and Financial Services.

2 Basis of preparation

The Interim Results, comprising the Condensed Consolidated Interim Financial Statements and the Interim Management Report, have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34 ‘Interim Financial Reporting’ as adopted by the European Union.

The financial information contained in the Interim Results is presented in sterling, rounded to the nearest million (£m) unless otherwise stated.

The financial information contained in the Condensed Consolidated Interim Financial Statements should be read in conjunction with the Annual Report and Financial Statements 2017, which were prepared in accordance with International Financial Reporting Standards (‘IFRSs’) as adopted by the European Union. The accounting policies have remained unchanged from those disclosed in the Annual Report for the year ended 11 March 2017 other than the adoption of the accounting standards set out below which have not had any impact on the interim financial statements.

The Group cash flow statement at 24 September 2016 and 11 March 2017 included an additional line item for foreign exchange differences, with an equal and opposite movement within working capital. For the period ended 23 September 2017, the Group cash flow has been presented without this adjustment to better reflect the working capital movements. The comparative cash flow statements have also been presented in this manner.

The prior year balance sheets as at 24 September 2016 and 11 March 2017 have both been restated following adjustments made to the acquired Home Retail Group balance sheet as permitted by IFRS 3 ‘Business Combinations’ (refer to note 14).

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these Condensed Consolidated Interim Financial Statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Consolidated Financial Statements for the year ended 11 March 2017, with the exception of the following item:

- Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings, also taking into account the impact of “discrete items” in the interim period.

2 Basis of preparation (continued)

Sainsbury's Bank plc and its subsidiaries have been consolidated for the six months to 31 August 2017 (24 September 2016: six months to 31 August 2016; 11 March 2017: twelve months to 28 February 2017). Adjustments have been made for the effects of significant transactions or events that occurred between this date and the Group's balance sheet date.

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 amendments to published standards that are effective for the Group for the financial year beginning 12 March 2017 and concluded that they are either not relevant to the Group or that they do not have a significant impact on the Group's financial statements other than disclosures. These standards and interpretations have been endorsed by the European Union.

- Amendments to IAS 7 'Statement of cash flows' on the disclosures in financial statements

The following standards and revisions will be effective for future periods:

- IFRS 9 'Financial instruments'
- IFRS 15 'Revenue from contracts with customers'
- IFRS 16 'Leases'

Additional information on these new effective standards was provided in the Group's Annual Report for the year ended 11 March 2017 and is summarised below:

IFRS 9 'Financial instruments'
IFRS 9 'Financial instruments' was endorsed for adoption by the EU in November 2016 and is effective for the year ended 9 March 2019.

The most significant impact on the Group remains in relation to the impairment of financial assets, in particular amounts due from Financial Services customers at Sainsbury's Bank and its subsidiaries. IFRS 9 introduces a three stage expected credit loss ('ECL') model which is forward-looking and which generally will result in earlier recognition of credit losses and therefore higher impairment provisions. The Group's implementation project is progressing in line with plan and a parallel run of key models and processes at Sainsbury's Bank has commenced. The Group will disclose the expected financial impact of IFRS 9 in its Annual Report and Financial Statements for the year ending 10 March 2018.

Any changes to recognition and measurement will be applied retrospectively by adjusting the opening balance sheet as at 11 March 2018. There is no requirement to restate comparative amounts.

IFRS 15 'Revenue from contracts with customers'
IFRS 15 'Revenue from contracts with customers' is effective for the year ending 9 March 2019.

As reported in the Annual Report for the year ended 11 March 2017, the Group has performed a detailed impact assessment, identifying all current sources of revenue and analysing the accounting requirements for each under IFRS 15. Currently the Group does not expect any material changes to either revenue or profit as a result of adopting IFRS 15.

IFRS 16 'Leases'
IFRS 16 'Leases' is effective for the year ending 7 March 2020 subject to EU endorsement.

IFRS 16 requires that all operating leases will need to be recognised on the balance sheet. Furthermore, rental expense in the income statement will be replaced with depreciation and interest expense. The transition is likely to have a material impact on reported assets, liabilities and the Group income statement, including underlying profit, as well as the classification of lease-related cash flows within the Group cash flow statement. A detailed review of the expected impact is currently underway, however the Group is unable to quantify the effect of transition until this is completed.

3 Non-GAAP performance measures

In order to provide shareholders with additional insight into the underlying performance of the business, items recognised in reported profit or loss before tax which, by virtue of their size and/or nature do not reflect the Group's underlying performance, are excluded from the Group's underlying results.

These adjusted items are as follows:

	28 weeks to 23 September 2017		28 weeks to 24 September 2016		52 weeks to 11 March 2017	
	Gross £m	**Tax £m**	Gross £m	Tax £m	Gross £m	Tax £m
Underlying profit	**251**	**(60)**	277	(59)	581	(135)
Property-related						
Profit on disposal of properties	**2**	**1**	113	(13)	98	(12)
Joint venture investment property fair value movements	**3**	**-**	(14)	-	(25)	-
Net impairment and onerous contract charge	**-**	**-**	(30)	-	(37)	-
Argos						
Transaction costs relating to the acquisition of HRG	**-**	**-**	(22)	-	(22)	-
Argos integration costs	**(27)**	**5**	(6)	-	(27)	4
Homebase separation	**(2)**	**-**	(2)	-	(4)	-
Sainsbury's Bank transition	**(20)**	**3**	(16)	4	(60)	12
Focus						
Divestments	**-**	**-**	69	(15)	72	(14)
IT write-offs	**-**	**-**	-	-	(57)	11
Restructuring costs	**-**	**-**	(13)	1	(33)	8
Other						
Perpetual securities coupons	**13**	**(3)**	13	(3)	23	(5)
Non-underlying finance movements	**(2)**	**-**	12	(1)	10	(3)
Acquisition adjustments	**20**	**(3)**	1	-	8	(2)
IAS 19 pension expenses	**(18)**	**2**	(10)	3	(24)	5
Tax adjustments						
Prior year adjustments	**-**	**-**	-	-	-	(4)
Revaluation of deferred tax balances	**-**	**1**	-	10	-	9
Total adjustments	**(31)**	**6**	95	(14)	(78)	9
Profit	**220**	**(54)**	372	(73)	503	(126)

Property-related

- Profit on disposal of properties for the period comprised £10 million for the Group (24 September 2016: £116 million; 11 March 2017: £101 million), included within other income and £(8) million for the property joint ventures (24 September 2016: £(3) million; 11 March 2017: £(3) million).
- Net impairment and onerous contract charge comprises £nil within property, plant and equipment (24 September 2016: £(12) million; 11 March 2017: £(19) million) and onerous lease provisions of £nil (24 September 2016: £(18) million; 11 March 2017: £(18) million).

Argos

- Argos integration costs for the period of £(27) million were part of the previously announced £(130) million required over the three years in order to achieve the synergies of £160 million.
- The Homebase separation and restructuring costs for the period of £(2) million were part of the revised anticipated total exceptional costs of £45 million.

Sainsbury's Bank transition

- Sainsbury's Bank transition costs of £(20) million were part of the previously announced costs incurred in transitioning to a new, more flexible banking platform.

3 Non-GAAP performance measures (continued)

Focus

- Divestments in the prior year include £98 million profit on disposal of the Pharmacy business (included within other income), offset by costs incurred closing non-core businesses to enable the Group to focus on its strategy. This included the closure of Netto, Sainsbury's Entertainment and Phoneshops.
- The Group incurred £(57) million in the second half of the prior year in relation to the cessation of non-core IT projects. This included £(36) million in property, plant and equipment, £(19) million in intangibles and £(2) million other directly attributable costs.

Restructuring costs

- Internal restructuring costs in the prior year relate to changes in store colleague structures and working practices.

Other

- The coupons on the perpetual subordinated capital securities and the perpetual subordinated convertible bonds are accounted for as equity in line with IAS 32 'Financial Instruments: Presentation', however are accrued on a straight-line basis and included as an expense within underlying profit before tax.
- Non-underlying finance movements for the financial year comprised £(1) million for the Group (24 September 2016: £13 million; 11 March 2017: £12 million) and £(1) million for the joint ventures (24 September 2016: £(1) million; 11 March 2017: £(2) million).
- Acquisition adjustments of £20 million (24 September 2016: £1 million; 11 March 2017: £8 million) reflect the unwind of fair value adjustments arising from the Sainsbury's Bank and Home Retail Group acquisitions.
- IAS 19 pension expenses comprise pension financing charge of £(14) million (24 September 2016: £(8) million; 11 March 2017: £(16) million) and defined benefit scheme expenses of £(4) million (24 September 2016: £(2) million; 11 March 2017: £(8) million) (see note 13).

Cash flow statement

The table below shows the impact of non-underlying items on the Group cash flow statement:

	28 weeks to 23 September 2017 £m	28 weeks to 24 September 2016 £m	52 weeks to 11 March 2017 £m
Cash flows from operating activities			
IAS 19 pension expenses	**(4)**	(2)	(8)
Sainsbury's Bank transition	**(20)**	(13)	(47)
Divestments	**-**	(8)	(5)
Argos integration costs	**(10)**	(6)	(12)
Homebase separation	**(10)**	(2)	(2)
Restructuring costs	**(9)**	(7)	(19)
Transaction costs relating to acquisition of HRG	**-**	(22)	(22)
Cash used in operating activities	**(53)**	(60)	(115)
Cash flows from investing activities			
Proceeds on disposal of properties	**44**	15	55
Divestments (sale of Pharmacy business)	**-**	(4)	(4)
Cash generated from investing activities	**44**	11	51
Net cash flows	**(9)**	(49)	(64)

4 Segment reporting

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

- Retail – Food;
- Retail – General Merchandise & Clothing;
- Financial Services (Sainsbury's Bank plc and Argos Financial Services entities);
- Property Investment (The British Land Company PLC joint venture and Land Securities Group PLC joint venture).

Management has considered the economic characteristics, similarity of products, production processes, customers, sales methods and regulatory environment of its two Retail segments. In doing so, it has been concluded that they be aggregated into one "Retail" segment in the financial statements. This aggregated information provides users the financial information needed to evaluate the business and the environment in which it operates.

The Operating Board assesses the performance of all segments on the basis of underlying profit before tax. All material operations and assets are in the UK. The period ended 24 September 2016 includes 3 weeks of Home Retail Group results, and the year ended 11 March 2017 includes 27 weeks of Home Retail Group results.

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

a. Income statement and balance sheet

28 weeks to 23 September 2017	Retail £m	Financial Services £m	Property Investment £m	Group £m
Segment revenue				
Retail sales to external customers	**14,391**	**-**	**-**	**14,391**
Financial services to external customers	**-**	**255**	**-**	**255**
Underlying revenue	**14,391**	**255**	**-**	**14,646**
Acquisition adjustment fair value unwind[1]	**-**	**(2)**	**-**	**(2)**
Revenue	**14,391**	**253**	**-**	**14,644**
Underlying operating profit	**272**	**34**	**-**	**306**
Underlying finance income	**8**	**-**	**-**	**8**
Underlying finance costs[2]	**(70)**	**-**	**-**	**(70)**
Underlying share of post-tax profit from joint ventures and associates	**3**	**-**	**4**	**7**
Underlying profit before tax	**213**	**34**	**4**	**251**
Non-underlying expense				**(31)**
Profit before tax				**220**
Income tax expense				**(54)**
Profit for the financial period				**166**
Assets	**13,783**	**6,663**	**-**	**20,446**
Investment in joint ventures and associates	**5**	**-**	**228**	**233**
Segment assets	**13,788**	**6,663**	**228**	**20,679**
Segment liabilities	**(7,963)**	**(5,779)**	**-**	**(13,742)**

1 Represents fair value unwind on loans and advances to customers resulting from the Sainsbury's Bank and Home Retail Group Financial Services acquisitions.
2 The coupons on the perpetual capital securities and the perpetual convertible bonds are accounted for as equity in line with IAS 32 'Financial Instruments: Presentation', however are accrued on a straight-line basis and included as an expense within underlying finance costs, as detailed in note 3.

4 Segment reporting (continued)

28 weeks to 24 September 2016	Retail £m	Financial Services £m	Property Investment £m	Group £m
Segment revenue				
Retail sales to external customers	12,469	-	-	12,469
Inter-segmental elimination[1]	(3)	-	-	(3)
Financial services sales to external customers	-	173	-	173
Underlying revenue	12,466	173	-	12,639
Acquisition adjustment fair value unwind[2]	-	3	-	3
Revenue	12,466	176	-	12,642
Underlying operating profit	308	29	-	337
Underlying finance income	9	-	-	9
Underlying finance costs[3]	(74)	-	-	(74)
Underlying share of post-tax loss from joint ventures and associates	(2)	-	7	5
Underlying profit before tax	241	29	7	277
Non-underlying income				95
Profit before tax				372
Income tax expense				(73)
Profit for the financial period				299
Assets	14,221	5,433	-	19,654
Investment in joint ventures and associates	6	-	278	284
Segment assets	14,227	5,433	278	19,938
Segment liabilities	(8,775)	(4,669)	-	(13,444)

52 weeks to 11 March 2017	Retail £m	Financial Services £m	Property Investment £m	Group £m
Segment revenue				
Retail sales to external customers	25,824	-	-	25,824
Financial services to external customers	-	407	-	407
Underlying revenue	25,824	407	-	26,231
Acquisition adjustment fair value unwind[2]	-	(7)	-	(7)
Revenue	25,824	400	-	26,224
Underlying operating profit	626	62	-	688
Underlying finance income	18	-	-	18
Underlying finance costs[3]	(137)	-	-	(137)
Underlying share of post-tax loss from joint ventures and associates	-	-	12	12
Underlying profit before tax	507	62	12	581
Non-underlying expense				(78)
Profit before tax				503
Income tax expense				(126)
Profit for the financial year				377
Assets	13,637	5,924	-	19,561
Investment in joint ventures and associates	4	-	233	237
Segment assets	13,641	5,924	233	19,798
Segment liabilities	(7,762)	(5,164)	-	(12,926)

1 The inter-segmental elimination relates to commissions received from Financial Services, the other side of which is cost of sales in the Financial Services segment, not shown in the above.
2 Represents fair value unwind on loans and advances to customers resulting from the Sainsbury's Bank and Home Retail Group Financial Services acquisitions.
3 The coupons on the perpetual securities are accounted for as equity in line with IAS 32 'Financial Instruments: Presentation', however are accrued on a straight-line basis and included as an expense within underlying finance costs, as detailed in note 3.

4 Segment reporting (continued)

b. Segmented cash flow statement

	APM reference	28 weeks to 23 September 2017 Retail £m	Financial Services £m	Group £m	28 weeks to 24 September 2016 Retail £m	Financial Services £m	Group £m
Profit before tax[1]		**208**	**12**	**220**	359	13	372
Net finance costs		**64**	**-**	**64**	49	-	49
Share of post-tax (profit)/loss from joint ventures and associates[1]		**(1)**	**-**	**(1)**	36	-	36
Operating profit		**271**	**12**	**283**	444	13	457
Adjustments for:							
Depreciation and amortisation expense		**352**	**10**	**362**	320	7	327
Non-cash adjustments arising from acquisitions[2]		**(1)**	**2**	**1**	1	(3)	(2)
Financial Services impairment losses on loans and advances		**-**	**35**	**35**	-	9	9
Profit on sale of properties		**(10)**	**-**	**(10)**	(116)	-	(116)
Loss on disposal of intangibles		**-**	**2**	**2**	-	-	-
Profit on disposal of Pharmacy business		**-**	**-**	**-**	(98)	-	(98)
Impairment charge of property, plant and equipment		**-**	**-**	**-**	11	-	11
Share-based payments expense		**17**	**2**	**19**	20	1	21
Retirement benefit obligations		**(26)**	**-**	**(26)**	(12)	-	(12)
Exceptional pension contributions		**-**	**-**	**-**	(199)	-	(199)
Operating cash flows before changes in working capital		**603**	**63**	**666**	371	27	398
Decrease/(increase) in working capital		**269**	**(59)**	**210**	222	226	448
Cash generated from operations		**872**	**4**	**876**	593	253	846
Interest paid	a	**(45)**	**-**	**(45)**	(49)	-	(49)
Corporation tax paid		**(40)**	**-**	**(40)**	(51)	-	(51)
Net cash generated from operating activities		**787**	**4**	**791**	493	253	746
Cash flows from investing activities							
Purchase of property, plant and equipment excluding strategic capital expenditure		**(245)**	**(2)**	**(247)**	(229)	(4)	(233)
Strategic capital expenditure	b	**(35)**	**-**	**(35)**	(74)	-	(74)
Purchase of property, plant and equipment		**(280)**	**(2)**	**(282)**	(303)	(4)	(307)
Purchase of intangible assets		**(32)**	**(24)**	**(56)**	(28)	(19)	(47)
Proceeds from disposal of property, plant and equipment	b	**44**	**-**	**44**	15	-	15
Acquisition of subsidiaries	c	**-**	**-**	**-**	(447)	-	(447)
Cash acquired upon acquisition of subsidiaries	c	**-**	**-**	**-**	548	-	548
Capital return to Home Retail Group plc shareholders	c	**-**	**-**	**-**	(226)	-	(226)
Share issuance costs on acquisition of Home Retail Group plc	c	**-**	**-**	**-**	(3)	-	(3)
Investment in joint ventures and associates	e	**(8)**	**-**	**(8)**	(16)	-	(16)
Interest received	a	**8**	**-**	**8**	9	-	9
Dividends and distributions received[3]	b	**16**	**-**	**16**	23	-	23
Net cash used in investing activities		**(252)**	**(26)**	**(278)**	(428)	(23)	(451)
Cash flows from financing activities							
Proceeds from issuance of ordinary shares	e	**3**	**-**	**3**	3	-	3
Drawdown of short-term borrowings	d	**-**	**-**	**-**	448	-	448
Repayment of short-term borrowings	d	**-**	**-**	**-**	(448)	-	(448)
Repayment of long-term borrowings	d	**(67)**	**-**	**(67)**	(64)	-	(64)
Purchase of own shares	e	**(12)**	**-**	**(12)**	-	-	-
Repayment of capital element of obligations under finance lease payments	d	**(14)**	**-**	**(14)**	(17)	-	(17)
Interest elements of obligations under finance lease payments	a	**(4)**	**-**	**(4)**	(4)	-	(4)
Dividends paid on ordinary shares		**(144)**	**-**	**(144)**	(151)	-	(151)
Dividends paid on perpetual securities	a	**(20)**	**-**	**(20)**	(20)	-	(20)
Net cash used in financing activities		**(258)**	**-**	**(258)**	(253)	-	(253)
Intra-group funding							
Bank capital injections		**(110)**	**110**	**-**	(100)	100	-
HRG acquisition and AFS loan book refinancing	c	**-**	**-**	**-**	585	(585)	-
Net cash (used in)/generated from intra-group funding		**(110)**	**110**	**-**	485	(485)	-
Net increase/(decrease) in cash and cash equivalents		**167**	**88**	**255**	297	(255)	42

1 Includes £(2) million relating to the Property Investment segment (24 September 2016: £(12) million).

2 The total Group balance excludes £21 million acquisition adjustment unwind income included in depreciation and amortisation in this note (24 September 2016: £(1) million charge).

3 Included within dividends and distributions received of £16 million (24 September 2016: £23 million) is £14 million of dividends received from property investment joint ventures (24 September 2016: £16 million).

4 Segment reporting (continued)

	APM reference	52 weeks to 11 March 2017 Retail	Financial Services	Group
		£m	£m	£m
Profit/(loss) before tax[1]		516	(13)	503
Net finance costs		102	-	102
Share of post-tax loss from joint ventures and associates[1]		37	-	37
Operating profit/(loss)		655	(13)	642
Adjusted for:				
Depreciation and amortisation expense		611	17	628
Non-cash adjustments arising from acquisitions		5	7	12
Financial Services impairment losses on loans and advances		-	33	33
Profit on disposal of properties		(101)	-	(101)
Loss on disposal of intangibles		22	14	36
Profit on disposal of Pharmacy business		(98)	-	(98)
Impairment charge of property, plant and equipment		55	-	55
Share-based payments expense		30	2	32
Retirement benefit obligations		(112)	-	(112)
Exceptional pension contributions		(199)	-	(199)
Operating cash flows before changes in working capital		868	60	928
Decrease in working capital		61	334	395
Cash generated from operations		929	394	1,323
Interest paid	a	(95)	-	(95)
Corporation tax (paid)/received		(87)	12	(75)
Net cash generated from operating activities		747	406	1,153
Cash flows from investing activities				
Purchase of property, plant and equipment excluding strategic capital expenditure		(530)	(12)	(542)
Strategic capital expenditure	b	(92)	-	(92)
Purchase of property, plant and equipment		(622)	(12)	(634)
Purchase of intangible assets		(58)	(52)	(110)
Proceeds from disposal of property, plant and equipment	b	55	-	55
Acquisition of subsidiaries	c	(447)	-	(447)
Cash acquired upon acquisition of subsidiaries	c	548	-	548
Capital return to Home Retail Group plc shareholders	c	(226)	-	(226)
Share issuance costs on acquisition of Home Retail Group plc	c	(3)	-	(3)
Investment in joint ventures and associates	e	(16)	-	(16)
Interest received	a	18	-	18
Dividends and distributions received[2]	b	65	-	65
Net cash used in investing activities		(686)	(64)	(750)
Cash flows from financing activities				
Proceeds from issuance of ordinary shares	e	6	-	6
Drawdown of short-term borrowings	d	448	-	448
Repayment of short-term borrowings	d	(492)	-	(492)
Repayment of long-term borrowings	d	(130)	-	(130)
Repayment of capital element of obligations under finance lease payments	d	(37)	-	(37)
Interest elements of obligations under finance lease payments	a	(8)	-	(8)
Dividends paid on ordinary shares		(230)	-	(230)
Dividends paid on perpetual securities	a	(23)	-	(23)
Net cash used in financing activities		(466)	-	(466)
Intra-group funding				
Bank capital injections		(130)	130	-
HRG acquisition and AFS loan book refinancing	c	585	(585)	-
Net cash generated from/(used in) intra-group funding		455	(455)	-
Net increase/(decrease) in cash and cash equivalents		50	(113)	(63)

1 Includes £(18) million relating to the Property Investment segment.
2 The total Group balance excludes £26 million acquisition adjustment unwind income included in depreciation and amortisation in this note.
3 Included within dividends and distributions received of £65 million is £55 million of dividends received from property investment joint ventures.

5 Analysis of net debt

The Group's definition of net debt includes the capital injections to Sainsbury's Bank, but excludes the net debt of Sainsbury's Bank and its subsidiaries. Sainsbury's Bank's net debt balances are excluded because they are required for business as usual activities.

A reconciliation of opening to closing net debt is included below. Balances and movements for the total Group and Financial Services are shown in addition to Retail to enable reconciliation between the Group balance sheet and Group cash flow statement.

		Cash changes		**Non-cash changes**			
	12 March 2017 £m	**Cash flows excluding interest £m**	**Net interest (received) / paid £m**	**Acquisition movements £m**	**Other non-cash movements £m**	**Changes in fair value £m**	**23 September 2017 £m**
Retail							
Available-for-sale assets[1]	**39**	**-**	**-**	**-**	**-**	**1**	**40**
Derivative financial instruments	**65**	**-**	**(1)**	**-**	**2**	**(148)**	**(82)**
Cash and cash equivalents	**630**	**164**	**-**	**-**	**-**	**-**	**794**
Bank overdrafts	**(6)**	**3**	**-**	**-**	**-**	**-**	**(3)**
Borrowings[2]	**(2,067)**	**67**	**38**	**-**	**(47)**	**3**	**(2,006)**
Finance leases	**(138)**	**14**	**4**	**-**	**(10)**	**-**	**(130)**
Retail net debt	**(1,477)**	**248**	**41**	**-**	**(55)**	**(144)**	**(1,387)**
Financial Services							
Available-for-sale assets[1]	**333**	**58**	**-**	**-**	**-**	**-**	**391**
Derivative financial instruments	**(21)**	**-**	**-**	**-**	**-**	**5**	**(16)**
Cash and cash equivalents	**453**	**88**	**-**	**-**	**-**	**-**	**541**
Financial Services net debt	**765**	**146**	**-**	**-**	**-**	**5**	**916**
Group							
Available-for-sale assets[1]	**372**	**58**	**-**	**-**	**-**	**1**	**431**
Derivative financial instruments	**44**	**-**	**(1)**	**-**	**2**	**(143)**	**(98)**
Cash and cash equivalents	**1,083**	**252**	**-**	**-**	**-**	**-**	**1,335**
Bank overdrafts	**(6)**	**3**	**-**	**-**	**-**	**-**	**(3)**
Borrowings[2]	**(2,067)**	**67**	**38**	**-**	**(47)**	**3**	**(2,006)**
Finance leases	**(138)**	**14**	**4**	**-**	**(10)**	**-**	**(130)**
Group net debt	**(712)**	**394**	**41**	**-**	**(55)**	**(139)**	**(471)**

		Cash changes		Non-cash changes			
	13 March 2016 £m	Cash flows excluding interest £m	Net interest paid £m	Acquisition movements £m	Other non-cash movements £m	Changes in fair value £m	24 September 2016 £m
Retail							
Available-for-sale assets[1]	35	-	-	-	-	3	38
Derivative financial instruments	(25)	-	-	39	-	73	87
Cash and cash equivalents	577	297	-	-	-	-	874
Bank overdrafts	(3)	-	-	-	-	-	(3)
Borrowings[2]	(2,235)	64	40	-	(46)	(2)	(2,179)
Finance leases	(175)	17	4	-	(4)	-	(158)
Retail net debt	(1,826)	378	44	39	(50)	74	(1,341)
Financial Services							
Available-for-sale assets[1]	204	111	-	-	-	1	316
Derivative financial instruments	(19)	-	-	-	-	(3)	(22)
Cash and cash equivalents	566	(255)	-	-	-	-	311
Financial Services net debt	751	(144)	-	-	-	(2)	605
Group							
Available-for-sale assets[1]	239	111	-	-	-	4	354
Derivative financial instruments	(44)	-	-	39	-	70	65
Cash and cash equivalents	1,143	42	-	-	-	-	1,185
Bank overdrafts	(3)	-	-	-	-	-	(3)
Borrowings[2]	(2,235)	64	40	-	(46)	(2)	(2,179)
Finance leases	(175)	17	4	-	(4)	-	(158)
Group net debt	(1,075)	234	44	39	(50)	72	(736)

1 Available-for-sale assets exclude other financial assets (see note 12b) which predominantly relate to the Group's beneficial interest in a commercial property investment pool.
2 Borrowings exclude bank overdrafts and finance leases as they are disclosed separately.

5 Analysis of net debt (continued)

	13 March 2016 £m	Cash changes: Cash flows excluding interest £m	Cash changes: Net interest (received) / paid £m	Non-cash changes: Acquisition movements £m	Non-cash changes: Other non-cash movements £m	Changes in fair value £m	11 March 2017 £m
Retail							
Available-for-sale assets[1]	35	-	(1)	-	-	5	39
Derivative financial instruments	(25)	-	-	39	-	51	65
Cash and cash equivalents	577	53	-	-	-	-	630
Bank overdrafts	(3)	(3)	-	-	-	-	(6)
Borrowings[2]	(2,235)	174	78	-	(84)	-	(2,067)
Finance leases	(175)	37	8	-	(8)	-	(138)
Retail net debt	(1,826)	261	85	39	(92)	56	(1,477)
Financial Services							
Available-for-sale assets[1]	204	126	-	-	1	2	333
Derivative financial instruments	(19)	-	-	-	-	(2)	(21)
Cash and cash equivalents	566	(113)	-	-	-	-	453
Financial Services net debt	751	13	-	-	1	-	765
Group							
Available-for-sale assets[1]	239	126	(1)	-	1	7	372
Derivative financial instruments	(44)	-	-	39	-	49	44
Cash and cash equivalents	1,143	(60)	-	-	-	-	1,083
Bank overdrafts	(3)	(3)	-	-	-	-	(6)
Borrowings[2]	(2,235)	174	78	-	(84)	-	(2,067)
Finance leases	(175)	37	8	-	(8)	-	(138)
Group net debt	(1,075)	274	85	39	(91)	56	(712)

1 Available-for-sale assets exclude other financial assets (see note 12b) which predominantly relate to the Group's beneficial interest in a commercial property investment pool.
2 Borrowings exclude bank overdrafts and finance leases as they are disclosed separately.

Borrowings

The Group maintains a contingent committed revolving credit facility of £1,150 million ('RCF'). The £1,150 million facility is split into two tranches: £500 million Facility (A) maturing in May 2019, and a £650 million facility (B) maturing in May 2020.

As at 23 September 2017, £nil had been drawn under the RCF (26 September 2016: £nil; 11 March 2017: £nil).

On 17 October 2017 the Group refinanced its syndicated committed revolving credit facility. The revised facility of £1.45 billion has three, four and five year tranches with an initial final maturity for the longer dated tranche of April 2023.

Sainsbury's Bank

As at 23 September 2017, Sainsbury's Bank had pledged the rights to a pool of Bank issued customer loans in exchange for £250 million (24 September 2016: £nil; 11 March 2017: £nil) of drawings under the Bank of England Term Funding Scheme.

As at 23 September 2017, Sainsbury's Bank had £nil (24 September 2016: £15 million; 11 March 2017: £165 million) of drawing under Bank of England Indexed Long-Term Repo facility ('ILTR').

As at 23 September 2017, Sainsbury's Bank had pledged the rights to a pool of Bank issued customer loans in exchange for £260 million (24 September 2016: £260 million; 11 March 2017: £260 million) of Treasury Bills (under the Bank of England Funding for Lending Scheme). These Treasury Bills can then be converted to cash as a source of future funding to the Bank.

Sainsbury's Bank has assigned the beneficial interest in a portion of its personal loans book to a Special Purpose Entity for use as collateral in securitisation transactions.

6 Supplier arrangements

Supplier incentives, rebates and discounts, collectively known as 'supplier arrangements', represent a material deduction to cost of sales and directly affect the Group's reported margin. The arrangements can be complex, with amounts spanning multiple products over different time periods, and there can be multiple triggers and discounts. The accrued value at the reporting date is included in trade receivables or trade payables, depending on the right of offset.

The types that involve a level of judgement and estimation are as follows:

- Fixed amounts – these are agreed with suppliers primarily to support in-store activity including promotions, such as utilising specific space.
- Supplier rebates – these are typically agreed on an annual basis, aligned with the Group's financial year. The rebate amount is linked to pre-agreed targets such as sales volumes.
- Marketing and advertising income – income which is directly linked to the cost of producing the Argos catalogue.

The amounts recognised in the income statement for the above types of supplier arrangements are as follows:

	28 weeks to 23 September 2017 £m	28 weeks to 24 September 2016 £m	52 weeks to 11 March 2017 £m
Fixed amounts	**104**	73	204
Supplier rebates	**42**	27	87
Marketing and advertising income	**48**	2	52
Total supplier arrangements	**194**	102	343

Of the above amounts, the following was outstanding and held on the balance sheet at the period-end:

	28 weeks to 23 September 2017 £m	28 weeks to 24 September 2016 £m	52 weeks to 11 March 2017 £m
Within inventory	**(9)**	(7)	(9)
Within current trade receivables			
Supplier arrangements due	**48**	34	29
Within current trade payables			
Supplier arrangements due	**12**	10	25
Accrued supplier arrangements	**17**	11	13

The above amounts exclude supplier income in relation to discounts and supplier incentives which do not involve any level of judgement or estimation.

7 Finance income and finance costs

	28 weeks to 23 September 2017 £m	28 weeks to 24 September 2016 £m	52 weeks to 11 March 2017 £m
Interest on bank deposits and other financial assets	**8**	9	18
Finance fair value movements[1]	**3**	15	16
Finance income	**11**	24	34
Borrowing costs:			
Secured borrowings	**(41)**	(44)	(81)
Unsecured borrowings	**(16)**	(16)	(30)
Obligations under finance leases	**(4)**	(4)	(8)
Provisions - amortisation of discount	**(4)**	(3)	(6)
	(65)	(67)	(125)
Other finance costs:			
Interest capitalised - qualifying assets	**4**	4	7
IAS 19 pension financing charge	**(14)**	(8)	(16)
Interest expense on Pharmacy sale advance proceeds	**-**	(2)	(2)
	(10)	(6)	(11)
Finance costs	**(75)**	(73)	(136)

1 Finance fair value movements relate to net fair value movements on derivative financial instruments not designated in a hedging relationship.

8 Income tax expense

	28 weeks to 23 September 2017 £m	28 weeks to 24 September 2016 £m	52 weeks to 11 March 2017 £m
Current tax expense	**52**	61	113
Deferred tax expense	**2**	12	13
Total income tax expense in income statement	**54**	73	126
Underlying tax rate	**23.9%**	21.3%	23.2%
Effective tax rate	**24.5%**	19.6%	25.0%

The Finance Act 2016 included legislation which reduced the main rate of UK corporation tax from 20 per cent to 19 per cent from 1 April 2017 and to 17 per cent from 1 April 2020. These rate reductions were substantively enacted before this interim period. Therefore, there is no remeasurement of deferred tax balances in this period. Deferred tax on temporary differences and tax losses as at the balance sheet date are calculated at the substantively enacted rates at which the temporary differences and tax losses are expected to reverse.

9 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 senior convertible bonds (net of tax) and by the coupons on the perpetual subordinated 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 senior convertible bonds and perpetual subordinated convertible bonds are assumed to be converted.

9 Earnings per share (continued)

Underlying earnings per share is provided by excluding the effect of any non-underlying items as defined in note 3. This alternative measure of earnings per share is presented to reflect the Group's underlying trading performance.

All operations are continuing for the periods presented.

	28 weeks to 23 September 2017 million	28 weeks to 24 September 2016 million	52 weeks to 11 March 2017 million
Weighted average number of shares in issue	**2,185.1**	1,953.4	2,049.0
Weighted average number of dilutive share options	**18.7**	13.4	18.2
Weighted average number of dilutive senior convertible bonds	**142.2**	136.3	137.7
Weighted average number of dilutive subordinated perpetual convertible bonds	**77.6**	74.3	75.1
Total number of shares for calculating diluted earnings per share	**2,423.6**	2,177.4	2,280.0

	£m	£m	£m
Profit for the financial period, net of tax	**166**	299	377
Less profit attributable to:			
Holders of perpetual capital securities	**(7)**	(7)	(12)
Holders of perpetual convertible bonds	**(3)**	(3)	(6)
Profit for the period attributable to ordinary shareholders, net of tax	**156**	289	359

	£m	£m	£m
Profit for the financial period attributable to ordinary shareholders	**156**	289	359
Add interest on senior convertible bonds, net of tax	**6**	6	12
Add coupon on subordinated perpetual convertible bonds, net of tax	**3**	3	6
Diluted earnings for calculating diluted earnings per share	**165**	298	377

Profit from continuing operations attributable to ordinary shareholders of the parent	**156**	289	359
Adjusted for non-underlying items	**31**	(95)	78
Tax on non-underlying items	**(6)**	14	(9)
Add back coupons on perpetual securities, net of tax[1]	**10**	10	18
Underlying profit after tax attributable to ordinary shareholders of the parent	**191**	218	446
Add interest on senior convertible bonds, net of tax	**6**	6	12
Add coupon on subordinated perpetual convertible bonds, net of tax	**3**	3	6
Diluted underlying profit after tax attributable to ordinary shareholders of the parent	**200**	227	464

	Pence per share	Pence per share	Pence per share
Basic earnings	**7.1**	14.8	17.5
Diluted earnings	**6.8**	13.7	16.5
Underlying basic earnings	**8.7**	11.2	21.8
Underlying diluted earnings	**8.3**	10.4	20.4

1 Underlying earnings per share calculation is based on underlying profit after tax attributable to ordinary shareholders. Therefore the coupons on the perpetual securities are added back.

10 Dividends

	28 weeks to 23 September 2017	28 weeks to 24 September 2016	52 weeks to 11 March 2017
Amounts recognised as distributions to equity holders in the period:			
Dividend per share (pence)	**6.6**	8.1	11.7
Total dividend charge (£m)	**144**	155	232

Post the half-year, an interim dividend of 3.1 pence per share (24 September 2016: 3.6 pence per share) has been approved by the Board of Directors for the financial year ending 10 March 2018, resulting in a total interim dividend of £68 million (24 September 2016: £78 million). The interim dividend was approved by the Board on 8 November 2017 and as such has not been included as a liability at 23 September 2017.

Of the prior year dividend of £232 million, £2 million remained unpaid at the year-end and remains unpaid.

11 Cash and cash equivalents

Cash and cash equivalents comprise the following:

	28 weeks to 23 September 2017 £m	28 weeks to 24 September 2016 £m	52 weeks to 11 March 2017 £m
Cash in hand and bank balances	**515**	303	439
Money market funds and deposits	**575**	767	403
Deposits at central banks	**245**	115	241
Cash and bank balances	**1,335**	1,185	1,083
Bank overdrafts	**(3)**	(3)	(6)
Net cash and cash equivalents	**1,332**	1,182	1,077

12 Financial instruments

a. Carrying amount versus fair value

Set out below is a comparison of the carrying amount and the fair value of financial instruments that are carried in the financial statements at a value other than fair value. The fair value of financial assets and liabilities are based on prices available from the market on which the instruments are traded. Where market values are not available, the fair values of financial assets and liabilities have been calculated by discounting expected future cash flows at prevailing interest rates. The fair values of short-term deposits, trade receivables, overdrafts and payables are assumed to approximate to their book values.

At 23 September 2017	**Carrying amount £m**	**Fair value £m**
Financial assets		
Amounts due from Financial Services customers[1]	**5,141**	**5,156**
Financial liabilities		
Loans due 2018[2]	**(628)**	**(641)**
Loans due 2031	**(746)**	**(974)**
Bank overdrafts	**(3)**	**(3)**
Bank loans due 2019	**(199)**	**(199)**
Convertible bond due 2019	**(432)**	**(456)**
Obligations under finance leases	**(130)**	**(130)**
Amounts due to Financial Services customers	**(5,565)**	**(5,567)**

1 Includes £2,437 million of interest rate swaps in a portfolio fair value hedging relationship.
2 Includes £136 million accounted for in a fair value hedge relationship.

12 Financial instruments (continued)

At 24 September 2016	Carrying amount £m	Fair value £m
Financial assets		
Amounts due from Financial Services customers[1]	4,183	4,166
Financial liabilities		
Loans due 2018[2]	(732)	(770)
Loans due 2031	(780)	(927)
Bank overdrafts	(3)	(3)
Bank loans due 2016	(44)	(44)
Bank loans due 2019	(200)	(200)
Convertible bond due 2019	(423)	(470)
Obligations under finance leases	(158)	(158)
Amounts due to Financial Services customers	(4,399)	(4,381)

1 Includes £1,881 million accounted for as a fair value hedge.
2 Includes £183 million accounted for in a fair value hedge relationship.

At 11 March 2017	Carrying amount £m	Fair value £m
Financial assets		
Amounts due from Financial Services customers[1]	4,602	4,640
Financial liabilities		
Loans due 2018[2]	(680)	(706)
Loans due 2031	(761)	(1,062)
Bank overdrafts	(6)	(6)
Bank loans due 2019	(199)	(199)
Convertible bond due 2019	(427)	(473)
Obligations under finance leases	(138)	(138)
Amounts due to Financial Services customers and banks	(4,921)	(4,924)

1 Includes £3,000 million of interest rate swaps in a portfolio fair value hedging relationship.
2 Includes £160 million accounted for in a fair value hedge relationship.

b. Fair value measurements recognised in the balance sheet

The following table provides an analysis of financial instruments that are recognised at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are derived from quoted market prices (unadjusted) in active markets for identical assets or liabilities at the balance sheet date. This level includes listed equity securities and debt instrument on public exchanges;
- Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). The fair value of financial instruments is determined by discounting expected cash flows at prevailing interest rates; and
- Level 3 fair value measurements are derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

At 23 September 2017	**Level 1 £m**	**Level 2 £m**	**Level 3 £m**	**Total £m**
Available-for-sale financial assets				
Interest bearing financial assets	**-**	**40**	**-**	**40**
Other financial assets	**13**	**-**	**155**	**168**
Investment securities	**391**	**-**	**-**	**391**
Financial assets				
Derivative financial assets	**-**	**19**	**-**	**19**
Financial liabilities				
Derivative financial liabilities	**-**	**(105)**	**(12)**	**(117)**

12 Financial instruments (continued)

At 24 September 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Available-for-sale financial assets				
Interest bearing financial assets	-	38	-	38
Other financial assets	12	-	145	157
Investment securities	316	-	-	316
Financial assets				
Derivative financial assets	-	153	-	153
Financial liabilities				
Derivative financial liabilities	-	(71)	(17)	(88)

At 11 March 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Available-for-sale financial assets				
Interest bearing financial assets	-	39	-	39
Other financial assets	13	-	148	161
Investment securities	333	-	-	333
Financial assets				
Derivative financial assets	-	104	-	104
Financial liabilities				
Derivative financial liabilities	-	(45)	(15)	(60)

c. Reconciliation of Level 3 fair value measurements of financial assets

Details of the determination of Level 3 fair value measurements are set out below:

28 weeks to 23 September 2017	**Available-for-sale financial assets £m**	**Commodity derivatives £m**	**Investment Securities £m**	**Total £m**
Opening balance	**148**	**(15)**	**-**	**133**
Included in finance income in the income statement	**-**	**3**	**-**	**3**
Included in other comprehensive income	**7**	**-**	**-**	**7**
Total Level 3 financial assets and liabilities	**155**	**(12)**	**-**	**143**

28 weeks to 24 September 2016	Available-for-sale financial assets £m	Commodity derivatives £m	Investment Securities £m	Total £m
Opening balance	146	(34)	1	113
Included in finance income/(cost) in the income statement	-	17	(1)	16
Included in other comprehensive income	(1)	-	-	(1)
Total Level 3 financial assets and liabilities	145	(17)	-	128

52 weeks to 11 March 2017	Available-for-sale financial assets £m	Commodity derivatives £m	Investment Securities £m	Total £m
Opening balance	146	(34)	1	113
Included in finance income/(cost) in the income statement	-	19	(1)	18
Included in other comprehensive income	2	-	-	2
Total Level 3 financial assets and liabilities	148	(15)	-	133

12 Financial instruments (continued)

Level 3 available-for-sale other financial assets

The available-for-sale other financial assets relate to the Group's beneficial interest in a property investment pool. The net present value of the Group's interest in the various freehold reversions owned by the property investment pool has been derived by assuming a property growth rate of 0.5 per cent per annum (24 September 2016: 0.6 per cent; 11 March 2017: 0.5 per cent) and a discount rate of nine per cent (24 September 2016: nine per cent; 11 March 2017: nine per cent). The sensitivity of this balance to changes of one per cent in the assumed rate of property rental growth and one per cent in the discount rate holding other assumptions constant is shown below:

	23 September 2017		24 September 2016	
	Change in discount rate +/- 1.0%	**Change in growth rate +/- 1.0%**	Change in discount rate +/- 1.0%	Change in growth rate +/- 1.0%
	£m	**£m**	£m	£m
Available-for-sale assets	**(8)/9**	**13/(12)**	(9)/9	14/(13)

	11 March 2017	
	Change in discount rate +/- 1.0%	Change in growth rate +/- 1.0%
	£m	£m
Available-for-sale assets	(8)/9	13/(13)

Level 3 derivative financial liabilities – power purchase agreement

The Group has entered into several long-term fixed-price power purchase agreements with independent producers. Included within derivative financial instruments is a net liability of £(13) million relating to these agreements at 23 September 2017 (within derivative financial liabilities at 24 September 2016: £(17) million; at 11 March 2017: £(15) million). The Group values its power purchase agreements as the net present value of the estimated future usage at the contracted fixed price less the market implied forward energy price discounted back at the prevailing swap rate. The Group also makes an assumption regarding expected energy output based on the historical performance and the producer's estimate of expected electricity output. The sensitivity of this balance to changes of 20 per cent in the assumed rate of energy output and 20 per cent in the implied forward energy prices holding other assumptions constant is shown below:

	23 September 2017		24 September 2016	
	Change in volume +/- 20.0%	**Change in electricity forward price +/- 20.0%**	Change in volume +/- 20.0%	Change in electricity forward price +/- 20.0%
	£m	**£m**	£m	£m
Derivative financial instruments	**(3)/3**	**12/(13)**	(4)/4	7/(7)

	11 March 2017	
	Change in volume +/- 20.0%	Change in electricity forward price +/- 20.0%
	£m	£m
Derivative financial instruments	(3)/3	12/(13)

13 Retirement benefit obligations

Retirement benefit obligations relate to two defined benefit schemes, the Sainsbury's Pension Scheme and from 2 September 2016, the Home Retail Group Pension Scheme (the 'Schemes') as well as two unfunded pension liabilities relating to senior former employees of Sainsbury's and Home Retail Group. The Schemes are both closed to new entrants and future accruals.

The unfunded pension liabilities are 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, based on valuations performed by KPMG, are as follows:

		23 September 2017			24 September 2016	
	Sainsbury's £m	**Home Retail Group £m**	**Group £m**	Sainsbury's £m	Home Retail Group £m	Group £m
Present value of funded obligations	**(9,257)**	**(1,369)**	**(10,626)**	(9,826)	(1,479)	(11,305)
Fair value of plan assets	**8,645**	**1,207**	**9,852**	8,633	1,183	9,816
	(612)	**(162)**	**(774)**	(1,193)	(296)	(1,489)
Additional liability due to minimum funding requirements (IFRIC 14)	**-**	**(4)**	**(4)**	-	-	-
Retirement benefit deficit	**(612)**	**(166)**	**(778)**	(1,193)	(296)	(1,489)
Present value of unfunded obligations	**(22)**	**(15)**	**(37)**	(23)	(16)	(39)
Retirement benefit obligations	**(634)**	**(181)**	**(815)**	(1,216)	(312)	(1,528)
Deferred income tax asset	**54**	**38**	**92**	153	63	216
Net retirement benefit obligations	**(580)**	**(143)**	**(723)**	(1,063)	(249)	(1,312)

		11 March 2017	
	Sainsbury's £m	Home Retail Group £m	Group £m
Present value of funded obligations	(9,441)	(1,413)	(10,854)
Fair value of plan assets	8,708	1,212	9,920
	(733)	(201)	(934)
Present value of unfunded obligations	(23)	(17)	(40)
Retirement benefit obligations	(756)	(218)	(974)
Deferred income tax asset	77	47	124
Net retirement benefit obligations	(679)	(171)	(850)

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

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

	23 September 2017 %	24 September 2016 %	11 March 2017 %
Discount rate	**2.75**	2.20	2.70
Inflation rate - RPI	**3.25**	2.95	3.30
Inflation rate - CPI	**2.25**	1.95	2.30
Future pension increases	**1.95 – 3.10**	1.80 – 2.85	2.00 – 3.15

13 Retirement benefit obligations (continued)

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

	28 weeks to 23 September 2017 £m	28 weeks to 24 September 2016 £m	52 weeks to 11 March 2017 £m
Excluded from underlying profit before tax:			
Interest cost on pension liabilities	**(156)**	(150)	(292)
Interest income on plan assets	**142**	142	276
Total included in finance costs (note 7)	**(14)**	(8)	(16)
Defined benefit pension scheme expenses	**(4)**	(2)	(8)
Total excluded from underlying profit before tax (note 3)	**(18)**	(10)	(24)
Total income statement expense	**(18)**	(10)	(24)

The movements in the net defined benefit obligations are as follows:

	28 weeks to 23 September 2017 £m	28 weeks to 24 September 2016 £m	52 weeks to 11 March 2017 £m
As at the beginning of the year	**(974)**	(408)	(408)
Acquisition of Home Retail Group plc (note 14)	**-**	(454)	(454)
Interest cost	**(14)**	(8)	(16)
Remeasurement gains/(losses)	**147**	(869)	(407)
Pension scheme expenses	**(4)**	(2)	(8)
Contributions by employer	**30**	213	319
As at the end of the period	**(815)**	(1,528)	(974)

Cash contributions

Cash contributions for the full-year are expected to be £130 million.

Following agreement of the triennial actuarial valuations of both schemes, the Group is committed to make annual contributions of £124 million to the schemes (Sainsbury's scheme: £84 million; Argos scheme: £40 million). The next triennial valuations are for the March 2018 year-ends for both schemes.

Cash contributions in the prior year include a £125 million special contribution to the Sainsbury's defined benefit scheme, a £24 million special contribution to the Home Retail Group defined benefit scheme in relation to the capital return (see note 14) and a £50 million special contribution paid to the Home Retail Group defined benefit scheme as a result of the acquisition. There were no special contributions in the current financial period.

14 Acquisition of Home Retail Group plc

On 2 September 2016, the Group acquired 100 per cent of the issued share capital of Home Retail Group plc ('HRG'), a listed company based in the United Kingdom, for a consideration of £1,093 million. The full analysis of the consideration is shown below:

Form of consideration	Consideration fair value at acquisition date £m
Cash of £447 million (being 55p per existing share); fair value is based on Home Retail Group plc's share capital of 813,445,001 shares in existence as at the acquisition date	**447**
£3 million in relation to the contractual requirement to settle certain existing HRG share scheme awards and options	**3**
261 million new J Sainsbury plc shares of $28^4/_7$p nominal value each were issued (being 0.321 new J Sainsbury plc shares per existing Home Retail Group plc share); fair value of the consideration is based on a J Sainsbury plc share price of £2.4610 as of 2 September 2016	**643**
Total	**1,093**

The assets and liabilities recognised as a result of the acquisition have now been finalised and are as follows:

	As consolidated at 23 September 2017 £m	As consolidated at 24 September 2016 £m	As consolidated at 11 March 2017 £m
Fair value of net assets acquired			
Fixed assets	**262**	273	262
Intangible assets	**322**	324	322
Inventories	**810**	816	810
Trade and other receivables	**146**	146	146
Deferred tax assets	**55**	36	45
Amounts due from Financial Services customers (the "loan book")	**615**	615	615
Other financial assets[1]	**59**	59	59
Cash and cash equivalents[2]	**548**	548	548
Total assets acquired	**2,817**	2,817	2,807
Trade and other payables[2]	**(1,214)**	(1,202)	(1,214)
Provisions	**(175)**	(86)	(104)
Defined benefit obligations	**(454)**	(454)	(454)
Total liabilities acquired	**(1,843)**	(1,742)	(1,772)
Net identifiable assets acquired at fair value	**974**	1,075	1,035
Goodwill arising on acquisition	**119**	18	58
Purchase consideration transferred	**1,093**	1,093	1,093

1 Other financial assets include £9 million of J Sainsbury plc shares (converted from Home Retail Group plc own shares at the point of acquisition). On consolidation these become J Sainsbury plc own shares in the consolidated statement of changes in equity.

2 Cash and cash equivalents and trade and other payables acquired are both presented gross of the capital return of £226 million.

None of the goodwill recognised of £119 million is expected to be deductible for income tax purposes. This was calculated as the difference between the fair value of consideration paid and the fair value of net assets acquired.

Certain assets and liabilities as at 24 September 2016 have been reclassified. None of the changes are material.

(a) Intangible assets

Intangible assets include a brand of £179 million relating to the Argos brand name. This reflects its fair value at the acquisition date and is estimated to have a useful economic life of ten years.

14 Acquisition of Home Retail Group plc (continued)

(b) Trade and other receivables
Trade and other receivables include £40 million of trade receivables, against which a bad debt provision of £(1) million was held. Also included are prepayments and accrued income of £29 million, and other debtors of £78 million.

(c) Amounts due from Financial Services customers (the "loan book")
The loan book fair value of £615 million includes a fair value increase of £20 million and a provision for impairment of £(66) million.

(d) Acquisition-related costs
Acquisition-related costs (included in administrative expenses and recognised outside of underlying profit) amounted to £22 million in the prior year (see note 3). In addition £3 million of costs relating to the issuance of J Sainsbury plc shares were recognised directly within equity in the prior year.

(e) Cash impact of acquisition

	£m
Cash consideration	(447)
Cash acquired	548
Acquisition of subsidiaries, net of cash acquired (included in prior year cash flow statement)	**101**
Capital return to shareholders of Home Retail Group plc (see below)	(226)
Net cash impact of acquisition	**(125)**

(f) Capital return
Prior to the acquisition of Home Retail Group plc, it was announced that Home Retail Group plc shareholders would be entitled to a £226 million capital return comprising the following:

- 25.0 pence per share, reflecting the £200 million return to shareholders in respect of the sale of Homebase by Home Retail Group plc on 29 February 2016; and
- 2.8 pence per share (totalling £26 million) in lieu of a final dividend in respect of Home Retail Group plc's financial year ended 27 February 2016.

This was recorded as a liability in the net assets acquired above within trade and other payables. The full amount was paid on 12 September 2016.

(g) Finalisation of acquisition balance sheet
As a result of finalising the valuation of acquired assets and liabilities, the Group has reported in a material change in goodwill to £119 million (24 September 2016: £18 million; 11 March 2017: £58 million).

The effect on the Group consolidated balance sheet as at prior reporting dates is as follows:

	Restated £m	Prior period adjustment £m	As previously reported £m
Balance sheet at 24 September 2016			
Property, plant and equipment	**10,036**	(11)	10,047
Intangible assets	**795**	99	696
Inventories	**1,903**	(6)	1,909
Current trade and other payables	**(4,263)**	(12)	(4,251)
Current provisions	**(171)**	(19)	(152)
Deferred income tax liability	**(63)**	19	(82)
Non-current provisions	**(194)**	(70)	(124)
Balance sheet at 11 March 2017			
Intangibles	**803**	61	742
Current provisions	**(148)**	(13)	(135)
Deferred income tax liability	**(162)**	10	(172)
Non-current provisions	**(186)**	(58)	(128)

14 Acquisition of Home Retail Group plc (continued)

There has been no impact on the previously reported income statement, statement of other comprehensive income, statement of changes in equity or cash flow statement.

Since the year-end date of 11 March 2017, movements in the acquisition balance sheet relate to the following:

Provisions
An in-depth review of provisions within HRG has been performed since the acquisition, resulting in changes to the estimates and assumptions applied.

Deferred income tax liability
Relates to deferred tax on the above adjustments.

Intangible assets
Movement to goodwill of £61 million since year-end is as a result of the above adjustments.

15 Capital expenditure and commitments

In the financial period, the following additions and disposals were made:

	28 weeks to 23 September 2017 £m	28 weeks to 24 September 2016[1] £m	52 weeks to 11 March 2017[1] £m
Additions			
Property, plant and equipment	**293**	376	695
Intangibles	**57**	41	104
Disposals - net book value			
Property, plant and equipment	**(11)**	(20)	(51)
Intangibles	**(2)**	-	(43)
Assets held for sale	**(2)**	(25)	(27)

1 Property, plant and equipment and intangible assets acquired as part of the acquisition of Home Retail Group plc are excluded.

At 23 September 2017, capital commitments contracted, but not provided for by the Group, amounted to £103 million (24 September 2016: £181 million; 11 March 2017: £118 million), and £81 million for the property joint ventures (24 September 2016: £nil; 11 March 2017: £nil).

16 Related party transactions

The Group's related parties are its joint ventures as disclosed in its Annual Report and Financial Statements 2017.

Transactions with joint ventures and associates
For the 28 weeks to 23 September 2017, the Group entered into various transactions with joint ventures and associates as set out below:

	28 weeks to 23 September 2017 £m	28 weeks to 24 September 2016 £m	52 weeks to 11 March 2017 £m
Services and loans provided to joint ventures			
Management services provided	**-**	3	8
Revenue received from joint ventures	**14**	16	29
Dividend income received	**16**	23	65
Repayment of loan to joint ventures	**-**	-	2
Investment in joint ventures and associates	**8**	(16)	(18)
Rental expenses paid	**(25)**	(28)	(57)

16 Related party transactions (continued)

Balances arising from transactions with joint ventures and associates

	23 September 2017 £m	24 September 2016 £m	11 March 2017 £m
Receivables			
Other receivables	**10**	20	12
Loans due from joint ventures	**3**	3	3
Payables			
Loans due to joint ventures	**(5)**	(5)	(5)

17 Contingent liabilities

The Group has a contingent liability for indemnities arising from the disposal of subsidiaries. No provision has been recognised on the basis that any potential liability is not considered probable. It is not possible to quantify the impact of this liability with any certainty.

Along with other retailers, the Group is subject to claims in respect of pay rates across supermarket and distribution centre workers. There is also a potential obligation in respect of holiday pay on voluntary overtime. The Group is keeping these matters under close review but considers the likelihood of a material payout to be remote.

Principal risks and uncertainties

Risk is an inherent part of doing business. The J Sainsbury plc Board has overall responsibility for the management of the principal risks and internal control of the Company. The Board has identified the following principal potential risks to the successful operation of the business. These risks, along with the events in the financial markets and their potential impacts on the wider economy, remain those most likely to affect the Group in the second half of the year.

- Business continuity and major incidents response
- Business strategy and change
- Colleague engagement, retention and capability
- Data security
- Environment and sustainability
- Financial and treasury risk
- Health and safety – people and product
- Political and regulatory environment
- Trading environment and competitive landscape

The above principal risks remain unchanged from those reported in the Group’s Annual Report and Financial Statements 2017. For detail of these risks, please refer to pages 42 to 44 of the J Sainsbury plc Annual Report and Financial Statements 2017, a copy of which is available on the Group’s corporate website www.j-sainsbury.co.uk.

Statement of Directors' responsibilities

The Directors confirm that this set of Condensed Consolidated Interim Financial Statements has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union, and that the Interim Management Report herein includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R.

The Directors of J Sainsbury plc are listed in the J Sainsbury plc Annual Report and Financial Statements 2017 with the exception of Mary Harris who resigned from the Board on 5 July 2017 and Jo Harlow who joined the Board on 11 September 2017. A list of current directors is maintained on the Group's website: www.j-sainsbury.co.uk

By order of the Board

Mike Coupe
Chief Executive
8 November 2017

Kevin O'Byrne
Chief Financial Officer
8 November 2017

INDEPENDENT REVIEW REPORT TO J SAINSBURY PLC

Introduction

We have been engaged by J Sainsbury plc (“the company”) to review the condensed consolidated set of financial statements in the interim financial report for the 28 weeks ended 23 September 2017 which comprises the Group income statement, the Group statement of comprehensive income, the Group balance sheet, the Group cash flow statement and the Group statement of changes in equity and the related explanatory notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial statements.

This report is made solely to the company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The interim financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim financial report in accordance with the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the Company are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed consolidated set of financial statements included in this interim financial report has been prepared in accordance with International Accounting Standard 34, “Interim Financial Reporting”, as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed consolidated set of financial statements in the interim financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated set of financial statements in the interim financial report for the 28 weeks ended 23 September 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Services Conduct Authority.

Ernst & Young LLP
London
8 November 2017

Alternative performance measures (APMs)

In the reporting of financial information, the Directors use various APMs which they believe provide additional useful information for understanding the financial performance and financial health of the Group. These APMs should be considered in addition to, and are not intended to be a substitute for IFRS measurements. As they are not defined by International Financial Reporting Standards, they may not be directly comparable with other companies who use similar measures.

All of the following APMs relate the current period's results and comparative periods where provided.

APM	Definition	Reconciliation
Cash flows and net debt		
Cash flow items in Financial Review	To help the reader understand cash flows of the business a summarised cash flow statement is included within the financial review. As part of this a number of line items have been combined. The cash flow in note 4 of the accounts includes a reference to show what has been combined in these line items.	See table below

	Ref	**23 Sep 2017 £m**	24 Sep 2016 £m	11 Mar 2017 £m
Net interest paid	a	**(61)**	(64)	(108)
Property-related including strategic capital expenditure	b	**25**	(36)	28
HRG acquisition and AFS loan book refinancing	c	**-**	457	457
Repayment of borrowings	d	**(81)**	(81)	(211)
Other	e	**(17)**	(13)	(10)

APM	Definition	Reconciliation
Retail free cash flow	Net cash generated from retail operations, adjusted for exceptional pension contributions, after cash capital expenditure but before strategic capital expenditure.	See table below

Reconciliation of retail free cash flow	**23 Sep 2017 £m**	24 Sep 2016 £m	11 Mar 2017 £m
Cash generated from retail operations	**872**	593	929
Add back: Exceptional pension contribution	**-**	199	199
Net interest paid (ref (a) above)	**(61)**	(64)	(108)
Corporation tax	**(40)**	(51)	(87)
Retail purchase of property, plant and equipment	**(280)**	(303)	(622)
Retail purchase of intangible assets	**(32)**	(28)	(58)
Add back: strategic capital expenditure	**35**	74	92
Free cash flow	**494**	420	345

APM	Definition	Reconciliation
Cash generated from retail operations (per Financial Review)	Retail cash generated from operations after changes in working capital but before pension contributions and exceptional contributions.	A reconciliation between retail and Group cash generated from operations is provided in note 4 of the accounts.
Core retail capital expenditure	Capital expenditure excludes Sainsbury's Bank, Argos exceptional capital expenditure, proceeds from sale and leasebacks and strategic capital expenditure. A reconciliation from the cash flow statement is included here.	See table below

	23 Sep 2017 £m	24 Sep 2016 £m
Purchase of property, plant and equipment	**(245)**	(229)
Purchase of intangibles	**(32)**	(27)
Cash capital expenditure before strategic capital expenditure (note 4)	**(277)**	(256)
Property-related including strategic capital expenditure (ref (b) above)	**25**	(36)
Less: dividends received from joint ventures (included within property- related above)	**(16)**	(23)
Cash capital expenditure including strategic capital expenditure	**(268)**	**(315)**
Capitalised interest	**(4)**	(4)
Less: debtor/creditor movements	**(2)**	1
Other (including strategic capital expenditure)	**35**	81
Total retail core capital expenditure	**(239)**	**(237)**

Alternative performance measures (APMs) (continued)

APM	Definition	Reconciliation
Net debt	Net debt includes the capital injections in to Sainsbury's Bank, but excludes the net debt of Sainsbury's Bank and its subsidiaries. Sainsbury's Bank's net debt balances are excluded because they are required for business as usual activities. It is calculated as: available for sale assets (excluding equity investments) + net derivatives + net cash and cash equivalents + loans + finance lease obligations.	A reconciliation of net debt is provided in note 5 of the accounts.
Gearing	Retail net debt divided by net assets.	Retail net debt as per above and net assets as per the Group balance sheet.

Income statement

APM	Definition	Reconciliation
Like-for-like sales	Year-on-year growth in sales including VAT, excluding fuel, excluding Financial Services, for stores that have been open for more than one year. The measure is used widely in the retail industry as an indicator of sales performance.	The reported retail like-for-like sales growth of 1.6 per cent is based on a combination of Sainsbury's like-for-like sales and Argos like-for-like sales for the 28 weeks to 23 September 2017, i.e. assuming that Argos sales are in the base. Additionally, the impact of the disposal of Pharmacy is not treated as like-for-like. See movements below:

	23 Sep 2017 %	24 Sep 2016 %
Underlying retail like-for-like (exc. Fuel, inc. Argos in base)	1.6	(1.0)
Underlying net new space impact (exc. Pharmacy, inc. Argos in base)	0.3	0.9
Underlying total retail sales growth (exc. fuel, exc. Pharmacy, inc. Argos in base)	**1.9**	**(0.1)**
Argos consolidation & Pharmacy impact	18.0	2.5
Total retail sales growth (exc. fuel, inc. pharmacy impact, exc. Argos in base)	**19.9**	**2.4**
Fuel impact	(3.1)	(0.4)
Total retail sales growth (inc. fuel)	**16.8**	**2.0**
Bank impact	0.3	0.1
Group sales inc. VAT	**17.1**	**2.1**

APM	Definition	Reconciliation
Underlying Group sales	Total sales less acquisition fair value unwinds on Sainsbury's Bank and Argos Financial Services.	A reconciliation of this measure can be found in note 4 of the accounts.
Underlying profit before tax	Profit or loss before tax before any items recognised which, by virtue of their size and or nature, do not reflect the Group's underlying performance.	A reconciliation of underlying profit before tax is provided in note 3 of the accounts.
Retail underlying operating profit	Underlying earnings before interest, tax, Financial Services operating profit and Sainsbury's underlying share of post-tax profit from joint ventures and associates.	A reconciliation of these measures can be found in note 4 of the accounts.
Underlying basic earnings per share	Earnings per share using underlying profit as described above.	A reconciliation of underlying earnings per share is included in note 9.
Retail underlying EBITDAR	Retail underlying operating profit as above, before rent, depreciation and amortisation.	A reconciliation is provided in the Financial Review on page 13.

Other

APM	Definition	Reconciliation
Lease adjusted net debt / underlying EBITDAR	Net debt plus capitalised lease obligations (5.5% discount rate) divided by Group underlying EBITDAR.	A reconciliation of this is provided in the Financial Review on page 18.

Alternative performance measures (APMs) (continued)

APM	Definition	Reconciliation
Return on capital employed	Return on capital employed is calculated as return divided by average capital employed. Return is defined as underlying profit before interest and tax. Capital employed is defined as net assets excluding net debt. The average is calculated on a 14 point basis.	No direct reconciliation to a statutory financial statement line item. An explanation of the calculation is provided in the Financial Review on page 18.
Interest cover	Underlying profit before interest and tax divided by underlying net finance costs, where interest on perpetual securities is included in underlying finance costs.	Underlying profit before interest and tax as per note 4 of the accounts. Underlying net finance costs as per note 4 of the accounts.
Fixed charge cover	Group underlying EBITDAR divided by net rent and underlying net finance costs, where interest on perpetual securities is included in underlying finance costs.	EBITDAR is reconciled in the Financial Review on page 13. Underlying net finance costs as per note 4 of the accounts.