

Interim Results 2009/10

David Tyler
chairman

Darren Shapland
chief financial officer

Group performance

Highlights

	H1 2009/10 £m	H1 2008/09 £m	Change %
Sales (inc VAT)	11,158	10,756	▲ 3.7
Sales (inc VAT, ex fuel)			▲ 7.9
Underlying operating profit	342	311	▲ 10.0
Underlying net finance costs	(44)	(59)	▼ 25.4
Underlying share of JV profits	9	7	▲ 28.6
Underlying profit before tax	307	259	▲ 18.5
Underlying tax rate	29.0%	32.0%	▼ 300bps
Underlying basic EPS	12.1p	10.2p	▲ 18.6
Interim dividend	4.0p	3.6p	▲ 11.1
Items excluded from underlying results	35	(1)	
Profit before tax	342	258	▲ 32.6

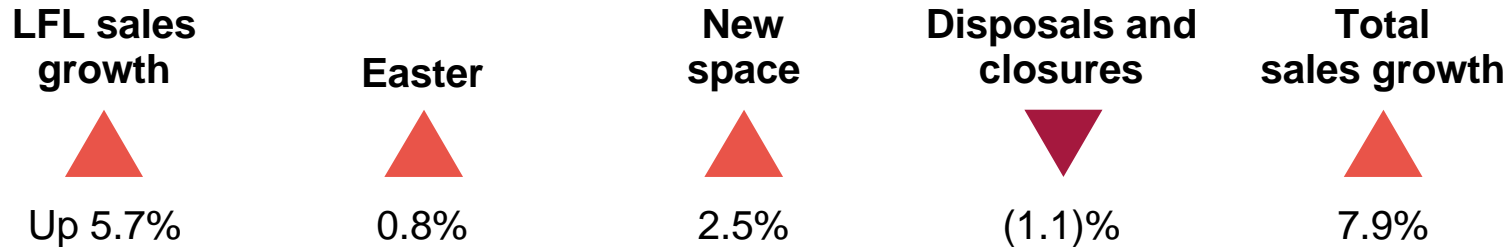
Retailing

Strong underlying profit growth

	H1 2009/10 £m	H1 2008/09 £m	Change %
Sales (inc VAT)	11,158	10,756	▲ 3.7
(ex VAT, inc Fuel)	10,433	9,937	▲ 5.0
Underlying operating profit	342	311	▲ 10.0
Underlying operating margin %	3.28	3.13	▲ 15bps
▪ Underlying operating margin benefits 6bps from petrol price reduction			
Underlying EBITDAR margin %	7.72	7.55	▲ 17bps

Retailing

Strong sales performance



- Strong LFL sales growth in H1, ahead of 3 to 4% medium term plans
 - transactions growth plus increased items per basket
 - food price inflation also supported sales growth
 - extensions contributed 0.8%
- Non-food growing at around 2.5 times the rate of food
- Groceries online growth of over 20%

2009/10 Guidance

- Expect market growth to slow in H2 due to reduced food inflation
- Full year sales from net new space of over 2%

Retailing

Investment in offer

- Continued investment to maintain competitive price position
 - in excess of 100 to 150bps medium-term plan
 - retail price inflation lower than cost of goods inflation
 - small increase in promotions, continued supplier funding
 - Far East sourcing benefits coming through
- Best ever service and availability measures
 - improved IT and replenishment cycles
 - non-food stock levels increased
 - lower colleague turnover

Retailing

Good control of operating costs

- Inflation on operating costs at higher end of 2 to 3% medium-term expectations
 - energy step up due to hedging policy
 - continued inflation in property and wage costs
- Delivered cost efficiency savings offsetting over 75% of operating cost inflation
 - instore checkout productivity
 - central reorganisation, shared service centre
 - centralised procurement
 - reducing waste, packaging and energy usage
- Additional investment for long-term growth
 - Somerfield/Co-op acquisitions, plus new stores / extensions
 - non-food resource, logistics capacity and new systems
 - launch of GM online

2009/10 Guidance

- Full year operating cost inflation to be at the higher end of 2 to 3% medium-term expectations
- Cost efficiency savings to offset over 75% of this inflation

Joint ventures - Sainsbury's Bank

Further good progress

	H1 2009/10 £m	H1 2008/09 £m	
Share of underlying profit (post tax)	3	1	} Pre tax operating profit of £10m (H1 2008/09: £4m)

- Good volume growth in savings, loans and insurance products
- Conservative and responsible lending position maintained
- Bad debts remain low relative to book size

2009/10 Guidance

- Upweighted investment in customer acquisition for H2
- Sainsbury's share of post-tax profit for full year is expected to be slightly higher than the £4m achieved in FY 2008/09

Joint ventures - property investment

Share of underlying results post tax

	H1 2009/10 £m	H1 2008/09 £m	
British Land	5	5	} Rental income from Sainsbury's after efficient financing costs
Land Securities	1	1	
Share of underlying profit	6	6	

- 43 properties
 - around half in current development pipeline
 - remainder with long-term potential

2009/10 Guidance

- JVs expected to deliver a broadly similar result in H2

Underlying finance costs

Reduced by lower interest rates

	H1 2009/10 £m	H1 2008/09 £m	Change
Net interest cost	44	59	▼ 25.4%
Net interest cover	8.0x	5.4x	▲ 2.6x
Fixed charge cover	2.2x	2.0x	▲ 0.2x

- Reduced interest costs on inflation linked debt which resets annually in February

2009/10 Guidance

- Underlying net finance costs in H2 to be broadly similar to H1 (inclusive of the incremental interest on the convertible bond issued)

Items excluded from underlying results

	H1 2009/10 £m	H1 2008/09 £m	
Profit on sale of properties	15	26	Includes sale of 5 supermarkets
Investment property fair value movements	37	(36)	Non-cash valuation of JV properties at circa 5.8% yield from 6.2% at March 2009
Financing fair value movements	(4)	(4)	Mark-to-market adjustments
Pensions accounting	(13)	13	Non-cash IAS 19 financing element
Total	35	(1)	

Taxation

In line with guidance

- Underlying tax rate at 29.0%
(H1 2008/09: 32.0%, FY 2008/09: 29.1%)
 - similar level of disallowable depreciation
 - resolution of a number of other outstanding items

2009/10 Guidance

- Full year underlying tax rate expected at a similar level to 2008/09 full year underlying rate

Growing space

On track for 15% space growth to March 2011

	Stores	'000sq ft	
As at Mar 2009	792	16,703	
Openings:			
New supermarket stores	24	439	Including 18 Co-op/Somerfield stores
Extensions to supermarkets	3	41	
New convenience stores	19	49	Including 7 Co-op/Somerfield stores
Gross new space		529	3.2%
Closures:			
Convenience disposals	(6)	(10)	
Replacement stores	(1)	(26)	
Net new space		493	3.0%
As at Oct 2009	828	17,196	

2009/10 Guidance

- Full year gross space growth of 6.5 to 7.0%

Capital expenditure

Supporting accelerated growth plans

	H1 2009/10 £m	H1 2008/09 £m
Core capital expenditure	516	513
Acquisition of freehold properties	36	92
Proceeds from disposals	(75)	(270)
British Land JV investment	-	274
Net capital expenditure	477	609

- 33 Co-op/Somerfield stores acquired
- New store pipeline well established over last 3 to 4 years
- Over 50 larger, more cost effective extensions with planning consent
- Continued savings on construction costs

2009/10 Guidance

- Full year capital expenditure of circa £1bn, delivering 6.5 to 7.0% gross space growth
- Capital expenditure of circa £2bn in 2 years to March 2011, delivering 15% gross space growth

Capital raising and financing position

Supporting accelerated growth plans

- £432m capital proceeds raised in June
 - £242m from placing of 78.1m shares at 310p
 - £190m from issue of convertible bond, at 4.25% cash coupon, 35% premium on conversion
- Proceeds invested in accelerating the growth strategy
 - taking advantage of property market opportunities
 - adding to already substantial property freehold asset
 - expect to achieve IRRs in excess of 15% on this investment programme
- Maintained efficient capital structure
 - low cost, long dated debt with average life of over 12 years
 - lease adjusted debt to equity ratio of around 50:50
 - retained financial flexibility and capacity for the future

Balance sheet

Maintained strong balance sheet position

- Estimated market value of properties is £8.5bn (2008/09 Y/E: £7.5bn)
 - yield improvement of 40bps since Y/E, equivalent to £0.8bn
 - investment and development of property estate, net of 5 disposals, equivalent to £0.2bn
 - 308 freehold and long leasehold properties - 65% of net supermarket selling area, 90% have development potential
- IAS19 pension net deficit of £(668)m (2008/09 Y/E £(222)m)
 - real discount rate decreased by 1.4%
 - partially offset by assets up 16% since March 2009
 - triennial review commenced March 2009, legal completion by June 2010
- Net debt £1.77bn (2008/09 H1: £1.95bn, 2008/09 Y/E: £1.67bn)
 - core capex similar to last year
 - proceeds of placing
 - working capital up due to non-food stock holding and half year timing differences on payments

2009/10 Guidance

- Y/E net debt expected to be around £1.7 to 1.8bn
- Small year on year improvement in total working capital at Y/E

Summary

Retailing

- Strong sales and profit growth
- Accelerating growth plans

Joint venture operations

- Sainsbury's Bank making further good progress
- Property JVs continue to advance development opportunities

Property

- On track for 15% gross space growth by March 2011
- Increased capital expenditure to deliver significant long-term returns

Balance sheet, cash flow and net debt

- Flexible, efficient balance sheet maintained
- Growth in property asset backing, low cost, long dated debt

Justin King
chief executive

Making Sainsbury's Great Again

First half 2009/10 operating review

- Good first half performance
 - strong sales and profit growth
 - clear customer understanding
 - strong operating and financial position
- Growth plans accelerating
 - five areas of focus all delivering
 - confidence in scale of future opportunity

Making Sainsbury's Great Again

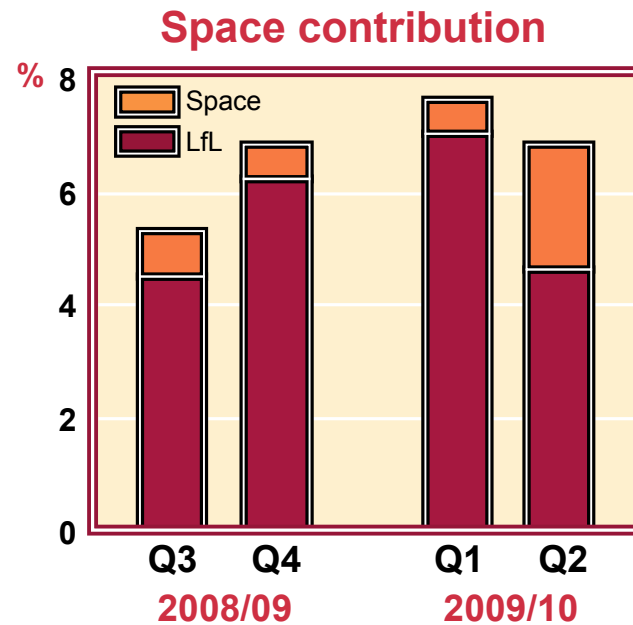
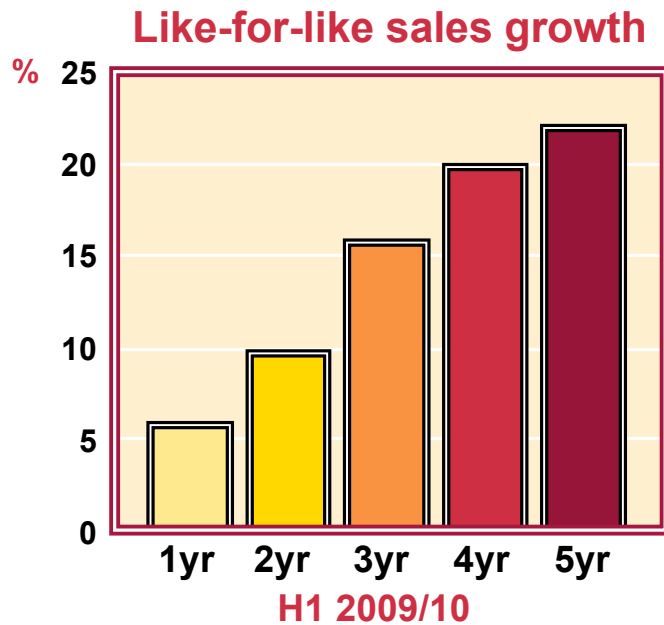
Good first half performance

- Like-for-like sales up 5.7%
 - weekly transactions now over 18.5m, up 800,000 year-on-year
 - basket size continues to grow
- Underlying profit before tax up 18.5%
 - operational gearing being delivered from sales growth
 - further investment in customer offer, tight control of operating costs
 - investment for long-term growth

Making Sainsbury's Great Again

Continued strong sales growth

- Fifth year of consecutive like-for-like sales growth
 - increasing contributions from extensions and maturing space
- New space now an increasing driver of total sales growth



Making Sainsbury's Great Again

Clear customer understanding



What the judges said

"They're getting value right, and getting their values right"

"Sainsbury's comes out on top from a brand perspective"

"People go to Sainsbury's because they're good value for good food"

Making Sainsbury's Great Again

Getting values right



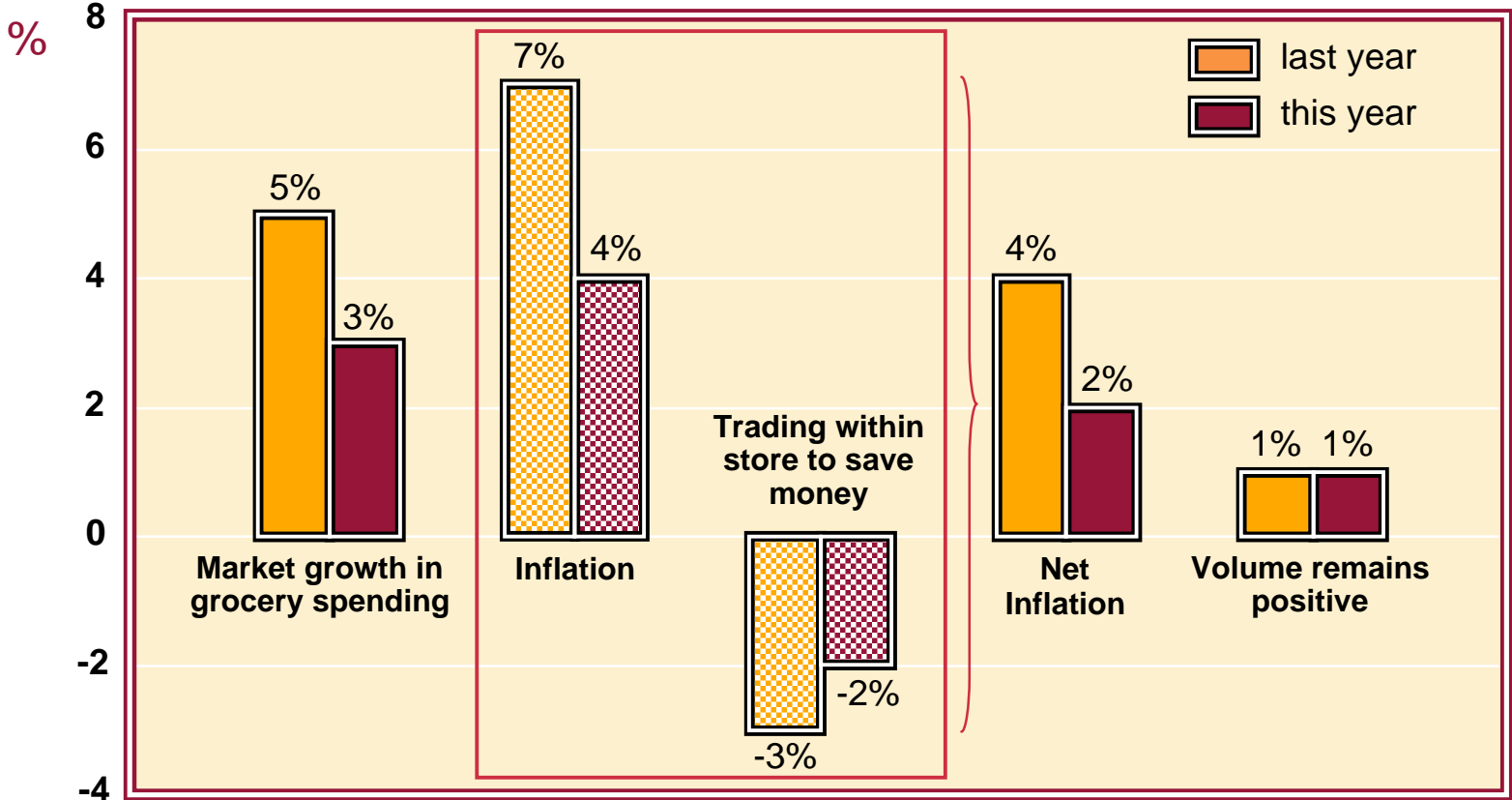
- Awarded top marks in the Consumer Focus 'Green to the Core' survey



Making Sainsbury's Great Again

Consumers continuing to act rationally

- Grocery market volumes remain robust



Source: TNS market data per JS Interims last year, 12 week data to 4 October this year

Making Sainsbury's Great Again

Accelerating our growth plans

Five areas of focus

- Great food at fair prices
- Accelerating the growth of complementary non-food and services
- Reaching more customers through additional channels
- Growing supermarket space
- Active property management

Making Sainsbury's Great Again

Great food at fair prices

Fresh food is at the heart of what we do

- Leading on ethical issues
 - widest range of freedom foods
 - fresh eggs - British, cage-free
 - largest retailer of MSC certified fish
- Training our specialist colleagues
 - first for bakery apprenticeships - more scratch baking in-store
 - 500 apprenticeships - bakers, butchers, fishmongers
- Retailer of choice for our fresh suppliers
 - 40 farming groups - Dairy Development Group as model



This product comes from a fishery which has been certified to the Marine Stewardship Council's environmental standard for a well managed and sustainable fishery.
www.msc.org



Making Sainsbury's Great Again

Great food at fair prices

Fresh food is at the heart of what we do

- Backing British in season
 - no. 1 for apples and pears
 - no. 1 for flowers
 - 100% British flour in scratch bakeries
- Always investing in quality
 - around 600 new and improved lines for Christmas
- Universal customer appeal delivering
 - 650 'basics' products



Making Sainsbury's Great Again

Great food at fair prices

Clear communication with our customers



Shop and Save

- Price perception continues to better reflect reality



Switch and Save

- *'Taste test challenge'*



Cook and Save

- *'Feed your family for a fiver'*
- *'Make the most from your roast'*

Making Sainsbury's Great Again

Great food at fair prices

The loyalty opportunity

- Unique customer understanding used to reward customers
- Instant colour coupons at till based on Nectar data
- Non-Nectar cardholders won't miss out
- In all supermarkets by end of November
- 60 branded suppliers signed up



Making Sainsbury's Great Again

Accelerating the growth of non-food

Customers attracted to high street style at supermarket prices

- Non-food growing at around 2.5 times rate of food
- Wider range now in 38 stores
- TU Clothing in fifth year - 1 million transactions in a week
- TU Home rolled out and performing well



Making Sainsbury's Great Again

Accelerating the growth of non-food

Investment in expertise and infrastructure to support growth

People

- 450 colleagues in non-food centre in Coventry
- 90 colleagues in Far East sourcing operation

Sourcing / supply chain

- GM depot capacity increased by 50%
- New office opened in Shanghai, 30% more volume through Far East

IT systems

- Enhanced clothing system enables better management of stock and markdown
- Converting remainder of non food to clothing system

Making Sainsbury's Great Again

Accelerating the growth of non-food

Extensions a key driver of complementary non-food growth

- Warren Heath, Ipswich; relaunched May 2008
 - food offer enhanced - best possible food hall
 - complementary non-food offer added

	Post extension sq ft	Change sq ft
Store size		
Food	43,000	▲ 7,000
Non-food	29,000	▲ 22,000
Total	73,000	▲ 29,000
Customer numbers		▲ 15%

- Performing ahead of appraisal assumptions

Making Sainsbury's Great Again

Accelerating the growth of non-food

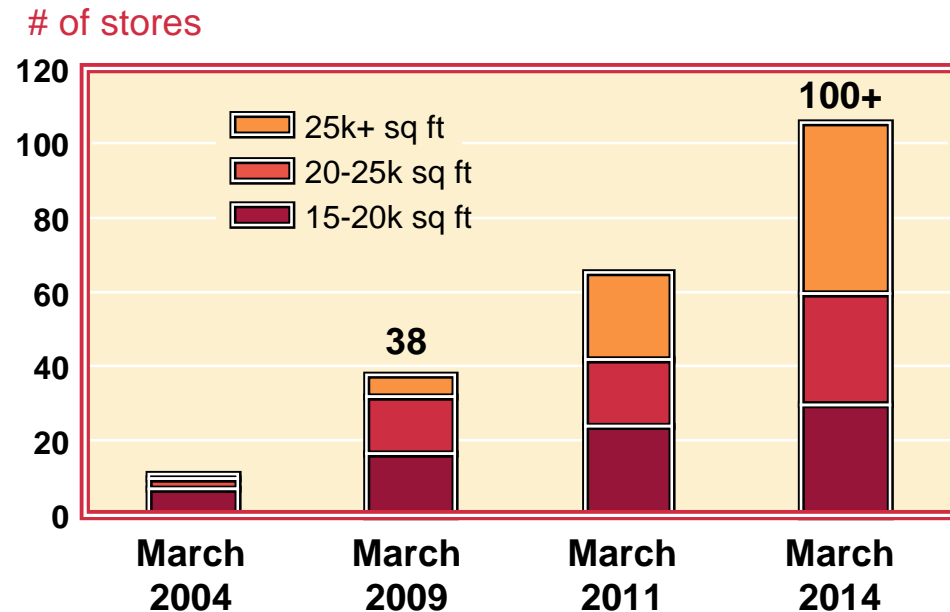
Bringing our offer within reach of more customers

March 2009:

- Only around 20% of UK population within 15 min drive of our wider non-food offer

Future:

- Potential for 15 to 20 extensions per annum ongoing
- In 5 years - potential for around 40% to be within 15 min drive of our wider non-food offer

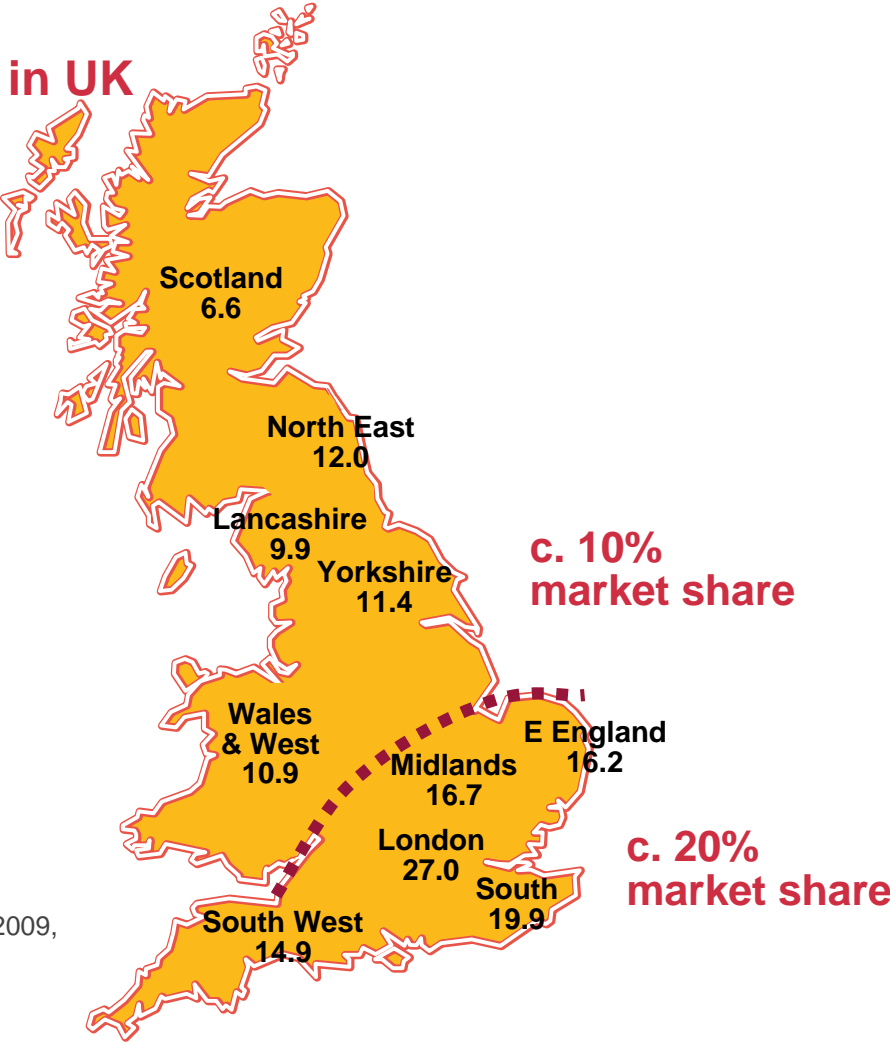


Making Sainsbury's Great Again

Growing supermarket space

Sainsbury's has 16% market share in UK

- Under represented in many areas



Source: TNS Total Till Roll 52 weeks to 4 October 2009, % share of total grocery

Making Sainsbury's Great Again

Growing supermarket space

Opportunity to grow in under represented areas

Today:

- Around 40% of UK population not within a 10 min drive of a Sainsbury's

Future:

- Plan to add 50 new supermarkets in 2 years to March 2011
 - around 75% to be added in areas of lower market share
 - 26 supermarkets acquired from Co-op/Somerfield
 - exceeding expectations
- Pipeline established to add 15 to 20 new stores per annum

Making Sainsbury's Great Again

Accelerating the growth of services

Sainsbury's Bank

- Integrated customer offer to focus on rewarding Sainsbury's shoppers
- 'Double Nectar points' campaign reinforces and rewards customer loyalty
- On track to open 75 Travel Money bureaux by Christmas



Making Sainsbury's Great Again

Additional channels

Convenience

- Our operating model is working well
 - 'neighbourhood' and 'food on the move' formats
- On track for 50 new stores in 2009/10, 100 stores in 2010/11

Groceries online

- £500+ million business - available to nearly 90% of UK households
- Best ever service metrics continuing
 - IMRG 'Best Customer Service Award'
- Continuing rollout of large store models to grow future capacity

Non-food online

- Successfully launched on time and to budget in July
- 4,500 products across 7 categories, expanding to 8,000 by Christmas

Making Sainsbury's Great Again

Summary

- Good performance in first half
- Operating from a strong operational and financial position
- Accelerating growth plans to deliver positive sustainable returns
 - complementary non-food and extensions
 - new store openings and pipeline
- Sainsbury's Bank, convenience and online channel growth progressing well
- Growth potential for many years to come

Interim Results 2009/10