

**J Sainsbury – Second Quarter Trading Statement
Wednesday 7 October 2009**

**Justin King
Chief Executive**

Hello everyone, good morning and thanks for coming on the line. As you heard, I am joined by Darren Shapland and of course Anna Tee. We are reporting this morning our Second Quarter Trading Statement for the 16 weeks to 3 October. No doubt you have had a chance to catch up with them, but let me just summarise.

Our total sales for the quarter, up 3.2% or 6.8% excluding fuel. And our like-for-like sales for the quarter 1.3% or 4.6% excluding fuel. Adjusting that last figure for the impact of VAT, gives you a VAT ex fuel ex figure of 5.4%.

Our sales have also been driven by an increase in transactions, £18.5 million in the quarter, up 800,000 year-on-year, in part reflecting the good progress that we have made in adding new stores. You will see that in the headline figure with total sales at 6.8 and like-for-like of 4.6, you can see a 2.2% gap coming from new space there. And in the quarter we have added 19 new supermarkets which includes 14 ex-Somerfield Co-op. and 12 convenience stores. A good step on the way of our 50 target for this year.

So overall pleased with our performance across the 16 week quarter, the work we have done over the last year, delivering universal appeal has continued to stand us in good stead and you will have seen just in the last week, we received the Retail Industry Award, Supermarket of the Year in recognition of the work we have done in helping consumers manage their budget challenges, particularly 'Feed your Family for a Fiver' and 'Switch and Save' which have been hugely successful for us.

And we are also reporting today that it isn't just about the pricing and value side of our offer. New highs in customer service achieved over the last year. So doing a great job for consumers.

Our online food business continues to grow up 20% on the quarter and of course during the quarter we have launched our online non food business as well.

Now I mention the new space we are adding and of course that in part has been driven from the fundraising back in June, £432 million, through the placing the shares and convertible bonds. And we are now well on track to deliver the 15% space growth in the two years to March 2011 that was part of the commitment we made when raising those funds. Our non food business which has been a big part of our growth in recent quarters, continued to do more than its fair share in the quarter, growing at nearly three times the rate of food. And of course too, our clothing brand reached its fifth anniversary during that time.

And all of this growth of course is leading to job creation, 1,500 new jobs in the quarter, mainly in those new stores and we are on track to deliver the 10,000 new jobs by March 2011 that we announced. And the recruitment of our Christmas temps, 20,000 or so will begin in the next week or so.

So overall a good second quarter, completing a good first half. I am very pleased with what we have managed to achieve over the first half of the year. Looking forward, we do expect market growth to slow as inflation comes out of the mix. We expect it to be negligible in the coming months. But we believe that our universal appeal is evidenced by our performance over the last number of quarters, will continue to stand us in good stead. And of course with Christmas coming, we do expect consumers to once again ensure they keep quality food in their shopping baskets.

With that we'll hand over to questions. Thank you.

Q&A Session

Question 1

David McCarthy : Evolution Securities

Hello gentlemen. Just a couple of questions. First of all on promotions. You are running at record highs as the industry is generally. What is your view on how this is going to develop over time? Do you think we are going to see a return to[lost question]

Justin King

David we lost you mid question there.....

David McCarthy

Just asking about promotions. You are at record highs and the industry is generally. What do you think is going to happen to pricing? Do you think we are going to see a return to EDLP? Do you think Asda might lead the way? Tesco was certainly talking about that yesterday. And will you stay promotional driven or will you go that way? That is the first question. The second one is we heard the Chief Exec at Tesco yesterday say their underperformance against the average had switched. They are now performing the average. Do you see any signs of that or any change in the dynamics of the industry and what is happening regarding sales in the IGD? How is your performance against that? Are you losing relative performance?

Answer

Let's take that in turn. Promotions. Promotions are continuing across the industry at about a third of total sales. Actually for us, quarter-on-quarter, we are off a little, but not much. We have not really moved our promotional mix much now quarter-on-quarter or year-on-year for well over a year. In fact the two most promotion in the last quarter from the data we look at are the two you mention, Asda and Tesco, just a little bit ahead of the industry. So we don't see any signs of any let up in that promotional activity. We think it will remain at that level for the foreseeable future. But largely because it is supplier driven. And I think I talked about this before on previous calls, that what drove that step up in promotional activity was suppliers pushed through base level pricing quite aggressively back, really going back to the start of 2007 as commodity prices hardened. That pressure, even then, was ahead of what the real pressures in their P&L would have justified. They dialled a lot of that back through promotional support as is traditional for suppliers when they do get so called inflationary price rises through. But the reality is that those pressures for them have in quite large part got away, because if you look at commodity prices they are well off the peaks that notionally justify the price increases. Now suppliers aren't coming through the door suggesting that they are going to reduce their base pricing, but it does mean they still have flex in their budgets to push promotions. So we see no let up in that for the time being, unless until we see real commodity price pressure filling the gaps in their P&L we think they are going to be there providing the cheques to drive the promotions. So this kind of promotional level certainly for another few quarters.

In terms of market performance, I think it is very dangerous when people try and quote figures that are supposedly confidential for a week or two. We just reported a quarter to last Saturday, so it is bang up to date, so our figures are bang up to date and we are very happy across that period. We have outperformed the market by quite some margin. Looking forward, I think the most important thing for the market more generally is there will be less growth to go round. I have always said there is a historical norm for the major grocers has been somewhere around 3%. We have just been through a purple patch in the industry with the industry averaging more like 5% with no inflation in the mix. We will go through a period where the industry average is something less than 3% I would suggest.

Further Q

There is no sign of your relative performance deteriorating? Is that what you are saying?

Answer

I am not going to comment on one or two weeks data that somebody else has chosen to plug out. We have just reported twelve weeks Dave, where we have outperformed the market quite significantly.

Further Q

Okay and the final thing, just switching back to the promotional thing. My point was or the question, do you think we might get someone say to the suppliers, right we want to get rid of promotions, we want to go for the lower invoice price, give us EDLP and adjust it all down? And are you suggesting that the suppliers have been making super normal profits in this over the last few months, couple of quarters?

Answer

Well I am suggesting that everybody is saying to the suppliers on an almost daily basis that we think they should reduce their base level pricing, and that the branded manufacturers and own label manufacturers that have more visibility in the real costs in their P&L are very resistant to that and how they chose to dial it back is through promotional investment. I think it is a matter of record that broadly across Europe the major FFCG companies have reported widening margins over the last 12-18 months. I am not sure super normal is the word I would use, because it would only be super normal if they hadn't dialled big chunks of it back in promotional investment.

David

Okay that is very helpful. Thank you.

Question 2**Amy Crofton : Barclays Capital**

Good morning, I have just got three quick questions. The first one is somewhat obvious question which is how do you think inflation has panned out over the quarter and do you expect to see the UK dip into deflation going forward? Then if you could talk a little bit about what your aims are for your new voucher scheme and what kind of reaction you have seen so far? And then thirdly, I know it is very early days, but could you give some sort of colour on how the online non food offer has been going? And which categories in particular have done a bit better or a bit worse than you expected?

Answer – Justin King

Well I will pick up the middle one on vouchers and then ask Darren to talk about inflation and non foods. Vouchers, I assume you are referring to our coupon at till scheme which we have recently announced. Well we have announced it ahead of it being in all our stores for the obvious reason that it is a phased roll out of the capital equipment. So it is in a hundred or so stores. It will be in all of our stores by the end of the month and that is when we will start doing some big consumer communication. Because we can't really do that until it is in every store. But it is something we have been trialling for well over a year. We have had it in five stores. I think two key things to note about it. Firstly, of course at its core is our Nectar data and Tesco, rightly talk in length about the power that having this data gives them and we feel much the same. We have real access to what our customers are buying week in week out. So at its core it has our Nectar data so that is the first thing.

I think the second thing is that one of the challenges of using data to mail customers at home is firstly quite a lot of them have ticked the mailing preference service box. So we are not allowed to, and secondly there is significant costs in getting vouchers to people in their homes. What this allows us to do is get to every single customer at the till, at the time when they are spending money with relevant vouchers, based on the shopping that they have done. So we are pretty excited about that because we

capture, I think we said before, something in excess of 70% of our turnover on Nectar cards. So pretty excited about it. But it is a forward thing. We can't really go with it properly until it is out in every store in a month or so time.

Answer – Darren Shapland

And Amy just covering the other two questions in terms of inflation, the first thing to say it is pretty much where we said it would be, that all other things may equal, we said inflation would come down to negligible levels towards the end of the second quarter. It is lapping against the big comps of last year. And effectively that is what has happened, the inflation number for the second quarter in total is around 1.5% and that is down from a bit more than 3% quarter one. As we look forward into half two, we expect inflation to be pretty much zero or close to zero. There is some fresh areas that have already got some deflation in them, but some core grocery areas have still got some inflation in, so we are planning on pretty much zero for the second half.

In terms of online non food, yes it is launched and we are very pleased with that. The launch went very well. It is relatively small at the moment, only over 5,000, stepping up to 8,000-9,000 as we come into the Christmas period. There is not too much to say about trends at the moment. In simple terms, it is splitting into I suppose two businesses. Businesses, things that are already sold well on line which is electrical and businesses which is where we are bringing our wider non food range to more customers around the UK because we have still got a lack of representation in stores so far. So that is becoming quite clear from our initial learnings. But we are very pleased so far. As I said at recent briefings and previously at the Prelims, online non food is not a big growth driver for the next couple of years. It is more about getting it launched and then a steady growth up. Whereas some of the other areas in our strategy such as non food in total and space and convenience stores are much bigger growth contributors for the next couple of years.

Amy

Okay, great, thank you very much.

Question 3

Andrew Gwynn – Merrill Lynch

Hi, good morning all. Firstly, just going back to that comment from Justin before, you expect the growth rate for the industry to go probably some 3%. It sort of implies in many respects that you are not seeing much in the way of trading up. Or you certainly don't expect to see that for the second half. Is that correct? And would you still work on the assumption that a like-for-like rate of maybe 34% for Sainsbury near term to medium term is roughly the right sort of number?

Second question would be on the base pipeline. Clearly it is still early days, but could you just give us an update as to how well developed you are in that and how many of the sites do you have earmarked and how much work is left to do there?

Answer – Justin King

Andrew I will get Darren to cover the space. Just on inflation and growth in the industry. I think the first point I would make is as you know I have never been a big subscriber to the idea there was some kind of massive trading down that happened. And I think the evidence now that you can see if you look back on the more recent quarters is that there wasn't a massive trading down. It is just our basics grew very strongly, but we never saw huge declines in the top end of the shopping basket. What we saw was what we referred to as savvy shopping people trying to dial out the excessive inflation in their shop. And I think in previous quarters I talked about customers having dialled out something of the order of 3% of the inflation that they would have otherwise have experienced through buying more promotion and through switching what they were buying in the shopping basket. Now we will see some of that behaviour reverse itself I am sure. Although promotions, as I commented earlier to Dave's question,

feel quite sticky at the current level, driven by suppliers. So I don't see that dialling out. Over the long-term, the industry has grown at about 3% made up of a little bit of inflation and a little bit of volume growth. When I say the industry in that context, I mean the major grocers in the context of total food and grocery. And we have done a good deal better than that over the last 12-18 months because we have had inflation in the mix for the first time in 8-10 years. I think, therefore, consumers will respond to lower pressures in their household budgets by trading up a bit more. We are seeing the earlier signs of that in terms of a slight bounciness in 'Taste-The-Difference' and things like ready meals. We have still got great strength in things like RSPCA Freedom Food up over 100% in the quarter. But as I commented earlier, Basics still growing strongly around 30% in the quarter. So I think if we have nil inflation, I expect the industry will you know continue to draw a point or two of volume growth and therefore it will be below that for the long-term 3% trend.

As far as ourselves, yes we think 3-4% is the right medium term guidance as to how we plan our business. We have always said there will be periods of time we are ahead of that and periods of time we are behind. We have got to try and average that over time. But of course to achieve that in a market that is growing around 3% means that broadly over time we have got to keep beating the market. And we think that is a prudent assumption looking forward. We think everyone will report behind trend figures in the next couple of quarters because of the lack of inflation. But I don't think as we have said before there is any particular cause for concern in terms of leading to pressures that might lead to example for a price war, because the reality is we have got vigorous competition out there already as many of you have already commented on.

Answer – Darren Shapland

Andrew on the space pipeline, I think it is as we said when we did a capital raise about three months ago, we laid our plans to grow 15% over two years. We feel very confident about those because most of the stores are named and already there. They have got planning permission and we are on track. What you will see this year is that the first half we have opened mostly new stores and we have stepped off the extensions bit to manage and effect our capacity. In the second half, you will see we will continue to open new stores and we will step up extensions, especially in quarter four. So very comfortable that we are on track to hit the 15% you know and that the stores are all going through the process now.

Further Q

Thanks for that Darren. Just going back to Justin's comments before. Promotions are very sticky, you have got a lower level of industry growth. It feels in some respect, obviously promotional intensity, it seems to be the larger part of that volume growth in some respects. It feels therefore like perhaps the profit pool is under pressure. Obviously you know this is a trading update, so not expecting any comments from you, but would you agree that the profit pool is perhaps feeling the pinch around the edge?

Answer – Justin King

Well it is a trading update. So I think all I can really do is refer back to what we previously said, which is that when you have an overall bounciness around, people who are achieving higher sales growth than perhaps are in their budgets that gives people money to play with and I think we have seen that in the last 3-4 quarters, that has been dialled back in all sorts of things, from double clubcard points to the question of banana pricing to general promotional levels. If you have less growth to go around, then that broadly that electable spend if you like gets reduced. And that will flow through over a quarter or two as those pressures change in the overall P&L structure of the industry.

Andrew

Okay I will leave the banana question for somebody else. Thanks very much.

Question 4

Alastair Johnston : Citigroup

Morning all. I am not going to ask a banana question. Just a couple of questions that you have already touched on. Differences in trends between brands and own label now. You know, branded players are not going to be asking to reduce their prices, where you can see commodity prices you know coming out on the own label. Are you basically saying that you know price falls on own label are greater at the moment than on brands? And in addition to that, related question, in terms of your promotions at the moment, are you still doing 'Switch-and-Save'? Are you still actively trying to encourage people to switch from brands to own label? Or is your new kind of vouchering campaign, is that to some extent replacing 'Switch-and-Save'? Just two related questions.

Answer – Justin King

Well I wouldn't say that we are seeing price falls on own label, because I think that would be misleading to say. Although of course all of our produce is in the way the industry reports, treated as own label or pretty much all of it anyway. And we are seeing very significant price falls as a result and very strong European season on product use. So I am sure if you look at industry data you will see net own label actually reducing price but that I would suggest is largely driven by produce and to a lesser extent meat pricing.

If we are talking about sort of package and grocery, own label versus the package grocery brands, the reality is that our own label package grocery didn't inflate any where near as much as the package grocery brands. And it was the widening of that gap which was the opportunity that we used to drive our 'Switch-and-Save' campaign. We can see that the gap between our own label and the brands was as wide, if not wider, than it has ever been. So there was a very strong case to encourage customers to switch and save. Of course the response from brands was to promote still more. We reported last quarter and indeed said about this quarter, that brands continue to grow more strongly in Sainsbury's than our own label. Notwithstanding our 'Switch-and-Save' campaign. Relative to our competitors, our own label is if you like, gaining share of the own label pool. Because if you look at most of our competitors you will see that their own label mix is off quite significantly driven by that heavier branded promotion. But no, we are not backing off it at all. If you look at our current campaign in store. It is 'Switch-and-Save' to Own Label. At the very least it keeps our branded suppliers on their toes. But the reality is that we have a much more credible case to make with our customers than most of our competitors, in terms of the quality of our own labels. So we think it is a very Sainsbury's agenda to be talking to. Because our customers tell us that they believe more in us than they do our competitors that our own label is a credible and much better value for money alternative.

As far as vouchering is concerned, I mean again it is for the future, but I think all I would say, because I am not going to get into detail of what our tactics might be, it will be part of our overall investment mix. It will be fair to say that our suppliers so far have been incredibly keen to talk to us about how they can spend money through that vouchering, because they can see how good it will be for them in terms of developing brands. So we expect to be able to tap supplier funds quite aggressively to support that vouchering. But I think that is all I would say at this stage.

Further Q

Thanks very much. Just one follow up. Isn't it surprising that your own label during this high inflation period, should have inflated less than brands when commodity costs was a percentage of the price of the unit, would be higher on the own label? Is that not slightly strange?

Answer

Mathematically that is quite surprising I agree, but I think that reflects the excessive level of price increases pushed through by the branded manufacturers and why they have had to dial it back through much heavier promotional activity.

Alistair

Interesting. Okay, thanks very much.

Question 5**Andrew Kasoulis : Credit Suisse**

Yeah, morning guys. Just bear with my maths. I mean I think your like-for-like has probably faded something like 400 basis points from entry to exit in the quarter. I am not sure you are going to tell us what your exit like-for-like was. But you know my calculation, it is somewhere near 3.5% only. I mean surely it is not just inflation and some of the other weather factors perhaps that have caused that decline. You must be losing market share, maybe not necessarily to Tesco, but certainly Waitrose Essentials launch looks like it is sort of playing in your backyard as it were. I am not sure whether you said that you expected your like-for-likes to be less than 3% for the next couple of quarters, but I am really interested in what you think your like-for-like could be over the next 3 months or 6 months or so? And whether you think there is something else going on out there, other than just the market fading that is causing perhaps your like-for-likes to fade?

Answer – Justin King

I think Andrew, probably have to bear with your maths because I think you know almost everything you said we are not going to comment on. We are not going to comment on individual parts of the quarter, the overall quarter is what it is, and we have reported on that. As far as providing like-for-like forecasts quarter by quarter, we are not going to do that either. I think we have been as clear as we can about our long-term expectations, that 3-4%. We consistently delivered against that over a 3-4 year period. We have, as common with others in the market, a particular bouncy period and I think we are being clear that we think the market will be on average below the long-term trend over the next number of quarters. I think that is all the guidance we can really provide.

In terms of the relative performance. You commented on Waitrose Essentials. I think it is important to make the point that the pricing of Waitrose Essentials is equivalent to our core own label. It is not the equivalent to a basics product. They themselves would say it is largely a repackaging of an existing range. Over 80% of the products are already on their shelves, they have just had new packaging. So it has clearly been very powerful for them in terms of giving them better value for money credentials. But Waitrose are relatively small and for us, pretty small in terms of where we can either win business from or lose business to. The biggest Waitrose factor in the last 6-9 months has been proportionately they have added more space than anybody with the Somerfield purchases. So you know there is a lot of towns up and down the country we are now competing with Waitrose where we weren't. We welcome as best we can as a competitor.

Further Q

Okay, I didn't expect you to answer some of the specifics. I guess more broadly it just feels like it is the first time in 2-3 years, maybe more, where you might be accused of losing market share versus one or some of your competitors. I just wonder if that is the way it has to be for a while, whether you have to settle for that or whether you feel you have to come back and prove that you can be ahead of the pack rather than in the pack in terms of like-for-like numbers?

Answer

Yeah, I think we have been, I mean our like-for-like figures particularly our underlying like-for-like, has been very strong versus the competitor set for a long time. You know and we are bouncing up against tougher comparatives and that always makes thing tougher. But to achieve 3-4% long-term we have got to continue to outperform the market long-term. And I think we have always said, that it is not a linear thing. There might be a quarter where our like-for-likes are slightly behind the market, but that would not be a matter for concern as long as our long-term trends continued in the right direction. I think importantly in this quarter is we have got 2.2% coming through from new space. That is if you like, that is the new feature of these figures. It is something we have been waiting for for a long time. Last time we had anything like this was back in 2004 with the Safeway purchases. And you know we

continue to expect that to grow. That is the effective delivery, 15% over two years. And of course we will start to get a maturity dynamic in our mix as well.

Implied in your question I guess is also sort of a switching data question. At any given time there will be some people that the switching data shows you are losing to and some people switching data shows you are winning from. And we look at that and we look at the net switching in total. And we continue to have very positive net switching in total.

Andrew

Okay, thank you.

Question 6

Matt Truman - Nomura

Hi guys just two from me. Did non food as a whole swing more positively for you as others have said? And therefore what does this mean for the underlying food business? And then just Darren, it looks like inflation was down 150 basis points so in pure simple terms, volumes are flat assuming non food for example, stayed flat in food terms. Is that a fair comment? And then just secondly, just following the capital raise and given the slowing top line, and obviously the 4-5 year maturity curve of the new space you are adding, is it feasible to expect you can step change your pre-cashflow to be able to grow organically or with the increase in cap-ex continuing and the expected step change in space, will you be required to come back to the market on a 2-3 year view to maintain that growth?

Answer – Justin King

I think I had better give the first two parts of your question a go to give Darren time to think about the last one. The non food, yeah we commented in the statement three times the rate of our food growth. So yes step on I think two times in quarter one. So some strength there and we are still seeing deflation in non food and you know for us of course the non food performances partly to taking our share of what will or won't happen in the market and that is pretty volatile, Yes we see non food as very strong. But the bigger part of non food for us is what we are doing to ourselves through extensions and adding more space for non food. As we have said, you know medium term our objective is non food will be around half of our new space and about a third of our sales growth. And what that means is broadly non food needs to grow at about two and a half times the speed of food to achieve that. So a little bit ahead of that in the quarter.

Without repeating the maths, roughly the maths you said is about roughly about roughly the inflation is up a little bit more than one and a half, but you know what you are implying from it, sounded about right.

Further Answer – Darren Shapland

Just in terms of the caps raise. We took advantage in June of an opportunity to come and raise some money both in the convertible market on the equity side. As we said at the time that was largely in terms of where our debt metrics were and wanting to maintain the balance sheet in the same sort of shape. As long as the growth comes through from the new space that we are adding, and we continue to grow, as Justin said, you know good like-for-like sales, growth etc over the medium term then the balance sheet clearly gets better and it gives us more capacity for debt raising. So in terms of giving you absolute numbers for 3-5 year period, we are not in that place to do that just now. But in terms of capacity to raise more debt going forward, I think that is there. So yeah I would play it out on that basis as we probably will want to continue growing space quickly, but we will go back to debt markets at some stage to raise some more, not quite sure how we will do it. But that is, as long as the numbers continue to come through that will be the position.

Further Q

Okay, and I guess, just to follow on from that, is the credit rating therefore something that remains secondary on that basis? It doesn't look like on my numbers, given the step up in capex, and obviously as you get bigger the absolute capex goes up and proportionately you are probably not generating that post capex pre-cashflow that we have seen in the past. So does that mean affectively it has to step up markedly from where we are or you know what happens to the credit rating?

Answer

No I don't think so. In terms of the rating as we have said before, none of our debt is really linked to the rating. And what we did when we refinanced in March '06, was remove that requirement, although the corporate rating has been quite important for us to maintain. I think if you follow through the metrics you will see that we you know, based on our gross projections, I think numbers that are in the consensus market. You will see the rating stays broadly the same over the next 2-3 years, having our metrics improved quite a lot on the last 2-3 years. So that does give us more capacity. Yeah we have to face facts. It means that we haven't got enormous capacity. But it does give us more capacity as the numbers improve. And therefore, you know I see us maintaining that rating and also potentially if we needed to spend a bit more than we currently can generate ourselves, we will have the ability to raise that in the debt market.

Matt Truman

Okay, cool, thanks guys.

Question 7**Mike Dennis : MF Global**

Yes hello. I am going to have another go at trying to work out this like-for-like figure 4.6. Am I right in saying that if I look at the total sales growth for the quarter in food in store, ex the food, the basket growth is growing at Sainsbury's from 4.5 to 5.3, if you obviously back out the inflation you have given us. But of that basket growth, what is happening in JS is that the unit growth is growing at 3.8% and the transaction numbers are only growing at 1.5. So is the issue at JS one of the fact that you have over promoted to a degree or seen more reaction to your promotions, but the issue is you need to improve on transactions because the industry is doing a better job at fighting back in the likes of Tesco with its double clubcard points. Is that your issue going forward, that you are trying to find a mechanic via vouchers to recruit more people? That is the first question. Is my maths right?

Answer – Justin King

If we had it up on screen you would be able to see my furrowed brow Mike.

Further Q

Okay well 6.8 is your total sales growth?

Answer – Justin King

Yes

Further Q

Minus 1.5% is the inflation, gives you 5.3. In the first quarter you did 7.6 total sales growth, minus 3.1% for slightly ahead, slightly higher than 3% on inflation gives you 4.5. So your basket growth has gone from Q1 4.5 to Q2 to 5.3. Of that basket growth, is made up of unit growth and transaction. So you know the inflation. So the underlying unit growth in the first quarter is 4.5 minus 3.1 inflation, gives you 1.4 unit growth. So you can work out what the transactions are. So you can see that the numbers of transactions in your business has halved but the number of unit growth in your business has almost doubled. So I am assuming that you had a beneficial period through suppliers over promoting or giving

you more promotional money. And the issue for JS is one of transaction numbers, shoppers coming in in the future. You need to recruit more shoppers. You need to recruit more family shoppers?

Answer – Justin King

Well I will start with the assertion that, no I am not sure that follows from the analysis although I think probably best to take the detail off line Mike. But let me try and deal with a couple of the things in there. I think the first thing to remember in all those numbers you did is that our transaction growth quarter two on quarter two last year. So it is not quarter two on quarter one, is 800,000 transactions. A good chunk of that of course is in the new stores. I will get Darren to comment in a minute on what that means in terms of like-for-like transactions in existing stores. Traditionally, not traditionally. The shape of our business which tends to be. We tend to have a bigger summer dip than our competitors, is that we actually do less transactions quarter two on quarter one. But that is just the shape of our business. Quarter two on quarter two last year, transactions are up 800,000. So I think there maybe something in that because you are trying to follow it through from quarter one to quarter two rather than a comparable quarter which is distorting a bit in the thinking. Our growth at the moment, our like-for-like growth is made up of both transaction growth and small basket size increase, although of course, part of the basket size increase is inflationary.

In terms of what does that all mean for our business where we have to keep winning to keep winning, the first point I would make is to remind you of something I said five years ago, which is broadly we don't need to win any new customers, we need to win a higher share of what they spend on food, through those customers, the vast majority of whom who shop in multiple places. For us that can either be extra items in the basket when they do their shopping or more frequent trips. Obviously the more frequent trips manifests itself as a transaction growth number. Promotions have not changed the number of items in the shopping basket, not that I can see in the data. They have been the way the customers have bought the same amount of stuff, but spent less money doing it. That is why it has dialled out three odd percent inflation. So a change in promotional dynamic will just be about how much people pay for the volume they are buying I would suggest largely.

In terms of vouchers and so on, I think all I can say about the vouchers is it has been 18 months in the planning so don't assume that us doing vouchers at the till is a response to what Tesco did three weeks ago with clubcard double points, I wish we could create something like that in four weeks, but actually it has been 18 months in the planning. As I said it has been in five trial stores since the middle of 2008 and it has been slowly building up to the current level, about 100 stores. So I have tried to provide some colour and flavour around the specific numbers. If you want to try and pick the bones out of the decimal points, we will get Anna to run through with you. And Darren. Anything you would add?

Answer – Darren Shapland

Well Mike the only thing I would say, I don't quite get the numbers, but in terms of the headline level, like-for-like transactions quarter one to quarter two are pretty level, they have both grown at around 3%. There is 20 basis points between them, so virtually no difference. The difference is on basket size. All this on a VAT ex basis. Basket size has come down a couple of percent, it was running at 4.5 it is not down to 2.5 so most of that is clearly inflation coming down from 3 – 1.5 and there is obviously a bit of other things going on in the mix I guess. But in terms of transaction level, we are at pretty much the same level quarter two as quarter one.

Further Q

A further question I have is a much easier one. How is the locals performing within your format mix? mean how relative to that like-for-like you have given us, are obviously local are doing vastly better in total growth and in like-for-like terms? Could you give us a view like with non food, is it three times faster? How fast are they growing?

Answer

Well the total, remember locals are about 7% of our sales in the total mix, although I pause only because we have just, we are switching our number of locals back to running our chain offer. Some of

which you will be familiar with. So the sort of 8-10,000 sq ft stores which we run with in our local business for a while, we are putting back into our main business. It is clear that customers in our smaller stores, at that sort of size, are looking to do a full weekly grocery shop rather than a top us type convenience shop. So there is a bit of apples and pears going on in how we measure it. But locals in total and like-for-like are growing ahead of the business. I don't think we have given any shape on it. We will think about whether we do that actually. We may do that at the half year if you think it would be helpful. The only other thing I would say about locals which I think is interesting, there was a lot of commentary in the run up to summer that we would see people staying at home a lot more this year, going on holiday in the UK and generally not travelling abroad. Actually we didn't see any evidence of that in our numbers. Our seaside town stores such as we have them in the traditional south west had a little bit better summer, but not, you would not imagine that everyone had gone on holiday in the UK. And if anything we would say the dip which is largely in local stores that we saw in central London was if anything a little bit greater this summer than in previous summers. So we think there is every sign that people largely in the end did pretty normal holiday making this summer holiday.

Mike

Okay, thank you very much.

Question 8

John Kershaw - Bank of America Merrill Lynch

Yeah, morning guys, just a quick one. Justin, where do you see the consumer at the moment? Because clearly we have been in recession for a while. We have obviously got VAT rises, potential tax rises and the like on the horizon, but on the other side a lot of people have arguably got used to a more recessionary environment. So we know inflation is coming up, but where do you see the consumer sentiment, the sort of trend in the last quarter and going forward? And I suppose just a broader one in terms of market intensity, clearly you all need to chase a bit harder for volume being a lower inflation environment, but you yourselves having raised over £400 million, clearly have an imperative to grow returns and profitability so how do you see that influencing where the market intensity perhaps is?

Answer – Justin King

Yeah on the consumer side of things, it is of course how you look at the data. Consumer sentiment is still very, very poor. It is improving because 6-9 months ago it was the worst it had ever been on record. But if you look at the curve, the curve is upwards the direction of travel is positive. If you look at the absolute levels of consumer sentiment, there is still only you know six worse periods than the current period and they are the previous six, so we have a long way to go to get back to anything that might be called normal consumer sentiment. But having said that, it has been the case throughout this downturn that the sentiment has been significantly worse than the reality for the vast majority of people. Of course if you are one of the million or so people who have lost their jobs, then the sentiment is exactly in line with reality, but for the vast majority of people who have stayed in work, the pressures on the household budget have been eased quite significantly over the last year in terms of anybody with any form of debt will on the whole have seen a benefit from that. Fuel although it is increasing in price at the moment, week to week, month to month actually is down year-on-year. You will have seen that in the figures we and others are quoting for total performance including fuel. So that has taken a big pressure and all the other fuel related costs have eased pressure. And of course consumers themselves have dialled out some of the pain in their own household budget by cutting back on the larger capital purchases, cars being the most obvious example of that.

So the reality is that consumers have had a little bit more money to spend ongoing than perhaps the sentiment would have indicated. But if you come back to food. Food is 10-12% of the average household budget. It has stayed resilient through the early pressures when they were very real on household budgets because people tend to protect that bit of the spend. They didn't push down on it hard and therefore there is no reason to suppose if we come back to a bouncy period that they will

suddenly spring back the other way because they have got nowhere to spring back to, It is much more likely I would suggest that any spring back will come in the non food part of our mix and to an extent we have seen that in the last quarter, a little bit more freedom to spend on slightly more indulgent things in the non food part of the shop. We would expect a bit of it to come back in mixes, that savvy shopper dials a bit more 'Taste-the-Difference' back in and a bit more top end food. And given that we are running into Christmas we would expect to see some of that in the coming quarter.

So I think we will see the headlines reporting that we are out of recession I am sure for the next quarter or two because the maths almost make that inevitable, given how far we came off these quarters last year, but the household budget pressures next year, what are the things on the list? Well VAT is going up, taxes are going to go up. Public spending is going to go down. So I think the kind of big things are not great for consumers, but the reality is there sentiment probably will keep improving. I would not be at all surprised if consumer sentiment keeps improving you know quarter on quarter for quite a while now, given how low it still actually is.

Answer – Darren Shapland

John, shall I just comment on the other question. I think in terms, we are probably not going to discuss profitability on his call.

Further Q

More broadly at an industry level and from your perspective?

Answer - Darren Shapland

I think we have through the course of the call, we have probably talked about how we see the industry shape. I think the key issue for us that you quite rightly point out is that we have raised some money and we are spending capital, you know we are very comfortable with plans that we have got that returns we will get from those new stores and level of IRRs we are achieving is well above what our current cost to capital is and we are very pleased that we have increased our hurdle rates and still see that come through strongly. As we have pointed out in this statement, the new stores have opened. They are exceeding what we originally thought. So I think that is all quite encouraging. The only word of caution on that, you know the pay backs on these things are quite long term. So a big step up in space as we are seeing right now won't deliver big returns straight through to the bottom line until you start getting the maturity effect coming through. So from our perspective, I think we are very pleased and encouraged about that. I think in terms of overall industry profitability, we have probably largely covered that through the course of the other questions.

Justin King

I will say what I have said before, competitive activity in this market waxes and wanes. We did ask the banana question. Yes bananas are currently one of the key fighting grounds. But it is all the same money being spent in different ways. This is a competitive market. We have periods where it gets a little bit more ferocious, usually followed by periods where everyone consolidates a bit and adds back up. Bananas in themselves are particularly ferocious, but it is only bananas. I think the last time it was bananas we had milk, bacon and eggs as well at the same time as I recall, but that was about three years ago. So it is part of the cut and thrust of the market I would say.

John

Okay that is much appreciated.

Justin King

Okay, I think that was the last question. Thanks very much. Obviously this is one of those times when we will see you again quite soon. So see you for the Interims in six weeks time. Thanks.

End