J Sainsbury plc

Annual Report and Financial Statements 2016

Our values make us different

There for our customers

Colleagues making the difference

Great products and services at fair prices

We know our customers better than anyone else

Sainsbury's
live well for less

Our vision

To be the most trusted retailer where people love to work and shop.

Our goal

To make all our customers' lives easier every day by offering great quality and service at fair prices.

How we do it

Our strategy is designed to address a changing marketplace and the continuing shifts in customer shopping patterns.

It is based on five key pillars:

- **We know our customers better than anyone else**
- **Great products and services at fair prices**
- **There for our customers**
- **Colleagues making the difference**
- **Our values make us different**

Read more in our Strategic Report.

Contents

Strategic Report

Governance Report

Financial Statements

Find out more at
j-sainsbury.co.uk/ar16

Financial highlights

16.5%
Market share maintained

£587m
Underlying profit before tax
Down 13.8%

£548m
Statutory profit before tax

+0.4%
Total retail sales
(including VAT, excluding fuel)

-0.9%
Like-for-like retail sales
(including VAT, excluding fuel)

12.1p
Full-year dividend per share
Down 8.3%

23.9p
Basic earnings per share

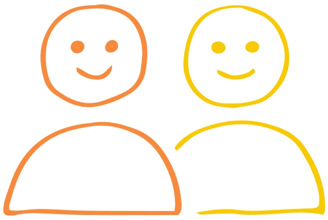
8.8%
Return on capital employed
Down 88 bps

24.2p
Underlying basic earnings per share
Down 8.3%

Business model

How we are organised to grow value for our shareholders

Colleagues making the difference



27,805 colleagues with over 15 years' service

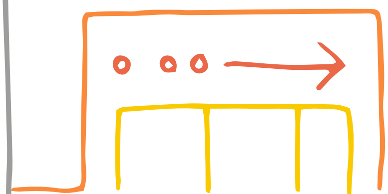
Suppliers and sourcing

Around 2,000 food suppliers and 1,000 non-food suppliers

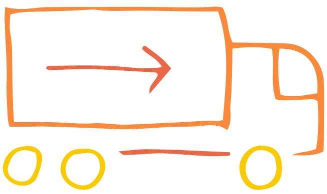
5 International sourcing offices

Logistics

23 depots

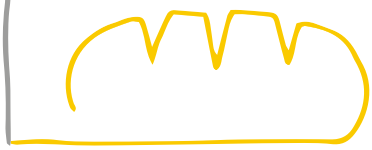


1.2 million store deliveries this year



Great products and services at fair prices

Over 15,000 own-brand products



There for our customers

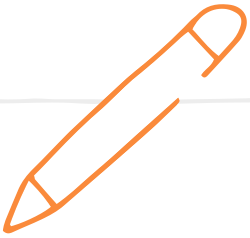
773 Convenience stores

Our values make us different

1 Living healthier lives

2 Sourcing with integrity

3 Respect for our environment



8
training colleges
for our colleagues

162,715
colleagues

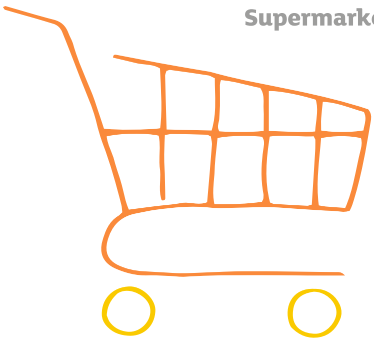
1,646
ATMs

207
Travel Money
bureaux

439 stores
sell clothing
and general
merchandise

Over 247,000
online orders
on average
per week

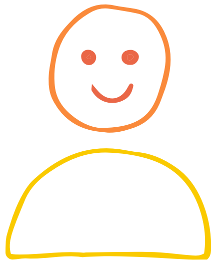
601
Supermarkets



4
Making a positive difference to our community

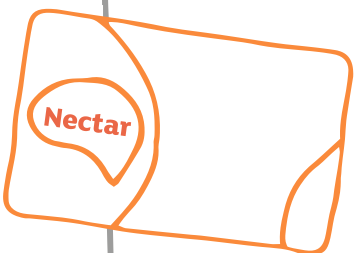
5
A great place to work

We know our customers better than anyone else



25.5 million
transactions
per week

Around 4,000
people contacted
online each
week through
'Trolley Talk'



Over 15 million
Nectar card
customers

> Our strategy is built on the fundamental strengths of our business of great heritage, quality food at fair prices and strong values
>
> **DAVID TYLER**
> SAINSBURY'S CHAIRMAN

Maintained market share at

16.5%

12.1p

Proposed full-year dividend, down 8.3%

Adapting to a changing marketplace

Chairman's Letter

Your Board remains focused on building shareholder value and we are confident that by following our strategy, driving efficiencies and managing costs carefully, we will achieve this.

Our strategy is built on the fundamental strengths of our business: our great heritage, quality food at fair prices and strong values. It recognises that customers will increasingly shop through multiple channels and according to their varying needs. Our business will continue to adapt to changing shopping needs, ensuring that we exceed customer expectations in a fast-paced, digital world.

The UK retail sector is evolving rapidly in line with changing consumer behaviour. People are shopping more often and are buying fewer items on a typical trip. Furthermore, customers are seeking greater choice, speed and convenience, as well as high levels of service, however they choose to shop. The grocery market continues to experience price competition and food price deflation, and the growth of discount retailers and new online entrants to the market have changed the competitive landscape. In these conditions, it is clear that grocery retailers must adapt to stay ahead.

Like-for-like sales have declined this year as a result of pricing pressures and food price deflation. Underlying profit before tax was down nearly 14 per cent to £587 million, underlying basic earnings per share was down just over eight per cent to 24.2 pence and return on capital employed declined 88 basis points year-on-year to 8.8 per cent. However, the strategy we outlined 18 months ago is working and we are currently the best-performing of our main supermarket peers, growing volumes and maintaining market share.

Accelerating our strategy

The most significant event this year has been your Board's proposal to acquire Home Retail Group plc, owners of the Argos retail chain. The combination of Argos with Sainsbury's will create a leading food and non-food retailer. It provides us with an opportunity to accelerate our strategy, delivering compelling revenue and cost synergies. We will create a multi-product, multi-channel proposition with fast delivery networks which will be very attractive to customers. We are pleased that the Board of Home Retail Group plc has recommended our offer to its shareholders, and our focus is now to obtain the necessary regulatory clearances and prepare for the future integration of our two businesses.

Dividend

Your Board remains focused on building shareholder value and we are confident that by following our strategy, driving efficiencies and managing costs carefully, we will achieve this. We are committed to paying an affordable dividend to our shareholders and have fixed dividend cover at 2.0 times. We are therefore recommending a final dividend of 8.1 pence per share this year, making the proposed full-year dividend 12.1 pence per share.

Management and colleagues

Mike Coupe leads a highly talented and experienced management team and we have over 162,000 colleagues. The commitment, skills and customer service standards our colleagues deliver make the difference.

In August, we announced a four per cent pay increase for 137,000 colleagues who work in our stores across the country. Our new standard hourly rate is well above the Government's National Living Wage and will also apply to around 40,000 colleagues under the age of 25. In addition, nearly 126,000 colleagues and management will share a bonus of around £100 million in recognition of their hard work during the year.

At our AGM on 6 July 2016, John McAdam, Senior Independent Director, will step down after ten years as a Non-Executive Director. I would like to thank John for his very valuable contribution to Sainsbury's, in particular for his counsel in his role as Senior Independent Director. Susan Rice, who has been a valued member of the Board since 2013, will succeed John as Senior Independent Director.

Brian Cassin, CEO of global information services company Experian plc, joined the Board as a Non-Executive Director on 1 April 2016 and will be a member of the Audit Committee and the Nomination Committee. Brian brings to us his experience of running a FTSE 40 company and of big data and analytics – topics of key importance to Sainsbury's.

Outlook

The UK grocery market will remain competitive. The growth of the discount retailers, food price deflation, ongoing price competition and the continuing pressure on consumer expenditure look set to continue throughout 2016. However, we have a business that is well-placed to navigate this tough trading climate and we have significant opportunities to grow our business and accelerate our strategy.

David Tyler

David Tyler
Chairman

Our values underpin all that we do

"We have won a significant number of customer service awards this year, testament to the fact that our colleagues really do make a difference

MIKE COUPE
SAINSBURY'S CEO

Our vision

To be the most trusted retailer where people love to work and shop

£587m

Underlying profit before tax

Down 13.8%

Volume and transaction growth

Chief Executive's Letter

We have made good progress this year, demonstrating that the strategy we outlined to you 18 months ago is delivering results. We outperformed our main supermarket peers and maintained our market share in a competitive environment.

Our vision is to be the most trusted retailer where people love to work and shop and it is our goal to make our customers' lives easier. We have made good progress this year, demonstrating that the strategy we outlined to you 18 months ago is delivering results. We outperformed our main supermarket peers and maintained our market share in a competitive environment.

Our continued focus on making Sainsbury's a place where customers love to shop is making a difference. Investment in lower regular prices and a commitment to delivering great quality products and services are driving an increase in customer transactions at Sainsbury's, with people buying more of our products this year. Our core food offering has performed well and non-food is showing real strength, with clothing, general merchandise and financial services delivering significant growth over the past 12 months. In addition, the investment we have made in our shopping channels means that people have even more choice now about where and when they choose to shop with us.

We have a robust balance sheet and we continue to manage carefully our costs and capital expenditure. After making operating cost savings of £225 million this year, we are on track to deliver £500 million over three years by the end of 2017/18. Ongoing pricing pressures and food price deflation continue to impact our sales and our operating margins. As a result, underlying profit and earnings per share are down this year versus last year.

Strategic progress

Our vision and the five pillars of our strategy are designed to address a changing marketplace and the continuing shifts in the way people shop. They are embedded across the business and delivering tangible results.

We know our customers better than anyone else

Customers are at the heart of our business and our success and future growth is based on being able to anticipate and then deliver to their needs. Customer insight informs the decisions we make; for example, customers told us they wanted pricing to be simpler and clearer, so we have replaced many of our promotions, multi-buys and Brand Match with lower regular prices on the products that really matter to them. This has been well received and has helped drive significant increases in the number of transactions through our tills and the volume of products we sell.

Great products and services at fair prices

Our commitment to deliver great quality products and services at fair prices for our customers across food, non-food and financial services is a business priority. We are continuing at pace with our programme to improve the quality of 3,000 of our most popular own-brand food lines and we are a market leader in delivering nutritious, healthy food for our customers.

This year we have simplified many of our ranges, to focus on selling the products we know are loved most by customers. We will continue to make targeted investment to remain competitive on price. The quality and variety of the products we offer is a point of difference for us and we will continue to make sure customers have choice across all price tiers. Our clothing, general merchandise and financial services businesses are now firmly established and performing well, and have significant opportunities for further growth.

There for our customers

We are making our customers' lives easier by offering them choice and convenience. Our multi-channel strategy means that customers can shop with us whenever and wherever they want. For example, people often choose to go to our convenience stores to top up on a few items and then order their bulk shopping online for later delivery. Groceries Online continues to be a growing channel, with sales this year up nearly nine per cent and orders up nearly 15 per cent. Click & Collect is also popular with customers, and we will expand the service to double our 101 current locations next year. Convenience now generates sales of over £2.3 billion. We opened 69 convenience stores during the year and delivered over nine per cent convenience sales growth.

Colleagues making the difference

We want Sainsbury's to be a place where colleagues love to work. We have always put our colleagues at the centre of our business and we have built a culture of inspiring leadership and committed colleagues. I am proud of the strong loyalty within our workforce, with nearly 28,000 colleagues having worked at Sainsbury's for 15 years or more.

We have won a significant number of awards this year, including the industry-leading Grocer Gold Customer Service and Availability Awards for the third year running. We were named Grocer 33 Store of the Week 19 times in the year, the highest of any grocer.

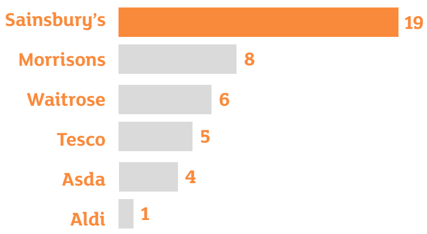
In August, we announced a four per cent pay increase for 137,000 colleagues who work in our stores across the country. Our new standard hourly rate is well above the Government's National Living Wage and will also apply to around 40,000 colleagues under the age of 25.

Groceries Online

is growing and sales increased nearly 9%

Service & Availability leader

Grocer 33 Service & Availability wins



Source: The Grocer 33 Service & Availability wins year-to-date 2015/16

Our values make us different

Our values are our guiding principles, from where we source our products and how we work in our local communities to reducing our carbon footprint across our estate. This year we have evolved our Sustainability Plan to focus on the most material issues. For example, waste, and in particular food waste, is one of the most important issues facing us all today. We are committed to helping our customers with this issue and to making a radical difference across UK households. This year we launched our ambitious Waste less, Save more initiative, to invest £10 million over the next five years to help households reduce their food waste.

Accelerating our strategy

As shopping patterns continue to change, and consumers increasingly expect more from retailers, we are committed to building on our strengths and have an opportunity to accelerate our strategy.

Our proposal to acquire Home Retail Group plc, owners of the Argos retail chain, will enable us to accelerate our strategy. The acquisition presents an opportunity to bring together two of the UK's leading retail businesses, with complementary product offers, focused on delivering quality products and services at fair prices. It also allows us to create a multi-product, multi-channel proposition with fast delivery networks and will additionally deliver compelling revenue and cost synergies. We believe that the combination of Home Retail Group and Sainsbury's is a powerful one that will create long-term value for the shareholders of both companies.

> "The staff at Sainsbury's are great, our local store has brilliant colleagues, you can always rely on them for help
>
> **SAINSBURY'S CUSTOMER**
> EAST MIDLANDS

Outlook

The market is competitive and it will remain so for the foreseeable future. We believe we are following the right strategy and are taking the right decisions to achieve our vision to be the most trusted retailer where people love to work and shop. Customers enjoy shopping at Sainsbury's for our great quality products, service and our fair prices. Our general merchandise and clothing businesses offer growth opportunities and Sainsbury's Bank offers innovative, good value products and services from a brand they trust.

Mike Coupe
CEO

Our Business Strategy

The five pillars of our strategy

We know our customers better than anyone else

- Leading customer insights
- Informed decisions
- Reward & loyalty

Read more on p14

Great products and services at fair prices

- Quality leader
- Strong value proposition
- Growth opportunities in non-food and services

Read more on p16

There for our customers

- A competitively advantaged supermarket portfolio
- Convenience store network growth
- Developing our Groceries Online channel

Read more on p20

Colleagues making the difference

- Delivering great customer service
- Commitment to diversity and inclusion

Read more on p24

Our values make us different

- Living healthier lives
- Sourcing with integrity
- Respect for our environment
- Making a positive difference to our community
- A great place to work

Read more on p26

Financial KPIs

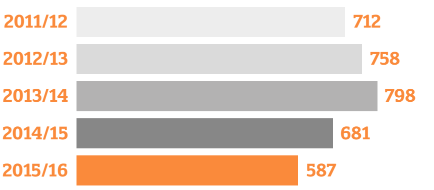
Financial key performance indicators are critical to understanding and measuring our financial health.

Group measures

Underlying profit before tax

Definition: Profit before tax before any profit or loss on the disposal of properties, investment property fair value movements, retail financing fair value movements, impairment of goodwill, IAS 19 pension financing element and defined benefit pension scheme expenses, acquisition adjustments and one-off items that are material and infrequent in nature, but after the coupons on perpetual securities

Underlying profit before tax (£m)

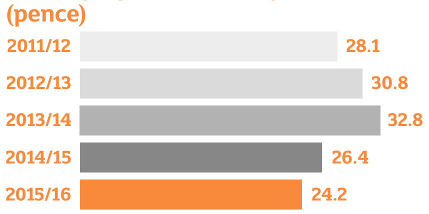


2012/13 restated for changes to IAS 19, prior years not restated

Underlying basic earnings per share

Definition: Underlying profit net of attributable taxation divided by the weighted average number of ordinary shares in issue during the year, excluding those held by the Employee Share Ownership Plan trusts, which are treated as cancelled

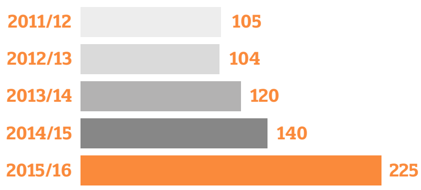
Underlying basic earnings per share (pence)



Cost savings

Definition: Excludes Sainsbury's Bank and represents cost reductions as a result of identified initiatives

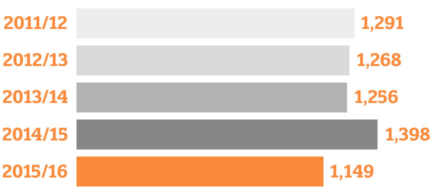
Cost savings (£m)



Retail operating cash flow

Definition: Retail cash generated from operations after changes in working capital

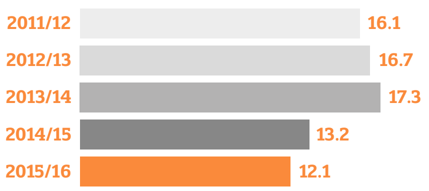
Retail operating cash flow (£m)



Dividend per share

Definition: Total proposed dividend per share in relation to the financial year

Dividend per share (pence)



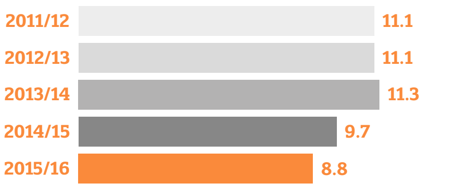
Maintaining balance sheet strength

Pre-tax return on capital employed
Definition: Underlying profit before interest, and tax, divided by the average of opening and closing capital employed (net assets before net debt)

Gearing
Definition: Net debt divided by net assets

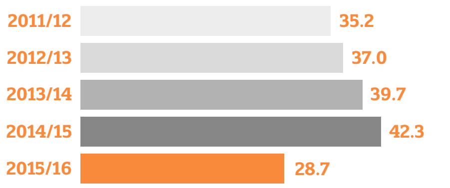
Lease adjusted net debt/underlying EBITDAR
Definition: Net debt plus capitalised lease obligations (5.5 per cent discount rate) divided by Group underlying EBITDAR

Pre-tax return on capital employed (%)



2013/14 closing capital employed has been adjusted to remove 50 per cent of Sainsbury's Bank net assets

Gearing (%)



2015/16 has been displayed with the perpetual securities accounted for as equity. If treated as debt, gearing is 39.5 per cent

Lease adjusted net debt/underlying EBITDAR

2011/12 not restated for effects of IAS 19 or to reflect changes in disclosure of lease lengths beyond five years2015/16 has been displayed with the perpetual securities accounted for as equity. If treated as debt, lease adjusted net debt/underlying EBITDAR is 4.3 times

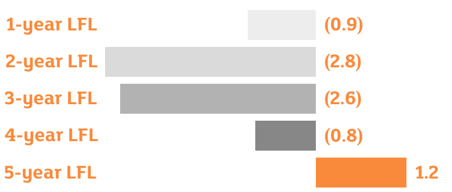
Retail

Like-for-like sales
Definition: Year-on-year growth in sales including VAT, excluding fuel, excluding Sainsbury's Bank, for stores that have been open for more than one year

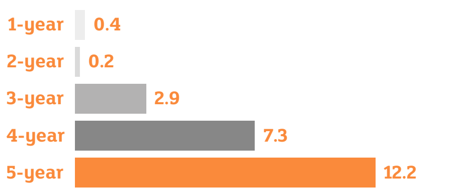
Retail sales growth
Definition: Year-on-year growth in sales including VAT, excluding fuel, excluding Sainsbury's Bank

Retail underlying EBITDAR margin
Definition: Underlying profit before tax before underlying net finance costs, underlying share of post-tax results from joint ventures, depreciation, amortisation and rent, divided by sales excluding VAT, including fuel, excluding Sainsbury's Bank

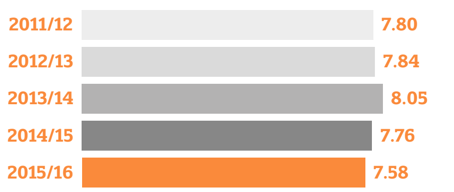
Like-for-like sales 2015/16 (%)



Retail sales growth 2015/16 (%)



Retail underlying EBITDAR margin (%)



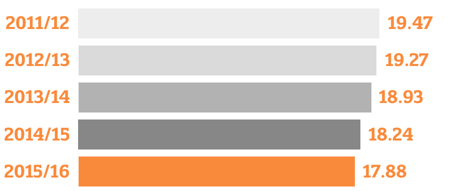
2012/13 restated for changes to IAS 19, prior years not restated

Trading intensity per square foot
Definition: Sales per week (including VAT, excluding fuel, excluding Sainsbury's Bank) divided by sales area

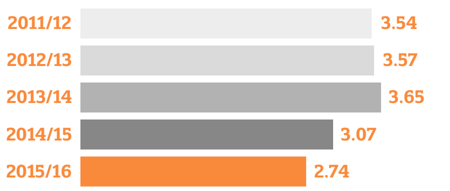
Retail underlying operating margin
Definition: Underlying profit before tax, underlying net finance costs and underlying share of post-tax results from joint ventures, divided by retail sales excluding VAT, including fuel, excluding Sainsbury's Bank

Core retail capital expenditure
Definition: Capital expenditure excluding Sainsbury's Bank and before proceeds from sale and leasebacks and capital relating to the acquisition of freehold and trading properties

Trading intensity per sq ft (£ per week)

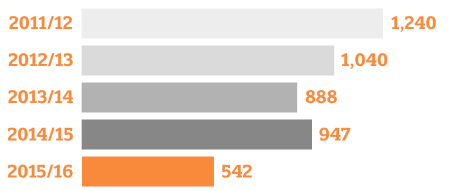


Retail underlying operating margin (%)



2012/13 restated for changes to IAS 19, prior years not restated

Core retail capital expenditure (£m)



Market context

The UK food retail market is changing rapidly. We will continue to adapt to reflect evolving customer needs.

1. The Market

2. Shopping habits

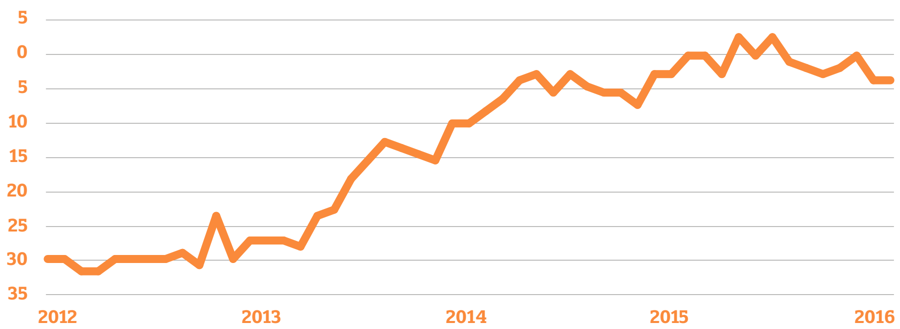
3. Future retail trends

The market

Over the last two years, UK household disposable incomes have continued to rise thanks to wage growth coupled with falling fuel and food prices. The food retail sector has yet to benefit from this growth, as consumers are choosing to spend their discretionary income on items that they gave up during the recession such as holidays and eating out. In recent months, as deflation gradually eases and pay growth stabilises, there have been signs that household income growth is slowing.

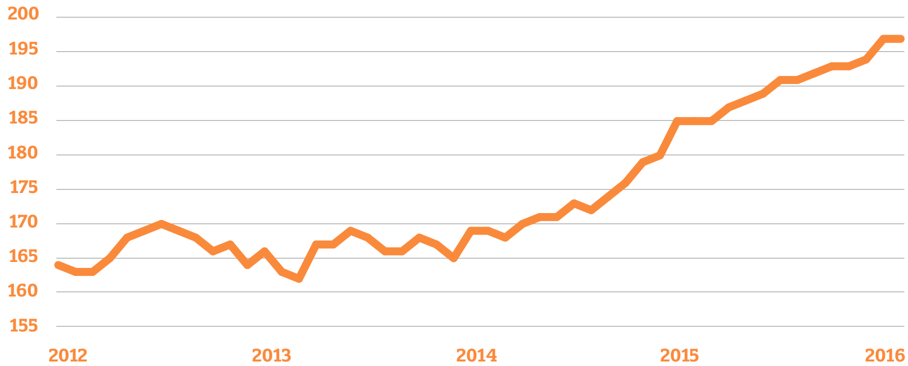
The grocery sector has experiencied sustained food price deflation for nearly two years, driven in part by lower commodity prices, and in part by the competitive pricing environment. The continued expansion of the discount retailers, offering a limited number of products at low prices, has forced the established grocery retailers to cut their prices and tailor their offer. Food price deflation has eased slightly in recent months and we anticipate macro-economic factors will eventually lead to the return of food inflation. There are also encouraging signs in volume growth with customers buying more items than previously, albeit not enough to offset the deflationary effects.

Customer confidence
Index score



Source: GfK Consumer Confidence Index

Average UK household discretionary income
£ per week



Source: CEBR

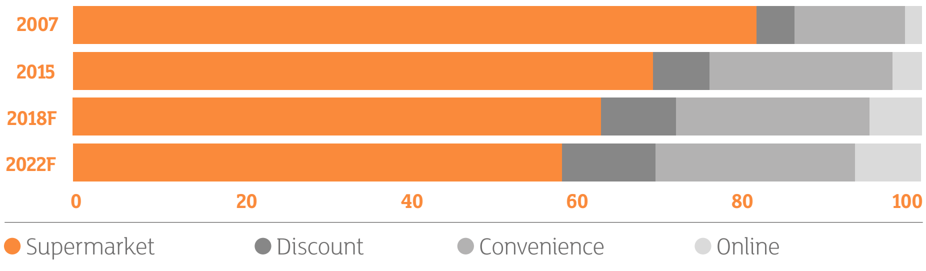
Shopping habits

Shopping habits are evolving with customers choosing to buy their groceries more frequently and from the broader range of channels now available to them. We expect volumes will continue to reduce in the supermarket channel as consumers shop more often in convenience stores, online and with discount retailers. However, we anticipate the supermarket will remain the most popular destination for customers. It is therefore important that this channel adapts to reflect and meet changing customer needs. With conflicting demands and increasingly busy lifestyles, consumers are seeking greater convenience in their shopping missions. Grocery retailers need to respond to this by offering them greater flexibility in how they shop and making it easier for them to buy the products they need whenever and wherever they want, whilst enjoying great value.

Future retail trends

The UK food retail landscape is changing rapidly. The disruptive impact of technology is empowering customers and heightening their expectations of how retailers will serve them in the future. Customers are increasingly developing deeper relationships with retailers, sharing a greater amount of data and insight about their purchases as part of more sophisticated loyalty programmes. The grocery retailers in particular have an unrivalled insight into the weekly shopping habits of customers and will need to invest in customer insight tools to anticipate and better serve changing customer needs. In addition, the rise of the smart phone and increased levels of connectivity are enabling customers to research easily any planned purchase online.

Grocery market channel share 2007–22F
(% of market)



Source: Company estimates

The transaction may then take place either in store or online, with a range of delivery options: in store, to home, or Click & Collect. Grocery retailers are again uniquely positioned to serve customers in all of these ways. As customer shopping habits evolve as a result of these new retail capabilities so too will their expectations. Those food retailers that will be successful in the future will need to develop new technologies increasing the speed, flexibility and convenience of their offer.

> **"The market is competitive and it will remain so for the forseeable future**
>
> **MIKE COUPE**
> SAINSBURY'S CEO

The broad range of channels now on offer enables customers to shop whenever and wherever they want

We know our customers better than anyone else

Understanding our customers is essential to achieving our goal to be the most trusted retailer where people love to work and shop. Our customer insights inform the decisions we make each day.

A key source of customer insight is our Nectar loyalty scheme. This not only helps us to know our customers better than anyone else, but also enables us to tell our customers about products and services that are most relevant to them.

During the year we introduced a new customer database system that gives us a more holistic view of our customers, resulting in an even better understanding of our customers, allowing us to meet their needs in a personalised and more effective way. We consult with our customers regularly in a number of different ways. We launched our online consumer panel, Trolley Talk, 18 months ago through which we talk to 4,000 customers every week on a range of issues. The insight we gain from these conversations helps us to make the right strategic decisions.

We conducted considerable research with our customers on pricing. They told us that multi-buy promotions do not meet their shopping needs today and that they were confusing, creating storage challenges in the home and unnecessary waste. This led us to simplify our pricing, reducing prices on hundreds of lines across our grocery ranges in favour of lower regular prices. We will be the first major retailer in the UK to remove multi-buy promotions across the vast majority of our grocery business by August 2016.

This year we are replacing our Brand Match scheme with lower regular prices. All the money from the scheme will be reinvested into lowering the price of popular products. We will continue to monitor the prices of branded products to ensure we remain competitive, and offer customers great value.

Since we introduced this simpler pricing strategy our price satisfaction scores have increased[1] and we have seen growth in volumes and transactions.

Similarly, we asked thousands of customers what was important to them about Christmas, and we developed our award-winning '*Christmas is for Sharing*' campaign, featuring Mog the Cat. It was deemed the most popular Christmas advertising campaign in terms of online views and by industry experts. Mog's Christmas Calamity book topped the UK book charts for four weeks and, together with author Judith Kerr and publisher Harper Collins, we donated more than £1.5 million to Save the Children to support their literacy campaign in the UK.

Our Nectar loyalty scheme is another key source of customer insight. Over 15 million Nectar card holders shop with us in stores, online and with Sainsbury's Bank. We can reward them for their loyalty across our different products and services. Bonus point events, such as *Nectar Double-Up, Swipe and Win* and *10x Nectar points on fuel*, are extremely popular with more customers participating every year.

Our *Little Twists* campaign inspired many of our customers to break from their routine and give everyday dishes a delicious new twist, such as adding horseradish to macaroni cheese and ginger beer to a traditional roast lamb.

1. CSI – Customer Satisfaction Tracking for superstores 2015/16

Knowing our customers helps us to serve them better

Leading customer insights

Reward & loyalty

“My local store stocks a wide variety of products and I can usually get everything I want

SAINSBURY'S CUSTOMER
WEST MIDLANDS

Effective campaigns

#LittleTwists - Add ginger beer to your lamb for a twist on your favourite roast

Great products and services at fair prices

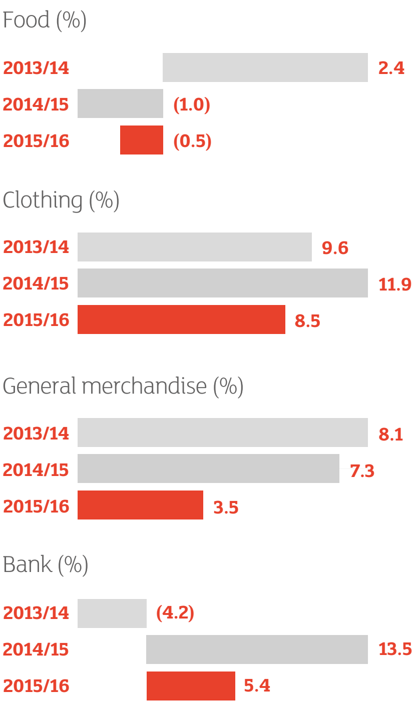
Our customers trust us to deliver great quality at fair prices across all of our products and services. Our commitment to deliver on this is at the heart of our strategy.

Sales growth by area

Food is our core business but growing non-food is an important part of our strategy. Our customers value greater choice and there is a firm correlation between increased loyalty and spend across our whole offer when customers buy into non-food.

Definition: Year-on-year growth of total sales, including VAT.

Sales growth by area



Leading on quality

The quality, range and provenance of our food differentiates us from our competitors and we continue to lead on quality perception[1]. This year we have tailored many of our ranges, focusing on the products that we know are loved by customers. The depth and variety of the product ranges we offer is a point of difference for us and we will continue to make sure customers have choice across all price tiers.

We are investing in further improving the quality of 3,000 own-brand products. During the year we improved the quality of around 70 of our own-brand fish lines, pairing our fish with delicious new sauces and butters and introducing innovative vacuum pack technology that helps to improve freshness and reduce waste. Our commitment to responsible sourcing remains of critical importance to us; we are the UK's biggest retailer of Marine Stewardship Council (MSC) certified seafood for the sixth consecutive year. We have over 180 MSC-labelled products, more than twice as many as any other UK retailer.

We also improved our in-store bakery products, and expanded our core *by* Sainsbury's bread range. Our new *Taste the Difference* loaves are freshly baked in-store every day and we have added artisan breads made from grains such as spelt, rye and quinoa to the range.

The provenance of our ingredients is important to our customers, and the vast majority of wheat we use is sourced from the UK.

We are focused on offering our customers nutritious, tasty food with a wide choice of healthy meal options. This year we launched 19 new lines in our *My Goodness!* range including four innovative raw fish products that are steam-cooked in the pack when microwaved, ensuring a fresh, tasty result. We continue to reformulate the sugar, salt and saturated fat content of our own-brand products to make them healthier, and in each of the past two years we have removed more than 2,370 tonnes of sugar from our own-brand soft drinks.

Our own-brand ranges account for around half of our food sales. Our premium *Taste the Difference* range grew volumes by nearly two per cent and continues to gain industry recognition, voted the Best Supermarket Range by the Good Housekeeping Institute for the third year running.

1. HPI Brand & Communications Tracker – National sample data of Sainsbury's customers between 2014 and 2016

Investing in the quality of 3,000 own-brand products

Innovative new options

Commitment to responsible sourcing

“

Sainsbury’s offers a lot of low sugar alternatives and they advertise clearly how much sugar is in each product per serving which is very helpful. It helps me to make better food choices

SAINSBURY’S CUSTOMER
SOUTH EAST

Great products and services at fair prices

Like-for-like transactions

The structural change in the market means that customers have more choice than ever when it comes to doing their grocery shopping. This means that like-for-like transactions are at risk and we need to ensure that we execute our strategy effectively. Customers will then continue to see that we offer great products at great prices.

Definition: Year-on-year growth in transactions from stores that have been open for at least a year.

Like-for-like transactions (%)

2013/14	(0.1)
2014/15	0
2015/16	0.3

Product quality

We know customers value quality when deciding where to shop and it is therefore important for us to be ranked above our peers in relation to the quality perception of our brand.

Definition: Our rank based on a sample of approximately 1,000 consumers who rated product quality of each of the following brands: Sainsbury's, Tesco, Morrisons and Asda.

2013/14	2014/15	2015/16
1st	1st	1st

HPI Brand & Communications Tracker

Price perception

Our new pricing strategy of lower regular prices reassures customers that they can always get a good price on and off promotion.

Definition: Our rank based on a sample of approximately 1,000 consumers who rated value of each of the following brands: Sainsbury's, Tesco, Morrisons and Asda.

2013/14	2014/15	2015/16
4th	4th	4th

HPI Brand & Communications Tracker

Strong value proposition

We offer customers lower regular prices helping them to *Live Well for Less*

Strong value proposition

At Sainsbury's we offer customers a strong value proposition that helps them to *Live Well for Less*. As well as improving the quality of our food we have also invested in our prices. Our price satisfaction scores have increased again this year[2] and our investment in lower regular prices is driving volume and transaction growth, making us the only one of our main supermarket peers to maintain market share this year.

We have simplified our trading strategy in favour of lower regular prices, and reduced the number of promotions. By the summer we will have phased out the vast majority of multi-buy promotions.

Growth opportunities in clothing, general merchandise and financial services

We have seen strong growth in our clothing and general merchandise businesses this year, both in stores and online as we continue to invest in our ranges to give our customers high street style at supermarket prices. Our strategy for growth focuses on increasing our non-food ranges in stores, and growing our *Tu* online business, alongside changing visual merchandising more frequently and emphasising our quality and design-led approach.

Clothing

Our clothing business is well-established and we continue to increase sales and market share across womenswear, menswear, childrenswear and lingerie. Our *Tu* clothing brand is now the UK's sixth largest clothing retailer by volume and tenth largest by value[3]. Our talented in-house design teams source good quality, fashionable clothing, and our long-standing partnership with Gok Wan and the more recent collaboration with the Admiral men's sportswear brand are proving popular with our customers. We are one of the UK's biggest retailers of dressing-up outfits for children, and we had great success in the run-up to Halloween, Christmas and World Book Day with strong growth across all these events. We launched *Tu* online nationwide in August 2015, giving our customers access to our full clothing offer. This channel is proving popular, and the majority of customers collect their orders from more than 700 in-store collection points.

2. CSI – Customer Satisfaction Tracking for superstores 2015/16
3. Kantar Worldpanel for the 52 weeks to 28th February 2016

General merchandise

We have a general merchandise business of scale, comprising homeware, cookware, small domestic appliances, toys, books, stationery and entertainment ranges. This is a strong area of growth for us and we have increased our market share across all categories. We now design more than half our ranges in-house and offer customers new products more often. Events including Halloween and Christmas enabled us to grow sales this year as we invested in our ranges and the presence given to these occasions in store.

Sainsbury's Entertainment

Our on demand online music site was re-launched in January 2016, giving customers a one stop shop for eBooks, magazines and now music. The site offers customers more music choice than ever before, with over 20 million tracks and 2.5 million albums available for download as high quality MP3s.

Financial Services

Sainsbury's Bank offers customers innovative, good value products and services. Underlying profit this year was up nearly five per cent to £65 million. Total income was up over five per cent to £274 million.

Total accounts held by customers now stand at nearly 1.7 million. We performed strongly in the competitive personal loans market, with 15 per cent year-on-year growth in the number of advances to new customers. The Bank's portfolio of insurance products continued to perform well resulting in new business growth of over ten per cent year-on-year. This year we saw a particularly strong performance in home insurance where sales of new policies increased by more than 25 per cent year-on-year. The Bank also introduced a double Nectar points offer to new Travel Insurance customers taking out an Annual Trip policy which, in its first month, resulted in a ten per cent uplift in sales year-on-year. We now have 207 Travel Money bureaux and have enjoyed a strong performance in this area, with a 30 per cent increase in transactions year-on-year.

The Bank's free-to-use ATM estate grew by over four per cent to 1,646, ATM transactions grew by nearly two per cent year-on-year to nearly 240 million and £1 of every £11 dispensed from a LINK ATM transaction is from Sainsbury's Bank.

Given the Bank's strong trading performance and the trust people have in the Sainsbury's brand, we have decided to launch new mortgage products in 2017. We believe these products will complement our existing financial services portfolio and we expect customers to respond well.

Growth opportunities

in clothing, general merchandise and financial services

Against a backdrop of other credit card providers reducing or removing rewards from their products, Sainsbury's Bank has maintained its Nectar loyalty reward as well as increasing points offers (for a limited period) to new card customers.

The Bank Transition Programme to move to a new, more flexible banking platform continues to progress and this year we took delivery of the new technology platform, which is a key milestone in building a standalone bank and creating long-term shareholder value. Although the build of the platform is materially complete, testing continues and we plan to migrate savings customers by late summer 2016. The migration of cards and loans customers is currently being re-planned, particularly in the light of the Group's potential acquisition of Home Retail Group plc. We expect transition costs to remain at the top of the £340 million to £380 million range.

Pharmacy

In July 2015, we announced a strategic partnership that will see LloydsPharmacy acquire Sainsbury's pharmacy business for £125 million. In addition, we will receive commercial annual rent payments from LloydsPharmacy for each of the 277 in-store pharmacies. The Competition and Markets Authority is currently undergoing the final stages of a phase two regulatory review. Provisional findings announced in April 2016 found that Celesio may have to sell pharmacies in 13 areas of England and Wales. The final outcome and completion of the deal are expected in the summer of 2016.

Mobile *by* Sainsbury's

Our joint venture with Vodafone ceased to operate in January. We know that mobile is important to our customers and we are looking at other network options. Customers can still buy phones and accessories and access other mobile operator contracts and pay as you go options online and in our 38 Phone Shops.

Alibaba

In September 2015 we began a partnership with the Alibaba Group, becoming the first UK grocer to export goods to China through Tmall Global, Alibaba's online store.

There for our customers

Shopping behaviour is changing and our customers have responded well to the choice and flexibility we offer across our supermarket, convenience and online businesses.

People increasingly want the flexibility to shop in a number of different ways and we have developed our multi-channel strategy to make it easier for them to shop with us whenever and wherever they want.

601

We have 601 supermarkets and 773 convenience stores

Customer shopping behaviour is changing, driven by competitive dynamics and the growth of technology. People increasingly want the flexibility to shop in a number of different ways and we have developed our multi-channel strategy to make it easy for them to shop with us whenever and wherever they want.

Supermarkets

Supermarkets represent our biggest source of turnover and we now trade in 601 supermarkets across the UK. In the financial year we opened six stores including two replacements, and also refurbished seven supermarkets.

Given the size and locations of our stores, we have a structurally advantaged estate which enables us to meet our customers' varied and changing shopping needs. Around a quarter of our stores will have some under-utilised space over the next five years. This space is being used to extend our clothing and general merchandise offer to more of our stores, as well as widening the existing selection in stores that already sell non-food ranges. A comprehensive non-food range is now available in 439 of our supermarkets so there are significant opportunities to expand into more stores to reach more customers.

The remaining excess space is being used to enhance customer choice and convenience with carefully selected concession partners such as Argos, Timpsons, Centre for Dentistry and Explore Learning. In this way we are giving customers increased choice, achieving the best use of our supermarket space, and making our stores destination shopping locations.

With customer shopping patterns continuing to change, we believe there is great potential in tailoring our store formats and product ranges to meet evolving needs. We have been trialling new formats in our supermarkets, testing different store layouts to cater for a wider range of shopping missions. As part of this trial we are reviewing how we can offer customers easier and quicker ways to shop, checkout and pay in our stores.

The estimated market value of properties, including our 50 per cent share of properties held within property joint ventures, is £10.6 billion. The £0.5 billion decrease during the year was mainly due to a reduction in market rental values and a yield movement. We are maximising the value of our property assets by working with joint venture partners to develop new leisure, residential and commercial opportunities while also adding trading space to our estate. Our £500 million development at Nine Elms will launch in 2016/17 with a new Sainsbury's supermarket, 730 homes and shops and offices. We are also developing plans for replacement stores at Whitechapel and Ilford which will provide 1,240 homes and new jobs.

Our supermarket stores are the right size and in the right locations

Making the best use of our supermarket space

Trials of new formats in selected stores

Concessions give customers even more choice and convenience

“

I can shop online and, where I live, there is a superstore and brilliantly sized convenience store. This gives me all the options I need to make my life easier

SAINSBURY'S CUSTOMER
SOUTH EAST

There for our customers

We are investing in the right infrastructure to support the growth of our business and to help us serve our customers better. We operate 23 distribution centres to service our supermarkets, convenience stores and online businesses. We opened a new one million sq ft general merchandise depot at Daventry International Rail Freight Terminal, potentially creating 900 jobs and upgraded our Basingstoke distribution centre.

Convenience

Customers increasingly top up their shopping locally and our convenience store business generates sales of over £2.3 billion. Our convenience business delivered over nine per cent sales growth during the year despite the business being impacted by a higher proportion of categories that are experiencing food price deflation. We have taken a disciplined approach to new space this year, opening 69 convenience stores and by the end of the year we traded out of 773 convenience stores.

We are trialling new convenience formats, both smaller and larger than our standard convenience stores. Our new 'micro' 753 sq ft store in Richmond is the smallest Sainsbury's Local to date, and it is designed to meet the needs of people working in the area who want to buy 'food for now'.

We were delighted to be named Convenience Retailer of the Year for the sixth consecutive year at the Retail Industry Awards.

"Sainsbury's has good opening hours, lots of conveniently located stores, plenty of self-checkouts and a good online shopping service

SAINSBURY'S CUSTOMER
LONDON

69
New Local stores opened this year

Convenience stores

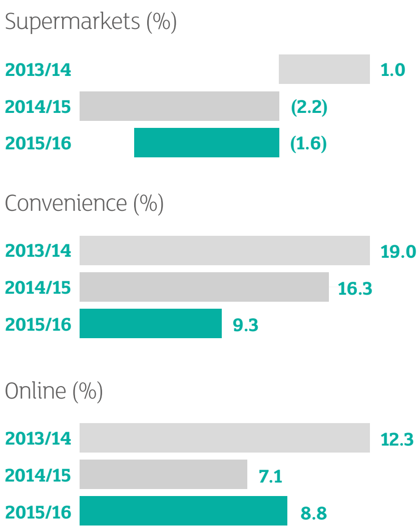
Convenience now generates sales of over £2.3 billion. Sales grew over 9%

Our new Micro Convenience store opened in Richmond in March

Sales growth by area
Customers are choosing to shop across channels and are using convenience and online more frequently, leading to a decline in supermarket sales.
It is therefore important that we invest strategically so that we can serve our customers whenever and wherever they want.

Definition: Year-on-year growth of total sales, including VAT, excluding fuel.

Sales growth by channel



Multi-channel

We have developed our multi-channel strategy to make it easy for customers to shop with us

Online, Click & Collect

Online orders grew by nearly 15% and we will double our Click & Collect sites next year

Online

Our online business continues to grow, across both food and clothing. Groceries Online grew by nearly nine per cent with orders increasing by nearly 15 per cent. We had a record week in the run up to Christmas, delivering over 289,000 orders, both to customers' homes and to the 101 grocery Click & Collect sites we have opened at our stores across the country. These sites have proved to be popular with our customers and we are aiming to double the number of Click & Collect sites by the end of the financial year.

We pick our grocery online orders from stores; this makes good commercial, logistical and operational sense as we are using existing resources that are within easy reach of where our customers live. As Click & Collect gains in popularity, picking orders in-store saves time and minimises additional transport and handling costs. However, demand for Groceries Online in the densely populated and fast-growing London area is so great that we will open a purpose-built online fulfillment centre in Bromley-by-Bow, East London, this year. This will provide us with the additional capacity we need to meet the increasing customer demand.

Netto

Working with our partner Dansk Supermarked we have opened 15 stores. We have trialled a variety of location types to help build our insight and continue to benefit from operational insights in our core business. We will now review the performance of the business in light of the overall market and we will communicate our next steps for the business at our Interim Results in November 2016.

Colleagues making the difference

Our colleagues provide industry-leading customer service. We support them with extensive skills training and apprenticeship opportunities, which helps them to exceed our customers' expectations.

Availability

Offering our customers the products they want ensures they have a good shopping experience. This makes availability very important. We measure availability daily and have a minimum standard we expect to achieve.

Definition: Minimum standards have been exceeded.

✓ Supermarket ✓ Convenience ✓ Online

Customer service

Our colleagues make the difference by delivering great customer service. We monitor this every fortnight with a Mystery Shopper programme which measures the service level of the three main components of the customer shopping experience.

Definition: Minimum standards have been exceeded in all three of the main components of the customer shopping experience.

Supermarket	Convenience
Gold	**Gold**

Committed, well-trained colleagues provide our customers with great service day in, day out, creating a major point of differentiation from our competitors. In stores, online or over the phone, colleagues work hard to help customers and to meet their changing shopping needs. We have exceeded all our customer service targets again this year.

Our colleagues deliver industry leading customer service and we are committed to rewarding them well for their hard work. In August, we announced a four per cent pay increase for 137,000 colleagues who work in our stores across the country. Our new standard hourly rate is well above the Government's National Living Wage and will also apply to around 40,000 colleagues under the age of 25.

It is important that colleagues are fully engaged with business activities that directly relate to them, and that they have the opportunity to communicate their views to management. Every location has a 'Great Place to Work' forum comprising colleagues nominated by their peers to represent them. These have been designed to give colleagues a voice and an opportunity to get involved in helping to shape and guide change in the business. They are supported by a number of other initiatives used to understand and respond to the needs of our colleagues, such as our 'Talkback' survey, performance reviews, listening groups and a colleague suggestion scheme.

We were named *Grocer* magazine's Grocer 33 Store of the Week 19 times during the year[1], the highest of any grocery retailer, and we also won the Grocer Gold Customer Service and Availability Awards for the third year running. We offer colleagues job satisfaction, a wide range of job roles, career progression and flexibility. This helps to generate strong loyalty within our workforce, and nearly 28,000 of our colleagues have worked with Sainsbury's for 15 years or more. Over Christmas and New Year we recruited nearly 12,000 temporary colleagues to serve our customers at the busiest time of year, giving them valuable experience and a stepping stone into the workplace.

We provide extensive skills training, which helps colleagues serve our customers better. We have seven Food Colleges for colleagues who work on our fresh food counters and in our store cafés. The courses on offer enhance craft and customer service skills, and can lead to apprenticeship diplomas. We are also growing our digital capability to prepare us for the future, hiring 480 new digital-focused colleagues.

We support colleagues who want to develop and progress their career within our business and have a robust process in place to identify and nurture talent. There is further opportunity within our business for women and minority groups at senior levels of management and we have established a business-wide mentoring scheme to help colleagues overcome barriers to career progression.

1. The Grocer 33 Service & Availability was year-to-date 2015/16

Our colleagues deliver industry-leading customer service each and every day

Training & apprenticeship opportunities

Award-winning customer service

> **"Colleagues are cheerful, proactively look to help, provide product information when asked and seem to value us as customers**
>
> **SAINSBURY'S CUSTOMER**
> EAST MIDLANDS

Commitment to diversity & inclusion

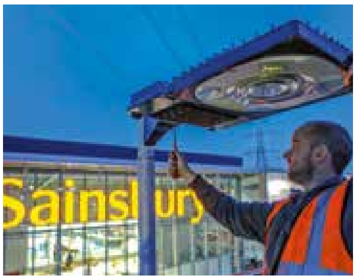
Our values make us different

Our values remain at the core of our business and are part of our long-term strategy for growth.

The scale of our business means we have an important role in contributing to sustainable development. Our Sustainability Plan shows our journey to address the opportunities and challenges that are relevant to our business and the wider world.

Band A

One of only 37 companies awarded a position on the FTSE 350 Climate Disclosure Leadership Index (CDLI)



We reduced our energy usage by 1.07 per cent during 2015/16 and our greenhouse gas emissions reduced by 3.11 per cent

The market context we operate in has changed significantly since we launched our original Sustainability Plan in 2011. Consequently, we have updated the plan to focus on the issues that are most important to our customers, colleagues and stakeholders now, and on the areas in which we can make the most positive impact. Our five values, outlined below, underpin our strategy, make good business sense and give us real competitive advantage.

Respect for our environment

In 2015 we launched *Waste less, Save more*, an ambitious initiative to tackle high levels of food waste across the UK. Food waste is an important issue for our customers, with the average household throwing away £700 worth of food each year. We are investing £10 million over five years to identify practical, easy ways to help people across the UK reduce their household waste. From the 189 towns that applied, Swadlincote in South Derbyshire won the opportunity to be our innovation test-bed town, and to receive our initial £1 million investment.

In 2015 we were one of only 37 companies on the FTSE 350 Climate Disclosure Leadership Index ('CDLI'), and the only UK retailer on the CDLI to achieve a Band A rating. We were identified as a UK leader in environmental performance and recognised for the quality and transparency of information disclosed to investors through the Carbon Disclosure Project.

Our 355,000 sq ft distribution centre in Tamworth was fitted with over 4,000 solar panels as well as the infrastructure to export surplus power back to the National Grid at times of peak national demand. In some stores we have started to trial aerofoil technology on our fridge systems to reduce the amount of cool air that escapes from fridge units, thereby using less energy to keep the fridge units cool and to keep shopping aisles warm. These innovations have contributed to a 1.07 per cent reduction in energy used in 2015/16.

Innovation test-bed town, Swadlincote

> Food waste is one of the biggest issues facing us all today, with households unaware of just how much food they are binning

PAUL CREWE
HEAD OF SUSTAINABILITY AT SAINSBURY'S

111 Discovery Communities

£10 million investment

Our values make us different

Living healthier lives

The sugar content of food has received significant media coverage, and a 'sugar tax' was announced in the Government's 2016 Budget. During the year we removed sugar from our chilled juice drinks, Oriental ready meals and 16 *by* Sainsbury's yoghurts. Taking our combined previous sales of these products, we anticipate that this will remove a total of 80.3 tonnes of sugar from our customers' baskets per year, equivalent to 321 million calories.

We launched new prepared produce lines in January, demonstrating that we can help our customers achieve their 5-a-day through product innovation and inspiration. Sales of *by* Sainsbury's 'courgetti' have exceeded sales forecasts and fresh courgette sales are also 15 per cent higher than last year.

We have increased the number of healthier products we carry, particularly in our 'better for you' ranges such as Be Good to Yourself and *My Goodness!*, where we have introduced new and inspirational meal solutions. Our *My Goodness!* range currently has 33 ready meals for customers to choose from.

Now in its 12th year, we have continued to develop our Active Kids programme, encouraging children to lead healthier, active lives. We will continue to develop Active Kids, with emphasis on both calories in and calories out, helping children to understand the importance of both diet and exercise.

100%

of farmed seafood is independently certified as sustainable

15%

uplift in courgette sales this year and new 'courgetti' exceeding sales forecast

Sourcing with integrity

Customers care about where the products they buy come from and they put their trust in us to do the right thing on their behalf. This is why sourcing with integrity is key to our work with farmers, growers and suppliers in the UK and around the world.

We continue to invest in the future of British farming and work closely with our farmers and growers across the UK. Initiatives include supporting five agriculture apprentices within our poultry and livestock supply chains, to help them develop knowledge and expertise in the industry. In addition, seven British farmers and growers completed our first Sainsbury's farming scholarship programme in partnership with Imperial College London supported by Alastair Leake from the Allerton Trust.

By working closely with our 822 sheep farmers we were able to extend our British lamb season by five weeks compared to the 2014 season. This ensured great quality and availability for our customers, and gave confidence to our sheep farmers at a time of low market prices. We have shown similar support to our Sainsbury's Dairy Development Group ('SDDG') farmers at a time when sections of the British dairy industry were facing issues with volatile pricing. Since 2012, we have paid the 280 SDDG farmers who supply our own-brand milk on a Cost of Production model which directly reflects their costs, builds in a profit for them, and rewards outstanding animal welfare and environmental standards.

"With nearly 7,000 Sainsbury's own-brand food and drink products available, we make a considerable investment in our programme to improve nutrition quality. Even small changes can make a significant impact on the healthy balance of our customers' baskets

DR DANIELLE MCCARTHY
COMPANY NUTRITIONIST AT SAINSBURY'S

Making a positive difference to our community

During the year, we donated nearly £46 million to charities, including over £7 million raised for charities which are local to our stores and distribution centres, and which are selected by colleagues and customers. 343 charities received an additional £69,000 through our Local Heroes scheme, which provides financial support to charities where our colleagues volunteer in their free time. We also supported flooded communities located near our stores in the north west of England and Yorkshire, donating over £100,000 worth of emergency supplies.

Nationally, it was a milestone year for our partnership with Carers UK, as the charity celebrated its 50th anniversary and we marked our fifth year of support. We also raised over £7 million for this year's Sport Relief campaign, and have now raised over £100 million for Comic and Sport Relief since our partnership began in 1999. We continue to support the Royal British Legion, raising over £2 million, and our colleagues went the extra mile to ensure the safety of Poppy Appeal collectors by banking funds raised in store on their behalf. Our 2015 Mog's Christmas Calamity campaign raised more than £1.5 million for Save the Children's literacy campaign *Read on, Get on* and we also signed the Vision for Literacy Business Pledge 2016, to support the National Literacy Forum and help close the literacy gap.

A great place to work

We know we can do more to ensure that the make-up of our workforce reflects the diversity of the customers we serve, particularly at a managerial level. Over 55 per cent of our colleagues are female and we want to help them develop their careers with us. External and internal research shows that mentoring is a great way to support women with their career development, so we have launched a new initiative that makes mentoring available to up-and-coming female colleagues who have the potential and desire to progress their careers. So far over 1,400 colleagues have signed up to be mentored through the scheme. We are also proud to be co-sponsors of the largest ever survey of race at work in the UK. The survey, run by Business in the Community, was completed by 24,000 working people (over 4,000 of whom were Sainsbury's colleagues) to better understand the experience of ethnic minorities at work in the UK. We want to help all our colleagues fulfil their potential, so we are using the results of this survey to build on our own action plans and understand how we can help colleagues from all backgrounds progress in their careers with us.

"As Operating Board Sponsor for the Lesbian, Gay, Bisexual and Transgender (LGBT) community, I work with our LGBT Network to create an environment of equal opportunities in which we can all be the best we can be, confident that diverse views are listened to

SARAH WARBY
MARKETING DIRECTOR
AT SAINSBURY'S

£100m
raised for Comic Relief and Sport Relief since our partnership began in 1999

33,500 colleagues trained at our Food Colleges since 2010

KPIs: Our values make us different

Living healthier lives

Our customers can trust that they can always choose nutritious and healthy food when they shop with us.

One way we are delivering this is by reformulating our own-brand products to reduce salt, sugar and saturated fat with the overarching aim of making our customers' baskets healthier.

How we are measuring our progress	Status at 2015/16 year end	Target for 2016/17 year end	Our 2020 target
Healthy products sold as a proportion of total sales volume*	**41%**	42%	45%

* We measure this through the proportion of products in our customers' baskets that are defined as healthy based on the product's multiple traffic light (MTL) ratings around salt, sugar, fat and saturates.

With obesity and diabetes on the rise, and as one of Britain's leading supermarkets, it is important that health is a core part of our customer offer. We want to help our customers to lead healthier lives while still offering them an exciting range of delicious, well-made food. We also recognise the importance of instilling the principles of a healthily balanced lifestyle in children, to help them make healthy choices as adults.

We are committed to improving the healthy balance of our customers' food baskets. We are on target to achieve an increase of four percentage points by 2020. We have also increased the number of healthier products we carry across our ranges, including within our 'better for you' ranges, Be Good to Yourself and *My Goodness!*, where we have introduced new and inspirational meal solutions. Our *My Goodness!* range now has a total of 33 ready meals to choose from. Likewise, we have added inspiration and innovation to our produce category and our customers can now add fresh courgetti (spiralized courgette), boodles (butternut squash noodles), sweet potato fries and cauliflower rice to their baskets, helping them to create delicious vegetable rich dishes at home.

We will encourage kids to live a healthy, balanced lifestyle.

We are delivering this by continuing to develop our Active Kids scheme, investing £200 million in activities for kids of all abilities.

How we are measuring our progress	Status at 2015/16 year end	Target for 2016/17 year end	Our 2020 target
Total investment in our Active Kids scheme	**£160m**	£170m	£200m

Our Active Kids scheme is now in its 12th year and continues to help children all over the UK to lead an active lifestyle, regardless of ability or impairment. Since the scheme began, we have donated over £160 million of equipment, activities and experiences and in 2015 alone, over 34,000 organisations benefitted from Active Kids voucher collection. We focus on healthy eating as well as activity, supporting the introduction of a nutrition curriculum into the education system including increasing the amount of cookery equipment available by redemption of Active Kids vouchers. We want to support the continued development of the nutrition elements of the programme, doubling the amount of vouchers redeemed against cookery equipment and creating inspirational programmes like the Taste Buddies Challenge to encourage children to think more about the food they eat and how it can help them lead healthy, active lives.

Sourcing with integrity

We will source our key raw materials sustainably to an independent standard.

As part of our commitment to sourcing with integrity, we have identified our key raw materials which we will source sustainably to an independent standard.

How we are measuring our progress	Status at 2015/16 year end	Target for 2016/17 year end	Our 2020 target
Number of key raw materials with sustainability standards	**Sustainability standards are currently being developed for 20 of our key raw materials**	Sustainability standards developed for 21 of our key raw materials	Independent sustainability standards for all of our key raw materials
Quantity of raw materials sourced from supply chains working within our independent sustainability standards	**To date 13 have been peer reviewed by external organisations and one is currently being piloted**	Six standards in pilot phase	Significant quantities of raw materials sourced from supply chains working within our independent sustainability standards

In addition to our investment in the sustainable sourcing of raw materials, we have set out to create our own independent sustainability standards to address the gaps in the existing standards that are available. We have our first standard being piloted, our Farmed Prawn standard, that works across our prawn farmers in Thailand. It spans environmental, social and economic factors including water quality, social impact, worker welfare and the productivity levels of the business.

Progress continues to be made on a number of key raw materials. 98 per cent of the palm oil used to manufacture our own-brand products is now certified sustainable and 93 per cent of the wood used in our products (excluding nappies) was from recycled, Forest Stewardship Council (FSC) or PEFC (Programme for the Endorsement of Forest Certification) sources.

98%

of the palm oil we use to manufacture our own-brand products is certified as sustainable

Our own-brand fish will be independently certified as sustainable.

Healthy marine ecosystems are vital for the health of our planet and millions of livelihoods around the world.

How we are measuring our progress	Status at 2015/16 year end	Target for 2016/17 year end	Our 2020 target
Proportion of wild caught seafood sales which is independently certified as sustainable	**70%**	85%	100%
Proportion of farmed seafood sales which is independently certified as sustainable	**100%**	100%	100%

We are the UK's biggest retailer of Marine Stewardship Council (MSC) certified seafood for the sixth consecutive year. We have over 180 MSC labelled products, more than twice as many as any other UK retailer. By the end of 2015/16 all of the farmed fish and seafood we sell was certified against one of our recognised independent sustainability standards. We also supported the ongoing development of the Aquaculture Stewardship Council Responsible Feed Standard and developed and launched the pilot of our own Farmed Prawn Sustainability Standard. We continue to progress towards our target of 100 per cent MSC certification for wild caught seafood through supplier engagement and a programme of fishery improvement projects in non-certified fisheries.

We are committed to selling products that are fairly traded, investing in the sustainability of our suppliers, farmers, growers and workers within our supply chains internationally.

We are the world's biggest retailer of Fairtrade products* and we will continue to grow the sales of fairly traded products in line with our business.

How we are measuring our progress	Status at 2015/16 year end	Target for 2016/17 year end	Our 2020 target
Sales of Fairtrade products	**>£290m* (14/15)**	In line with business sales	To be defined

* Figure as of 2014/15. 2015/16 figure to be released by Fairtrade in August 2016.

We are particularly proud of the contribution our Fair Development Fund has made to supporting farmers and workers involved in the global supply chains of products such as tea, coffee and nuts. Since 2013, with our partners Comic Relief, we have invested over £1 million and impacted more than 12,000 people. A great example of this is a project working with smallholder cashew nut farmers in Madagascar. The production area is based in the north west of Madagascar in three villages around the town of Ambilobe. With the Centre Technique Horticle de Tamatave, we have been running a series of farmer training sessions in each of the three villages and are in the process of building nurseries in each village to provide young trees for replanting. Farmer training sessions include good agricultural practice, product quality improvement and farm management. Another part of the project concerns the issue of land ownership. Farmers have signed up for their fields to be identified on the land register. Following this stage we can begin the administrative procedures for them to receive the deed of property. By the end of 2015 we had collaborated with over 450 farmers, around 100 farmers more than expected. Finally, a factory is being set up with the help of the local Ministry of Health officials to provide good working conditions and ensure it is designed in such a way as to move toward British Retail Consortium (BRC) certification.

We will invest in the future of British farming and be the leading retailer for British produce.

We will continue to focus on research and development (R&D) and innovation to test the impact of new growing systems on different varieties and to increase yields and season length through new growing practices.

How we are measuring our progress	Status at 2015/16 year end	Target for 2016/17 year end	Our 2020 target
Number of R&D projects (participation either as a project lead or partner)	**48**	Supporting the launch of the Centre for Information Excellence in Livestock	A fully developed portfolio of British Farming R&D which delivers against strategic priorities, informed by the Food & Farming Strategy, and fully integrated into the total supply chain
Value of investment for projects involving Sainsbury's in British farming	**>£10 million**		

We know that British sourcing matters to our customers. Through our farmer and grower Development Groups, our R&D programme and our Apprenticeship Scheme, we are supporting the British agricultural sector, building a more resilient industry and bringing young talent into British farming.

For the 2015/16 season, we extended the British lamb season for our 822 sheep farmers until January 2016, making it five weeks longer than the 2014 season. We work closely with our 822 sheep farmers, giving us the confidence to be able to extend our British offer whilst ensuring great quality and availability for our customers. We announced our intention to extend the range in October 2015 to give our sheep farmers confidence during a time of low market prices.

We have shown similar support to our Sainsbury's Dairy Development Group (SDDG) as the British dairy industry has faced volatile pricing in recent months. Since 2012 our 280 SDDG farmers, that supply our own-brand milk, have been paid on a Cost of Production model which directly reflects our farmers' costs, building in a profit for them and rewarding outstanding animal welfare and environmental standards.

We have continued to invest in a portfolio of R&D projects through multiple channels including government funded initiatives, direct relationships with our suppliers and farmers, academic institutions and industry experts, and also through the continued support and engagement of the Government's Centres of Excellence.

KPIs: Our values make us different

Through this strategy we now contribute to an extensive portfolio of 48 projects covering beef, pork, lamb, chicken, egg, top fruit, stone fruit, salmon, wheat, potatoes, salad crops and brassicas. Cumulatively, these projects, involving Sainsbury's and other partners, have an investment in agriculture of over £10 million including government funding.

Our meat, poultry, eggs and dairy products will be sourced from suppliers who adhere to independently verified higher animal health and welfare outcomes.

Sourcing our eggs, some of our meat offer such as veal and some of our poultry to the RSPCA Assured standard, is one of the ways we source from independently verified higher welfare standards.

How we are measuring our progress	Status at 2015/16 year end	Target for 2016/17 year end	Our 2020 target
Proportion of sales from independently verified higher animal health & welfare outcome sources	**Poultry – 13%** **Egg – 100%** **Veal – 100%**	Poultry – 20% Egg – 100% Veal – 100%	Poultry – 100% Egg – 100% Veal – 100%

We believe that good standards of animal health and welfare are important first and foremost for the wellbeing of the animals themselves whilst also recognising that improved standards of animal husbandry and management are linked to improved productivity and food quality. We continue to be the UK's biggest retailer of RSPCA Assured products with sales of £441.4 million (2015/16). 100 per cent of our eggs, farmed salmon and veal is RSPCA Assured as is all of our *Taste the Difference* turkey, chicken and pork.

We have been participating in the Business Benchmark on Farm Animal Welfare (BBFAW) since its introduction in 2012 (the first global measure for animal welfare, supported by Compassion in World Farming, World Animal Protection and Coller Capital). We are proud to be one of only 11 global companies listed in the top two tiers of this benchmark in 2015 (90 companies assessed). During 2015 we have continued to invest in a number of research and development projects targeted at improving the health and welfare of livestock in our value chains. We have also continued to work with our farmers to keep them at the forefront of knowledge and good practice, through sharing welfare outcome datasets and by running practical workshops. Our workshops have included water use for poultry farmers, optimum housing design for veal calves and technical groups on cattle health and welfare.

We will reduce and optimise our own-brand packaging.

We will reduce our own-brand packaging by 50 per cent compared to 2005.

How we are measuring our progress	Status at 2015/16 year end	Target for 2016/17 year end	Our 2020 target
Reduction in own-brand packaging since 2005	**31.5%*** **(14/15)**	35%	50%

* Our 2015/16 packaging reduction update will be calculated as part of our annual producer responsibility tax calculations and Courtauld Commitment reporting requirements, which will be available online from June 2016.

The right packaging plays an important role in helping us deliver the best quality products to our customers every time they shop with us. We are always looking at innovations to improve further and optimise the packaging we use. One example is our ongoing work with our dairy and packaging suppliers to reduce the weight of our fresh milk bottles. Our latest two-pint milk bottles are now 14.6 per cent lighter which, based on current sales, will save 580 tonnes of plastic a year.

Other key areas of focus for us are how much recycled material we use in our own-brand packaging and how easy it is for our customers to recycle our packaging. We have been part of the UK On Pack Recycling Labelling system since its outset and over 88 per cent of our primary and secondary packaging is labelled 'widely recycled' or 'check local recycling'. Furthermore, over 38 per cent of the material we use in our primary packaging already comes from post-consumer recycled material sources. We work on thousands of pieces of packaging a year and continually strive to optimise further performance in helping protect products and make it easy for customers to shop and enjoy them at their best. Over the coming year we anticipate gradual further reductions towards our 2020 target of a 50 per cent reduction versus our 2005/06 baseline.

We are signatories of Courtauld III, an industry commitment to waste reduction

20%

waste reduction target by 2025 in the UK food and drink sector

We will work with our key own-brand suppliers, farmers and growers to address the impact of our products.

Our scale means that it is important that we focus on reducing our impact on the environment but also that we are engaging our suppliers to do the same.

How we are measuring our progress	Status at 2015/16 year end	Target for 2016/17 year end	Our 2020 target
Courtauld 2025	**Signatory at launch**	To be confirmed with Courtauld partners	To be confirmed with Courtauld partners

Resource efficiency, water stewardship and waste are global issues that we will be addressing through our updated commitment to sustainable sourcing. We have already built strong relationships with over 2,000 farmers and growers that belong to our Development Groups and we work with them to reduce their impact on the environment.

We have been working with the Waste & Resources Action Programme (WRAP) as a signatory to the Courtauld commitment since its inception in 2004 – reducing packaging and food waste across food grocery retail supply chains. We are now a signatory to Courtauld 2025, launched in March 2016, which includes targets to reduce UK food and drink waste by 20 per cent, to reduce the greenhouse gas intensity of food and drink consumed in the UK by 20 per cent and to reduce the impact associated with water use in food and drink supply chains.

Respect for our environment

We will work with our colleagues to reduce waste and put it to positive use.

One way we are delivering this is by the redistribution of surplus food to food charities, thereby reducing food waste and addressing food poverty.

How we are measuring our progress	Status at 2015/16 year end	Target for 2016/17 year end	Our 2020 target
Number of stores with Food Donation Partners for surplus food	**638**	800	All stores

Figures published by The Trussell Trust show that foodbank use in the UK remains at record levels, rising two per cent on last year. In 2015/16 a total of 1,109,309 three day emergency food supplies were provided to people in crisis by the charity's network of foodbanks. To address food poverty, 638 of our stores have Food Donation Partnerships, where unsold, edible food is donated to charity. We also have 714 collection points where customers can donate food they have purchased in store.

We are actively trying to grow the number of Food Donation Partners we have and by 2020 aim to have all of our stores matched with a suitable local partner. We have also shared our journey with our suppliers to encourage our suppliers to establish a similar network of Food Donation Partners to redistribute their surplus food.

We will invest £10 million to help our customers reduce their waste through our Waste less, Save more initiative.

This is a new campaign for us and represents the first time we have set a target against involving our customers in a sustainability initiative.

How we are measuring our progress	Status at 2015/16 year end	Target for 2016/17 year end	Our 2020 target
Investment in Waste less, Save more	**Launch**	£1m	£10m
Reduction in household food waste in our trial town of Swadlincote	**We have assessed the average food waste of households in Swadlincote**	50% reduction in Swadlincote	Once we have completed our one year trial in Swadlincote we will set ourselves targets for a national roll-out

Our *Closer to Customers* research carried out in 2015 revealed a compelling opportunity to help customers reduce their household waste. We launched an ambitious, industry leading initiative to help customers waste less and save more. We are investing £10 million over five years to find out the best ways of helping our customers reduce their household waste and share our findings with the nation. The initiative kicked off with a search to find a test town to work with throughout the first year, and after a competitive pitch process, Swadlincote in South Derbyshire was selected. We have set ourselves the ambitious target of reducing household waste by 50 per cent over the year, which would make Swadlincote the first town to achieve the UN's Global Sustainability Goal set for 2030.

2016 is about trying, testing and sharing with a longer-term ambition of rolling out what works to other communities. We hope to reduce food waste by half in Swadlincote, which could save families up to £350 a year. By sharing what we learn in Swadlincote and making this accessible to the UK at large, we are confident we will become the go-to brand for customers looking for help with food waste and we will continue to innovate in this area.

We will reduce our operational carbon emissions by 30% absolute and 65% relative (to 2005).

How we are measuring our progress	Status at 2015/16 year end	Target for 2016/17 year end	Our 2020 target
Change in carbon emissions	**3.4% Absolute reduction versus 2005/06** **4.7% Relative reduction versus 2005/06**	10% Absolute reduction versus 2005/06 13.3% Relative reduction versus 2005/06	30% Absolute reduction versus 2005/06 65% Relative reduction versus 2005/06

KPIs: Our values make us different

In December 2015, at the United Nations Climate Change Conference, world leaders agreed a legally binding global action plan to avoid dangerous climate change. They committed to keep the increase in global average temperature to well below two degrees Celsius above pre-industrial levels. We remain committed to reducing our operational carbon by 30 per cent absolute, and 65 per cent relative, and are on track to achieve this and support the Government's reduction target.

Our absolute operational carbon emissions decreased by 3.11 per cent last year and we are now 3.42 per cent lower than our 2005/06 baseline, despite our retail sales space increasing 53 per cent within the same period. Our ability to grow whilst reducing carbon emissions has been shown through innovations like our ten lorries that are currently trialling a new natural refrigerant gas, with 45 per cent less Global Warming Potential than our existing refrigerant.

Through robust water stewardship we will ensure that our business addresses and manages all areas of water vulnerability.

How we are measuring our progress	Status at 2015/16 year end	Target for 2016/17 year end	Our 2020 target
Annual change in water use in our operations (Absolute)	**29% Absolute reduction versus 2005/06**	29% Absolute reduction versus 2005/06	30% Absolute reduction versus 2005/06
Annual change in water use in our operations (Relative)	**54% Relative reduction versus 2005/06**	54% Relative reduction versus 2005/06	55% Relative reduction versus 2005/06

In 2015/16 we achieved 29 per cent absolute water reduction against 2005/06 despite growing our sales area by 53 per cent during this period.

During 2016/17 we aspire to save 85 million litres of water in our existing estate to offset increases in water use by new stores and other changes. By 2016/17 year end we are forecasting to effectively break the link between space growth and the need for additional water in our operations. By 2020 we will increase this to 55 per cent relative reduction; the one per cent improvement in relative reduction is sizable (equivalent to the annual usage of 220 households). We are already using around 1 billion litres less water than in 2005/06.

In its seventh year our local charity programme has raised over £7m

Making a positive difference to our community

We will support our local communities in relevant and impactful ways and donate over £400 million to charitable causes by 2020.

One way we are delivering this is through growing our Local Charity of the Year programme, founded in 2009.

How we are measuring our progress	Status at 2015/16 year end	Target for 2016/17 year end	Our 2020 target
Number of stores supporting their Local Charity of the Year partner through awareness-raising, fundraising and volunteering	**1,240**	1,300	All stores

We believe it is important that we continue to make a difference where our customers and colleagues live. Our stores support over a thousand charities through our Local Charity of the Year initiative. Every year, each of our stores select a local charity to support, which they feel they can make the most difference to through fundraising, awareness-raising and volunteering throughout the year. Our colleagues shortlist three charities and the final vote goes to our customers in-store and online. It is our ambition for all our stores to have Local Charity of the Year partners and for us to be able to measure and report on the impact that their contributions are having so we can celebrate success and make continuous improvements to the scheme. Developing our impact reporting will be a focus for the year ahead.

A great place to work

We will be an employer where colleagues love to work.

We are committed to exceeding the National Living Wage (NLW) proposal of over £9 per hour by 2020.

How we are measuring our progress	Status at 2015/16 year end	Target for 2016/17 year end	Our 2020 target
Colleague reward	**£7.36/hour (2.2% above the National Living Wage)**	To be in line with or above the NLW	Standard colleague rate above the NLW rate of £9/hour or more

The National Living Wage of £7.20 per hour has now been introduced for workers over the age of 25, rising to over £9 per hour by 2020. We know what a difference our colleagues make to our customers every day and we are committed to rewarding them.

We have always paid above the National Minimum Wage and in August we gave 137,000 colleagues working in stores across the country a four per cent pay rise. This took our standard rate of pay from £7.08 to £7.36 an hour, 2.2 per cent above the Government's new National Living Wage. While the new National Living Wage secures a minimum pay only for people over 25, we do not differentiate on age and our pay rise also applied to around 40,000 under-25 colleagues. This is not something new for us; our colleagues are among the best rewarded in the industry. In 2015/16 nearly 126,000 management and colleagues shared a bonus pot of around £100 million. We are committed to continuing the progression of our wage rates and we are using the public discussion about the new living wage to listen and gather opinions from our colleagues around contracts, pay and benefits.

We will continue to invest in the training and development of our colleagues.

We are actively supporting career progression for internal colleagues aligned to our talent vision.

How we are measuring our progress	Status at 2015/16 year end	Target for 2016/17 year end	Our 2020 target
Number of apprentices trained	**413 colleagues enrolled on apprenticeship schemes covering: fish preparation & service, bakery skills, business administration, management skills and leading teams**	450 completed apprenticeships	2,500 apprentices

To retain and attract colleagues and be a place where people love to work, it is important to deliver agile, responsive qualifications as part of our development offer. Following the Government's announcement of the Apprenticeship Levy in autumn 2015, we have been developing our current and future programmes to support colleagues to be the best they can be. The world of apprenticeships is changing, with the introduction of new programmes via the employer lead trail blazer process and changes to funding which will start in March 2017.

During the year we introduced two Level 2 craft apprenticeships for bakery and fish counter colleagues. These programmes will help our colleagues develop the skills, knowledge and behaviours to achieve a City & Guilds Apprenticeship Diploma. In January 2016 we launched a pilot of a Level 2 Team Leading Apprenticeship and a Level 3 Management Apprenticeship across supermarkets, convenience and logistics. The programme will help us to grow talent through supporting the development of essential management skills.

We will continue to explore new opportunities for apprenticeships that are right for our colleagues and our business, e.g. Accountancy, Food Technology, Buying, Supply Chain and Fashion Retail.

We will have an inclusive workforce that offers employment opportunities to all members of the community.

One way we are delivering against this is by providing work opportunities and access to jobs for those who face barriers to the workplace.

How we are measuring our progress	Status at 2015/16 year end	Target for 2016/17 year end	Our 2020 target
Number of colleagues employed through our You Can scheme since 2008	**25,000**	27,000	30,000

There are several barriers people face when entering the workforce. Unemployment cannot be tackled by government alone and we believe businesses have to contribute to a solution. That is why we are committed to providing work opportunities and access to jobs for those who face barriers to employment.

Since 2008, we have employed over 25,000 people through You Can, our scheme to provide jobs for people who might otherwise struggle to find employment. We have built strong partnerships with a variety of organisations including MENCAP, Jobcentre Plus, Remploy, Shaw Trust and A Fairer Chance. This helps us offer opportunities to people from disadvantaged backgrounds; from supporting the long-term unemployed to those with learning disabilities and former offenders.

During 2015/16 we also developed 'People Plus', offering pre-employment courses to help potential candidates understand important skills around customer service and the world of work.

1,400+

female colleagues signed up to be mentored

External and internal research shows that mentoring is a great way to support women with their career development

Our principal risks and uncertainties

The risk management process is closely aligned to our strategy. Risk is an inherent part of doing business. The management of these risks is based on a balance of risk and reward determined through careful assessment of both the potential likelihood and impact as well as risk appetite. Consideration is given to both reputational as well as financial impact, recognising the significant commercial value attributable to the Sainsbury's brand. Each principal risk and uncertainty is considered in the context of how it relates to the achievement of the Group's strategic objectives. The current business strategy and objectives are categorised into the following areas of focus:

The risk discussion includes assessment of both gross and net risk, where gross risk reflects the risk exposure and risk landscape before considering the mitigations in place and net risk being the residual risk after mitigations. The risk appetite for each key risk is also discussed and assessed. The gross risk movement from prior year for each principal risk and uncertainty has been assessed and is presented as follows:

No change

Increased gross risk exposure

Reduced gross risk exposure

Mitigations in place supporting the management of the risk to a net risk position are also described for each principal risk and uncertainty.

Key risk movements

The principal and emerging risks are discussed and monitored throughout the year to identify changes to the risk landscape. Risks are reviewed in line with the Company's strategic objectives. A new principal risk regarding the political and regulative environment has been identified. High levels of transformation and change, including the ongoing transformation of our Digital & Technology division, have meant levels of management attention on risks associated with change initiatives have been continued. This includes focus on Colleague Engagement, Retention and Capability where risks have increased due to higher levels of uncertainty amongst colleagues as a result of changes which have been executed during the year following our strategic review in 2014.

The most significant principal risks identified by the Board and the corresponding mitigating controls are set out below in no order of priority.

Business continuity and major incidents response

Risk

A major incident or catastrophic event could impact on the Group's ability to trade.

Mitigation

Sainsbury's has detailed plans in place, supported by senior representatives who are trained in dealing with major incidents and have the authority levels to make decisions in the event of a potentially disruptive incident.

The Business Continuity Steering Group meets quarterly to ensure that the business continuity ('BC') policy and strategy is fit for purpose. In addition, it oversees the mitigation of all risks associated with BC and IT disaster recovery. In the event of any unplanned or unforeseen events the Business Continuity Management Team is convened at short notice to manage the response and any associated risk to the business.

All key strategic locations have secondary backup sites which would be made available within pre-defined timescales and are regularly tested.

Business strategy and change

Risk

If the Board adopts the wrong business strategy or does not communicate or implement its strategies effectively, the business may be negatively impacted. Risks to delivering the strategy, change initiatives forming part of the strategy and other significant supporting change such as the internal transformation of the Digital and Technology function need to be properly understood and managed to deliver long-term growth for the benefit of all stakeholders alongside management of business as usual.

Mitigation

The business strategy is focused on the following:

- We know our customers better than anyone else;
- We will be there wherever and whenever they need us;
- We will offer great products and services at fair prices;
- Our colleagues make the difference; and
- Our values make us different.

The progress against strategic programmes and any risks to delivery, such as the ability to implement and deliver change and new business initiatives, are regularly reviewed by the Board and the overall strategy is reviewed at the annual two-day Strategy Conference. The Operating Board also holds regular sessions to discuss strategy. This activity is supported by a dedicated strategy team. To ensure the strategy is communicated and understood, the Group engages with a wide range of stakeholders including shareholders, colleagues, customers and suppliers on a continual basis. In addition, management performs ongoing monitoring of business as usual performance to determine indicators of potential negative performance as a result of change initiatives.

Colleague engagement, retention and capability

Risk

The Group employs over 162,000 colleagues who are critical to the success of our business. Attracting and maintaining good relations with talented colleagues and investing in their training and development is essential to the efficiency and sustainability of the Group's operations. Delivery of the strategic objectives, including development of new businesses and progress on multi-channel and digital, increases the risk of Sainsbury's ability to attract, motivate and retain talent, specific skill sets and capability. In addition, the challenging trading environment requires a focus on efficient operations which may include change initiatives impacting colleagues, therefore presenting a risk of loss of colleague trust or engagement.

Mitigation

The Group's employment policies and remuneration and benefits packages are regularly reviewed and are designed to be competitive with other companies, as well as providing colleagues with fulfilling career opportunities. Colleague surveys, performance reviews, communications with trade unions and regular communication of business activities are some of the methods the Group uses to understand and respond to colleagues' needs. In addition to strong leadership and nurturing of talent by line managers, processes are also in place to identify talent and actively manage succession planning throughout the business. Ongoing reviews are performed to understand the nature of capability and specific skill sets required to deliver objectives. This is supported by embracing new ways of attracting talent and our corporate value 'Great Place to Work' reinforces our commitment to giving people the opportunity to be the best they can be.

Colleague surveys, performance reviews, listening groups, communications with trade unions, regular communication of business activities and colleague networking forums such as Yammer and the updated colleague portal (Our Sainsbury's) are some of the methods the Group uses to understand and respond to colleagues' needs. As change initiatives are implemented, the methods described above will continue to be employed to understand and maintain colleague trust and engagement.

Data security

Risk

It is essential that the security of customer, colleague and company confidential data is maintained. A major breach of information security could have a major negative financial and reputational impact on the business. The risk landscape is increasingly challenging with deliberate acts of cybercrime on the rise targeting all markets and heightening the risk exposure.

Mitigation

A Data Governance Committee is established and is supported by focused working groups looking at the management of colleague data, customer data, information security, commercial data and awareness and training. Senior appointments have been made into new roles specifically focused on Data Governance and Information Security. In April 2015, a Chief Information Security Officer was appointed to further develop the Information Security Strategy and build the necessary capability to deliver against that strategy. In September 2015, a new Head of Data Governance was appointed to focus on improving how we handle data across the organisation. Various information security policies and standards are in place which focus on encryption, network security, access controls, system security, data protection and information handling.

A review of key third parties who hold sensitive customer or colleague data continues to take place, and progress is monitored by the Data Governance Committee. A risk based security testing approach across Sainsbury's IT infrastructure and applications is in place to identify and remediate ongoing vulnerabilities.

Environment and sustainability

Risk

Environment and sustainability are core to Sainsbury's values. The key risk facing the Group in this area relates to reducing the environmental impact of the business with a focus on reducing packaging and new ways of reducing waste and energy usage across stores, depots and offices.

Mitigation

A number of initiatives are in place, which are being led by the Environmental Action Team and the Corporate Responsibility Steering Group, to reduce our environmental impact and to meet our customers' expectations in this area. Further details are included in the Corporate Responsibility review on pages 59 to 60.

Financial and treasury risk

Risk

The main financial risks are the availability of short and long-term funding to meet business needs and fluctuations in interest, commodity and foreign currency rates. The business has now acquired full ownership of Sainsbury's Bank which presents a risk that the Group's financial performance and position may be negatively impacted if the Bank transition and performance is not delivered as planned. In addition, there remains a risk around Pensions as the Group operates a number of pension arrangements that are subject to risks in relation to liabilities as a result of changes in life expectancy, inflation and future salary increases, and to risks regarding the value of investments and the returns derived from such investments.

Mitigation

The Group Treasury function is responsible for managing the Group's liquid resources, funding requirements, interest rate and currency exposures and the associated risks as set out in note 29 on page 126. The Group Treasury function has clear policies and operating procedures which are regularly reviewed and audited.

Sainsbury's Bank operates an enterprise wide risk management framework. The principal financial risks relating to the Bank and associated mitigations are set out in note 29 to the financial statements on page 131.

With regard to Pensions, an investment strategy is in place which has been developed by the pension trustee, in consultation with the Company, to mitigate the volatility of liabilities, to diversify investment risk and to manage cash. In September 2013, the Sainsbury's Defined Benefit Pension Scheme was closed to future contributions which will help us to manage the escalating costs of pensions and protect the pensions that colleagues have already built up in the Scheme.

Health and safety – people and product

Risk

Prevention of injury or loss of life for both colleagues and customers is of utmost importance. In addition, it is paramount to maintaining the confidence our customers have in our business.

Mitigation

Clear policies and procedures are in place detailing the controls required to manage health and safety and product safety risks across the business and comply with all applicable regulations. These cover the end-to-end operation, from the auditing and vetting of construction contractors, to the health and safety processes in place in our depots, stores and offices to the controls in place to ensure people and product safety and integrity.

In addition, established product testing programmes are also in place to support rigorous monitoring of product traceability and provide assurance over product safety and integrity. Supplier terms and conditions and product specifications set clear standards for product/raw material safety and quality which suppliers are expected to comply with.

Process compliance is supported by external accreditation and internal training programmes, which are aligned to both health and safety laws and Sainsbury's internal policies. In addition, resource is dedicated to manage the risk effectively, in the form of the Group Safety Committee and specialist safety teams.

Political and regulatory environment

Risk

In the UK there are heightened levels of political uncertainty and ongoing regulatory change. The uncertain outcome of the EU referendum, an increasing focus on localism to drive and deliver policy and current legislative requirements including the Business Rates, Workplace Pensions, National Living Wage and Apprenticeship Levy place a cumulative burden on Sainsbury's.

Mitigation

We actively engage with the governments, administrations and regulatory bodies to communicate our views, and those of our customers and colleagues, regarding geopolitical issues with the aims of informing the debate and ensuring our opinions are represented in the policy and decision making processes. We publically communicate matters where we believe industry change is required.

Trading environment and competitive landscape

Risk

Effective management of the trading account is key to the achievement of performance targets. The sector outlook has been and is set to remain challenging. The challenging trading environment, food price deflation and the price reduction and price matching activity across the sector may adversely impact performance. There is also an ongoing risk of supplier failure, with possible operational or financial consequences for the Group.

Mitigation

We adopt a differentiated strategy with a continued focus on delivering quality products and services with 'universal appeal', at fair prices, helping our customers Live Well for Less. This is achieved through the continuous review of our product quality, key customer metrics, monitoring of current market trends and price points across competitors, active management of price positions, development of sales propositions and increased promotion and marketing activity. In February 2016 we announced our plans to phase out multi-buy promotions in favour of lower regular prices, the next step in our commitment to provide customers even better value with lower regular prices. In delivering our strategic plan, including our price investment, we will maintain the strength of our balance sheet and have therefore identified a series of measures to conserve cash in the business. Through these measures we will deliver sustainable operating cost savings. With regards to supplier continuity, Sainsbury's undertakes credit checks on suppliers and maintains regular, open dialogue with key suppliers concerning their ability to trade.

Statement of Viability

1. How Sainsbury's assesses its prospects

The Group's business activities and strategy are central to assessing its future prospects. These, together with factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 1 to 47. The financial position of the Group, its cash flows and liquidity are highlighted in the Financial Review on pages 40 to 47. The Group manages its financing by diversifying funding sources, structuring core borrowings with long-term maturities and maintaining sufficient levels of standby liquidity.

The Group's prospects are assessed primarily through its corporate planning process. This includes an annual review which considers profitability, the Group's cash flows, committed funding and liquidity positions and forecast future funding requirements over three years, with a further two years of indicative movements. The most recent was signed off in October 2015. This is reviewed by the Operating Board and ultimately by the PLC Board with involvement throughout from both the CFO and CEO. Part of the Board's role is to consider the appropriateness of any key assumptions, taking into account the external environment and business strategy.

2. The assessment period

The Directors have determined that the three years to March 2019 is an appropriate period over which to provide its viability statement. This period is consistent with that used for the Group's corporate planning process as detailed above, and reflects the Directors' best estimate of the future prospects of the business.

3. Assessment of viability

To make the assessment of viability, additional scenarios have been tested over and above those in the corporate plan, based upon a number of the Group's principal risks and uncertainties (as documented on pages 36 to 38). The scenarios were overlaid into the corporate plan to quantify the potential impact of one or more of these crystallising over the assessment period.

Whilst each of the risks on pages 36 to 38 has a potential impact, only those that represent severe but plausible scenarios were selected for modelling through the corporate plan. These included:

- The effects of long-term competitive price-matching
- A fall in forecast sales volumes as a result of increasing competition or any reputational damage to the Sainsbury's brand
- The impact of any regulatory fines
- A failure to achieve targeted cost savings

In performing the above analysis, the Directors have made certain assumptions around the availability of future funding options, including both the ability to raise future finance and reduce forecast spend. Furthermore, the analysis was based on the existing Sainsbury's Group before the proposed acquisition of Home Retail Group plc. We have not completed a detailed viability assessment on Home Retail Group plc as the transaction has yet to complete. However, through the due diligence process we have performed a review of the strategy, risks and cash flows of the business and do not consider the proposed acquisition will have an impact on the overall Group's viability.

The results of the above stress testing showed that the Group would be able to withstand the impact of these scenarios occurring over the assessment period.

4. Viability Statement

Taking into account the Group's current position and principal risks and uncertainties, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three years to March 2019.

5. Going concern

The Directors also considered it appropriate to adopt the going concern basis in preparing the financial statements which are shown on pages 88 to 150.

Financial Review

Dear Shareholder,

Sainsbury's continues to operate in a competitive trading environment experiencing sustained food price deflation. However, over the past year, Sainsbury's has maintained market share at 16.5 per cent as a result of both volume and transaction growth. Sainsbury's underlying Group sales (including VAT) declined by 1.1 per cent to £25,829 million (2014/15: £26,122 million) and underlying profit before tax ('UPBT') declined by 13.8 per cent to £587 million (2014/15: £681 million). Profit before tax of £548 million (2014/15: £72 million loss) was £39 million lower than UPBT, due to items that are excluded from underlying results.

As a result of our strategy to simplify our pricing and invest in lower regular prices we have seen volume and transaction growth. Since November 2014, we have reduced the price of over 1,900 products and our price position against our main peers remains as competitive as it has ever been. We will continue to remain competitive on price in the market.

Despite an improvement in volume and transactions, our investment in price and underlying food price deflation led to negative like-for-like ('LFL') sales for the second year running, down 0.9 per cent. Our supermarket sales declined by 1.6 per cent. At the same time, we saw strong growth in our other channels: our convenience business grew by over nine per cent and our Groceries Online business grew by nearly nine per cent.

Growing our non-food and financial services businesses remains an important part of our strategy. This is demonstrated by clothing, which grew by 8.5 per cent, including the national launch of *Tu* Online, and general merchandise, which grew by 3.5 per cent. Sainsbury's Bank increased its total income by over five per cent to £274 million, and increased underlying operating profit to £65 million in 2015/16, compared with £62 million in 2014/15.

We achieved £225 million (2014/15: £140 million) of operational cost savings. This significant step-up year-on-year is due to an increase in the savings delivered from the core operational efficiency programme and one-off benefits relating to a review of our commercial expenditure and of the organisational structures within our stores and store support centres. The Group is now expecting to deliver operational cost savings of around £120 million in 2016/17 and we are on track to deliver the three-year £500 million target by the end of 2017/18. During the year, savings more than offset the impact of inflationary pressures on costs. In 2016/17, Sainsbury's expects cost inflation to be at the lower end of the two to three per cent range.

Price investment and underlying food price deflation, partly offset by the increased cost savings of £225 million, resulted in our retail underlying operating profit decreasing by 11.8 per cent to £635 million (2014/15: £720 million) and our retail underlying operating margin decreasing by 33 basis points to 2.74 per cent (39 basis points at constant fuel prices to 2.68 per cent).

Core retail capital expenditure was £542 million (2014/15: £947 million), reflecting the reduction announced in the November 2014 Strategic Review. New space delivered a 1.3 per cent contribution to sales growth, with six new supermarkets (including two replacement stores) and 69 new convenience stores opened in the year.

Our return on capital employed ('ROCE') decreased by 88 basis points to 8.8 per cent. ROCE excluding the net retirement benefit obligations was 8.3 per cent, a decline of 68 basis points year-on-year. ROCE decline was driven by reduced profitability.

During the year, the Group has taken steps to ensure continued financial flexibility and to maintain the strength of the balance sheet. On 5 May 2015, the unsecured Revolving Credit Facility ('RCF') was refinanced with a new secured recourse £1,150 million RCF, with no financial covenants. On 30 July 2015, the Group issued £250 million perpetual subordinated capital securities and £250 million perpetual subordinated convertible bonds (together, £500 million of 'perpetual securities'), enabling a £125 million exceptional contribution to the pension fund in the year, with a further £125 million exceptional contribution to take place in August 2016. Including both the RCF, which was undrawn at the end of the year, and the perpetual securities, which are accounted for as equity, the Group has total facilities in place of £4.1 billion. All of this has led to a reduction in net debt of £517 million since the start of the year, to £1,826 million (note that if the perpetual securities were treated as debt, net debt would be £2,320 million, £23 million lower than last year). The coupons associated with the perpetual securities, together with lower capitalised interest, have increased full-year underlying net finance costs by £14 million.

Underlying basic earnings per share decreased to 24.2 pence (2014/15: 26.4 pence), an 8.3 per cent decline year-on-year. Basic earnings per share were 23.9 pence for the year (2014/15: 8.7 pence loss per share), lower than the underlying basic earnings per share mainly due to the impact of one-off items excluded from underlying profit.

The Board has recommended a final dividend of 8.1 pence per share (2014/15: 8.2 pence), making a full-year dividend of 12.1 pence per share (2014/15: 13.2 pence), down 8.3 per cent year-on-year and covered two times by underlying earnings. In 2016/17 Sainsbury's will continue to pay an affordable dividend at two times cover.

While continuing to drive the growth of the business, we remain focused on our cost saving programme, improving operational cash flow and working capital management. We currently expect the proposed acquisition of Home Retail Group plc to take place in the third quarter of the calendar year, at which point we will give further guidance on how we will account for and report on the acquisition.

Summary income statement 52 weeks to 12 March 2016	**2016** **£m**	2015 £m	Change %
Underlying Group sales (including VAT)[1]	**25,829**	26,122	(1.1)
Retail sales (including VAT)	**25,502**	25,813	(1.2)
Underlying Group sales (excluding VAT)[1]	**23,495**	23,752	(1.1)
Retail sales (excluding VAT)	**23,168**	23,443	(1.2)
Underlying operating profit			
Retailing	**635**	720	(11.8)
Financial services – Sainsbury's Bank	**65**	62	4.8
Total underlying operating profit	**700**	782	(10.5)
Underlying net finance costs[2]	**(121)**	(107)	(13.1)
Underlying share of post-tax profit from JVs[3]	**8**	6	33.3
Underlying profit before tax	**587**	681	(13.8)
Items excluded from underlying results	**(39)**	(753)	94.8
Profit/(loss) before tax	**548**	(72)	n/a
Income tax expense	**(77)**	(94)	18.1
Profit/(loss) for the financial period	**471**	(166)	n/a
Underlying basic earnings per share	**24.2p**	26.4p	(8.3)
Basic earnings/(loss) per share	**23.9p**	(8.7)p	n/a
Dividend per share	**12.1p**	13.2p	(8.3)

1. Underlying Group sales excludes an £11 million acquisition adjustment fair value unwind relating to Sainsbury's Bank (2014/15: £23 million).
2. Net finance costs including perpetual securities coupons before financing fair value movements and the IAS 19 pension financing charge.
3. The underlying share of post-tax profit from JVs is stated before investment property fair value movements, financing fair value movements and profit on disposal of properties.

Retail sales (including VAT) and space

Retail sales (including fuel) decreased by 1.2 per cent to £25,502 million (2014/15: £25,813 million). This includes a 1.3 per cent contribution from new space (excluding extensions and replacements) and a LFL sales decline of 2.5 per cent.

Retail sales growth (including VAT, including fuel) 52 weeks to 12 March 2016	**2016** **%**	2015 %
Like-for-like sales	**(2.5)**	(3.6)
Net new space (excluding extensions and replacements)	**1.3**	1.6
Total sales growth	**(1.2)**	(2.0)

Excluding fuel, which experienced significant retail price deflation, retail sales increased by 0.4 per cent, with a LFL decline of 0.9 per cent. LFL sales (excluding fuel) declined 2.1 per cent in the first quarter, but this improved throughout the year with a LFL growth of 0.1 per cent in the fourth quarter; the first positive LFL sales performance since the third quarter of 2013/14. The improvement throughout the year was a result of several factors: simpler pricing and regular lower prices caused volumes and transactions to grow; average basket spend stabilised in supermarkets; and there was an improved performance of a number of seasonal events throughout the year. On a 52 week rolling basis, our market share has been maintained at 16.5 per cent which is an improving trend (as measured by Kantar).

The contribution from net new space (excluding extensions and replacements) of 1.3 per cent was in line with Sainsbury's expectations.

Our multi-channel strategy enables customers to shop whenever and wherever they want. The convenience business grew sales by over nine per cent to over £2.3 billion. Groceries Online grew by nearly nine per cent year-on-year, a step-on from last year's growth rate, driven by nearly 15 per cent growth in order numbers, partly offset by a smaller average basket size due to price investment, food price deflation and a lower number of items per basket. Sainsbury's non-food offer continued to grow sales ahead of the market, supported by continued range development and the roll-out of new space.

Retail sales growth (including VAT, excluding fuel) 52 weeks to 12 March 2016	**2016 %**	2015 %
Like-for-like sales[1]	**(0.9)**	(1.9)
Net new space (excluding extensions and replacements)	**1.3**	1.7
Total sales growth	**0.4**	(0.2)

1. This includes a 0.1 per cent contribution from stores extended in 2015/16, net of disruptions (2014/15: 0.2 per cent).

Average trading intensity ('TI') including VAT, excluding fuel, excluding Sainsbury's Bank (sales per sq ft per week) declined to £17.88 per sq ft per week (2014/15: £18.24 per sq ft per week) due to the challenging market conditions, in particular price deflation. Convenience TI decreased £0.57 per sq ft to £26.33 per sq ft, primarily due to price deflation in fresh categories as well as a fall in TI of newly opened stores.

Sainsbury's added a gross 454,000 sq ft of selling space in the year (including replacements), an increase of 2.0 per cent (2014/15: 733,000 sq ft, an increase of 3.3 per cent). Including the impact of closures and refurbishments, this translated into net space growth of 383,000 sq ft, an increase of 1.7 per cent since the start of the year (2014/15: 659,000 sq ft, an increase of 3.0 per cent) with closing space of 23,202,000 sq ft (2014/15: 22,819,000 sq ft).

In 2015/16, Sainsbury's opened six new supermarkets, of which two were replacement stores (2014/15: eight new supermarkets, of which two were replacements) and completed seven supermarket refurbishments (2014/15: 13 supermarket refurbishments, five extensions and one closure). Convenience continues to be a key area of growth, with 69 stores opened during the year (2014/15: 98 stores). Three convenience stores were closed (2014/15: two stores), six were refurbished (2014/15: 43 stores) and one extended (2014/15: no extensions).

Store numbers and retailing space 52 weeks to 12 March 2016	Supermarkets Number	Supermarkets Area 000 sq ft	Convenience Number	Convenience Area 000 sq ft	**Total Number**	**Total Area 000 sq ft**
At 14 March 2015	597	21,190	707	1,629	**1,304**	**22,819**
New stores	6	263	69	175	**75**	**438**
Disposals/closures	(2)	(67)	(3)	(4)	**(5)**	**(71)**
Extensions/refurbishments/downsizes	–	16	–	–	**–**	**16**
At 12 March 2016	**601**	**21,402**	**773**	**1,800**	**1,374**	**23,202**
Memorandum:						
Extensions	–	–	1	2	**1**	**2**
Refurbishments/downsizes	7	16	6	(2)	**13**	**14**
Total projects	**7**	**16**	**7**	**–**	**14**	**16**

In 2016/17, contribution from net new space (excluding extensions and replacements) is expected to be around 1.0 per cent.

In 2016/17, Sainsbury's expects to deliver around 250,000 sq ft of gross new space, including 40 to 50 convenience stores and five new supermarkets.

Retail underlying operating profit

Retail underlying operating profit decreased by 11.8 per cent to £635 million (2014/15: £720 million), reflecting the underlying food price deflation, price investment and operating cost inflation, partly offset by increased cost savings year-on-year of £225 million (2014/15: £140 million).

Retail underlying operating margin declined by 33 basis points year-on-year to 2.74 per cent (2014/15: 3.07 per cent), equivalent to a 39 basis points decline at constant fuel prices. Retail underlying EBITDAR margin decreased by 18 basis points to 7.58 per cent, or a 34 basis points decline to 7.42 per cent at constant fuel prices.

Retail underlying operating profit 52 weeks to 12 March 2016	**2016**	2015	Change	Change at constant fuel prices
Retail underlying operating profit (£m)[1]	**635**	720	(11.8)%	
Retail underlying operating margin (%)[2]	**2.74**	3.07	(33)bps	(39)bps
Retail underlying EBITDAR (£m)[3]	**1,755**	1,819	(3.5)%	
Retail underlying EBITDAR margin (%)[4]	**7.58**	7.76	(18)bps	(34)bps

1. Underlying earnings before interest, tax, Sainsbury's Bank underlying operating profit and Sainsbury's underlying share of post-tax profit from JVs.
2. Retail underlying operating profit divided by retail sales excluding VAT.
3. Retail underlying operating profit before rent, depreciation and amortisation.
4. Retail underlying EBITDAR divided by retail sales excluding VAT.

In 2016/17, Sainsbury's expects cost inflation at the lower end of the two to three per cent range. Operational cost savings are expected to be around £120 million. Sainsbury's remains on track to deliver our three-year £500 million cost saving programme by the end of 2017/18.

Sainsbury's will remain competitive on price in the market. Food price deflation is likely to continue into the second half of 2016/17.

Supplier arrangements

We have considered our disclosures in respect of supplier arrangements, and as a result of this we have decided to disclose quantified balance sheet and income statement amounts for any areas of supplier arrangements that involve a level of judgement or estimation, but not those which are calculated through a mechanical process. We believe this represents best practice disclosure.

The two types of supplier arrangements that involve a level of judgement or estimation are:

- 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 financial year, with the rebate amount linked to pre-agreed targets such as sales volumes.

Supplier arrangement amounts are offset against cost of sales, and have reduced by £268 million to £371 million (2014/15: £639 million). The year-on-year reduction has been driven by the conscious decision to move away from supplier arrangements and towards a reduction in the base cost of goods.

Supplier arrangements 52 weeks to 12 March 2016	**2016** **£m**	2015 £m
Supplier rebates	**69**	88
Fixed amounts	**302**	551
Total supplier arrangements	**371**	639

Of the above amounts, the following was outstanding and held on the balance sheet at 12 March 2016:

Supplier arrangements 12 March 2016	**2016** **£m**	2015 £m
Within current trade receivables		
Supplier arrangements due	**6**	13
Within current trade payables		
Supplier arrangements due	**39**	94
Accrued supplier arrangements	**25**	47

Financial services – Sainsbury's Bank

Sainsbury's Bank delivered an underlying operating profit of £65 million, a 4.8 per cent increase year-on-year. This increase was driven by higher total income and favourable bad debt levels, partly offset by additional administrative costs as a result of taking full ownership of the Travel Money operation.

Sainsbury's Bank results	**2016**[1]	2015[2]	Change %
Total income (£m)[3]	**274**	260	5.4
Underlying operating profit (£m)	**65**	62	4.8
Net interest margin (%)[4]	**4.1**	3.9	24bps
Bad debt as a percentage of lending (%)[5]	**0.4**	0.7	22bps
Tier 1 capital ratio (%)[6]	**15.8**	12.7	313bps

1. 12 months to 29 February 2016.
2. 12 months to 28 February 2015.
3. Net interest, net commission and other operating income.
4. Net interest receivable divided by average interest-bearing assets.
5. Bad debt expense divided by average gross lending.
6. Tier 1 capital divided by risk-weighted assets.

Net interest margin increased by 24 basis points year-on-year to 4.1 per cent (2014/15: 3.9 per cent), driven by the growth in the personal loans book and an in-year reclassification of certain credit card fees from commission to interest income. Bad debt levels as a percentage of lending improved to 0.4 per cent (2014/15: 0.7 per cent) as a result of continued improvement in recovery processes, low market interest rates and stable economic conditions. The Tier 1 capital ratio increased by 313 basis points year-on-year to 15.8 per cent (2014/15: 12.7 per cent), reflecting profit retained for the year and ongoing capital injections in support of transitioning the Bank to a new, more flexible banking platform.

J Sainsbury plc completed its purchase of the remaining 50 per cent share of Sainsbury's Bank on 31 January 2014. Since then Sainsbury's Bank has embarked upon a business transformation programme to exit from Lloyds Banking Group and build a new, more flexible banking platform. The migration of savings customers to the new banking platform is expected to be in late summer 2016 and the timing of the migration of cards and loans customers is currently being re-planned, particularly in light of the Group's proposed acquisition of Home Retail Group plc. Total transition costs are forecast to be at the top of the £340 million to £380 million range.

In 2016/17, Sainsbury's expects Bank operating profit to be around ten per cent lower year-on-year due to investment required to enter the mortgage market and the impact of reduced interchange fees. Results prior to the impact of entering the mortgage market and the reduced interchange fees, would result in a year-on-year profit improvement.

Capital injections to the Bank in 2016/17 are expected to be circa £20 million.

Property and other joint ventures ('JV')

Sainsbury's underlying share of post-tax profit from its JV with British Land was £14 million (2014/15: £13 million). The underlying share of post-tax profit from the JV with Land Securities was £1 million (2014/15: £2 million).

An investment property fair value decrease of £18 million was recognised outside underlying profit (2014/15: £7 million increase), driven by the average property yield of the British Land JV increasing to 5.1 per cent, 13 basis points higher than the prior year (2014/15: 5.0 per cent).

Sainsbury's recognised a net £7 million share of loss (2014/15: net £9 million share of loss) from the three start-up JVs: Netto, Mobile *by* Sainsbury's and I²C. This loss was driven by start-up costs alongside closure costs of Mobile *by* Sainsbury's. On 14 October 2015, it was announced that Mobile *by* Sainsbury's, a joint venture with Vodafone, would close on 15 January 2016.

In 2016/17, Sainsbury's expects the share of profit from the property JVs to be slightly lower year-on-year. Sainsbury's share of loss from the start-up JVs, including Netto, is expected to be slightly higher year-on-year.

Underlying net finance costs

Underlying net finance costs increased by £14 million year-on-year to £121 million (2014/15: £107 million), as a result of a reduction in capitalised interest and the perpetual securities coupons.

Underlying net finance costs[1] 52 weeks to 12 March 2016	2016 £m	2015 £m
Underlying finance income	**19**	19
Interest costs	**(132)**	(143)
Perpetual securities coupons	**(15)**	–
Capitalised interest	**7**	17
Underlying finance costs	**(140)**	(126)
Underlying net finance costs	**(121)**	(107)

1. Finance income/costs before financing fair value movements and the IAS 19 pension financing charge.

Sainsbury's expects underlying net finance costs in 2016/17 to be slightly higher year-on-year. Capitalised interest is expected to be similar year-on-year.

Items excluded from underlying results

Items excluded from underlying results totalled a charge of £39 million (2014/15: £753 million charge), mainly due to one-off items.

Items excluded from underlying results 52 weeks to 12 March 2016	2016 £m	2015 £m
Profit on disposal of properties	**101**	7
Investment property fair value movements	**(18)**	7
Retail financing fair value movements	**(22)**	(30)
IAS 19 pension financing charge and scheme expenses	**(28)**	(37)
Perpetual securities coupons[1]	**15**	–
Acquisition adjustments	**3**	13
One-off items	**(90)**	(713)
Total items excluded from underlying results	**(39)**	(753)

1. Perpetual securities coupons are added back as accounting standards determine that for statutory reporting purposes they are treated as dividends.

One-off items

The charge to one-off items of £90 million (2014/15: £713 million) includes: costs of £59 million in relation to transitioning Sainsbury's Bank to a new, more flexible banking platform (capital costs relating to the transition were £19 million), £15 million of costs mainly relating to the proposed acquisition of Home Retail Group plc and £15 million of internal restructuring costs.

One-off items 52 weeks to 12 March 2016	2016 £m	2015 £m
Net impairment and onerous contract charge	**(1)**	(628)
Sainsbury's Bank transition	**(59)**	(53)
Pension compensation payments	**–**	(17)
Internal restructuring	**(15)**	(15)
Transaction costs[1]	**(15)**	–
Total one-off items	**(90)**	(713)

1. Transaction costs in 2016 are those incurred as part of the approach to Home Retail Group plc and the sale of the pharmacy business.

In 2016/17, Sainsbury's Bank transition costs are expected to be around £40 million. Capital costs relating to the transition are also expected to be around £40 million.

Property profits mainly from mixed-use developments, are expected to be just over £100 million in 2016/17.

The sale of our pharmacy business to LloydsPharmacy is expected to complete in 2016/17, subject to Competition and Markets Authority approval. Sainsbury's expect to recognise a profit on disposal of around £100 million.

Taxation

The income tax charge was £77 million (2014/15: £94 million), with an underlying tax rate of 20.8 per cent (2014/15: 25.8 per cent) and an effective tax rate of 14.1 per cent (2014/15: (130.6) per cent). The underlying rate is lower than last year, mainly due to the revaluation of deferred tax balances from 20 to 18 per cent reducing the rate in the current year. The effective tax rate was lower than the underlying rate also as a result of the revaluation of non-underlying deferred tax balances and the majority of profits on the disposal of properties not being taxable.

Underlying tax rate 52 weeks to 12 March 2016	Profit £m	Tax £m	Rate %
Underlying profit before tax, and tax thereon	587	(122)	20.8
Adjustments, and tax thereon, for:			
Profit on disposal of properties	101	2	
Investment property fair value movements	(18)	–	
Retail financing fair value movements	(22)	4	
IAS 19 pension financing charge and scheme expenses	(28)	6	
Perpetual securities coupons	15	(3)	
Acquisition adjustments	3	1	
One-off items	(90)	20	
Revaluation of deferred tax balance	–	15	
Profit before tax, and tax thereon	**548**	**(77)**	**14.1**

In 2016/17, Sainsbury's expects the full year underlying tax rate to be between 22 and 23 per cent.

In the UK, there are a large number of taxes, of which many are relevant for Sainsbury's. During the year ended 12 March 2016 Sainsbury's paid £1.7 billion (2014/15: £1.7 billion) to the UK Government, of which £890 million (2014/15: £854 million) was borne by Sainsbury's and the remaining £822 million (2014/15: £863 million) was collected on behalf of our colleagues, customers and suppliers. Sainsbury's participates in the Total Tax Contribution PwC Survey for The 100 Group Finance Directors. For the year ended 14 March 2015, our total taxes borne ranked sixth (in the year to 15 March 2014: sixth) amongst the survey participants. The results of the Total Tax Contribution Survey for 2016 had not been published at the date of this report.

The key taxes paid by Sainsbury's were business rates of £483 million (2014/15: £489 million), employers' national insurance of £141 million (2014/15: £145 million) and UK corporation tax of £117 million (2014/15: £90 million). Other taxes including customs duty, excise duty, VAT and energy taxes totalled £149 million (2014/15: £130 million).

Earnings per share

Underlying basic earnings per share decreased by 8.3 per cent to 24.2 pence (2014/15: 26.4 pence) reflecting the fall in underlying profits and the effect of additional shares issued during the year, partly offset by a lower underlying tax rate year-on-year.

The weighted average number of shares in issue was 1,920.8 million (2014/15: 1,911.0 million), an increase of 9.8 million shares or 0.5 per cent. Basic earnings per share were 23.9 pence (2014/15: 8.7 pence loss). The basic earnings per share is lower than the underlying basic earnings per share due to items that are excluded from underlying results.

Underlying earnings per share

52 weeks to 12 March 2016

	2016 pence per share	2015 pence per share
Basic earnings/(loss) per share attributable to ordinary shareholders	**23.9**	(8.7)
Adjustments (net of tax) for:		
Profit on disposal of properties	**(5.4)**	(0.9)
Investment property fair value movements	**0.9**	(0.4)
Retail financing fair value movements	**0.9**	1.3
IAS 19 revised pension financing charge and scheme expenses	**1.1**	1.6
Acquisition adjustments	**(0.2)**	(0.5)
Deferred tax rate change	**(0.8)**	–
One-off items	**3.8**	34.0
Underlying basic earnings per share attributable to ordinary shareholders[1]	**24.2**	26.4

1. Underlying EPS calculation is based on underlying profit after tax attributable to ordinary shareholders. Therefore the coupons on the perpetual securities are not added back.

Dividends

The Board has recommended a final dividend of 8.1 pence per share (2014/15: 8.2 pence). This will be paid on 8 July 2016 to shareholders on the Register of Members at the close of business on 13 May 2016, subject to approval by shareholders at the AGM. This will result in a decrease to the full-year dividend of 8.3 per cent to 12.1 pence per share (2014/15: 13.2 pence).

The proposed final dividend was recommended by the Board on 3 May 2016 and, as such, has not been included as a liability as at 12 March 2016.

In 2016/17, Sainsbury's will maintain dividend cover at two times our underlying earnings.

Financing

The Group's key financing objectives are to diversify funding sources, to minimise refinancing risk and to maintain appropriate contingent liquidity. As at 12 March 2016, the Group had drawn debt facilities of £2.9 billion (including the perpetual securities) and undrawn but committed borrowing facilities of £1.2 billion at its disposal.

The principal elements of the Group's drawn debt facilities comprise two long-term loans of £764 million maturing 2018 and £779 million maturing 2031, both secured over property assets. In addition, the Group has further secured loans of £200 million maturing August 2019 and €50 million maturing September 2016, a five-year £450 million Convertible Bond maturing November 2019 and £175 million hire purchase facilities and finance leases.

On 5 May 2015, the Group refinanced its unsecured Revolving Credit Facility ('RCF') with a new secured recourse £1,150 million RCF, with a final maturity of 2020. The new secured corporate facility is the same size as, and has substantially similar economic terms to, the previous unsecured facility. The new facility is secured against supermarket properties, and contains no financial covenants. The facility is split into two tranches, a £500 million Facility (A) maturing in April 2018 and a £650 million Facility (B) maturing in April 2020. As at 12 March 2016, £nil had been drawn from Facility (A) (March 2014/15: £120 million) and £nil from Facility (B) (March 2014/15: £nil). As part of this transaction, two further bank loans totalling £244 million were secured on supermarket properties.

On 30 July 2015, the Group issued £250 million of Perpetual Subordinated Non-Convertible Bonds and £250 million of Perpetual Subordinated Convertible Bonds. Costs of £6 million directly associated with the issue have been set off against the value of the proceeds. In line with accounting standards, both instruments have been accounted for as equity and the coupon cost as dividends. In addition, the coupon cost has been included within Sainsbury's definition of underlying finance costs and UPBT.

Since 14 March 2015, two bilateral bank loans amounting to £95 million have matured and were repaid.

Net debt and cash flows

Group net debt includes the capital injections in to Sainsbury's Bank, but excludes Sainsbury's Bank's own net debt balances[1]. As at 12 March 2016, net debt was £1,826 million (14 March 2015: £2,343 million), a decrease of £517 million year-on-year. The year-on-year decrease was primarily driven by the issue of the perpetual securities and improved working capital, partly offset by a £125 million exceptional pension contribution. Net debt, treating the perpetual securities as debt, was £2,320 million, a decrease of £23 million year-on-year.

Retail operating cash flow before changes in working capital increased by 3.8 per cent to £1,126 million (2014/15: £1,085 million), however retail cash generated from operations decreased 17.8 per cent to £1,149 million (2014/15; £1,398 million) mainly due to a reduction in the improvement of retail working capital year-on-year. The £23 million improvement in retail working capital was driven by operational efficiencies within trade payables and a decrease in inventories year-on-year, partly offset by a reduction in Fuel trade payables due to price deflation.

Bank working capital has increased by £429 million from 14 March 2015 driven by positive steps taken within the Bank to increase customer lending and diversify funding sources.

The net cash used in investing activities of £525 million was £375 million lower year-on-year (2014/15: £900 million), driven by lower capital spend. The £494 million proceeds from the issue of the perpetual securities, net of fees, was partly offset by a repayment of borrowings of £372 million during the year.

1. Net debt balances within Sainsbury's Bank's balance sheet are required for business as usual activities and as such are excluded from Sainsbury's definition of Group net debt.

Summary cash flow statement

52 weeks to 12 March 2016

	2016 £m	2015 £m
Retail operating cash flow before changes in working capital	**1,126**	1,085
Decrease in retail working capital	**23**	313
Retail cash generated from operations	**1,149**	1,398
Bank operating cash flow before changes in working capital	**29**	38
Increase in Sainsbury's Bank working capital	**(429)**	(300)
Group cash generated from operations[1]	**749**	1,136
Interest paid	**(108)**	(134)
Corporation tax paid	**(124)**	(91)
Net cash generated from operating activities	**517**	911
Proceeds from sale of pharmacy business	**125**	–
Net cash used in investing activities	**(525)**	(900)
Proceeds from issue of ordinary shares	**8**	19
Purchase of own shares	**(20)**	(18)
Receipt of new debt	**–**	674
Proceeds from issue of perpetual securities	**247**	–
Proceeds from issue of convertible bonds	**247**	–
Repayment of borrowings	**(372)**	(659)
Exceptional pension contribution	**(125)**	–
Dividends paid on ordinary shares	**(234)**	(330)
Dividends paid on perpetual securities	**(4)**	–
Decrease in cash and cash equivalents	**(136)**	(303)
Elimination of net increase in Sainsbury's Bank cash and cash equivalents	**316**	343
Decrease/(increase) in debt	**353**	(31)
Fair value and other non-cash movements	**(16)**	32
Movement in net debt	**517**	41

1. Statutory definition of cash generated from operations includes exceptional pension contribution of £125 million.

Sainsbury's expects 2016/17 year-end net debt to reduce year-on-year, and a small improvement in retail working capital.

Retail capital expenditure

Core retail capital expenditure decreased by £405 million year-on-year to £542 million (2014/15: £947 million). Core retail capital expenditure as a percentage of retail sales (including fuel, including VAT) was 2.1 per cent (2014/15: 3.7 per cent).

Supermarket openings decreased by two during the year to six (2014/15: eight supermarkets). Sainsbury's opened 69 new convenience stores in the year (2014/15: 98 convenience stores).

During the year, there were no supermarket extensions completed (2014/15: five extensions) and one convenience extension (2014/15: nil extensions). Sainsbury's also delivered 13 refurbishments during the year (2014/15: 56 refurbishments) consisting of seven supermarkets (2014/15: 13 supermarkets) and six convenience stores (2014/15: 43 convenience stores).

There were no sale and leaseback proceeds in the year (2014/15: £nil), resulting in net retail capital expenditure of £543 million (2014/15: £941 million).

Retail capital expenditure

52 weeks to 12 March 2016

	2016 £m	2015 £m
New store development (£m)	**207**	425
Extensions and refurbishments (£m)	**183**	284
Other – including supply chain and digital & technology (£m)	**152**	238
Core retail capital expenditure (£m)	**542**	947
Acquisition of freehold and trading properties (£m)[1]	**–**	(9)
Debtor/creditor movements	**1**	3
Net retail capital expenditure	**543**	941
Capex/sales ratio (%)[2]	**2.1**	3.7

1. 2014/15 balance includes income from Harvest, our JV with Land Securities, relating to the repayment of a loan.
2. Core retail capital expenditure divided by retail sales (including fuel, including VAT).

In 2016/17, Sainsbury's expects core retail capital expenditure (excluding Sainsbury's Bank) to be around £550 million.

2015/16 year-on-year increase in depreciation was impacted by the impairment taken in 2014/15. 2016/17 depreciation is expected to increase by around £20 million year-on-year primarily due to investment in Digital & Technology assets that are depreciated over a short lifetime.

Return on capital employed

The return on capital employed ('ROCE') over the 52 weeks to 12 March 2016 was 8.8 per cent (2014/15: 9.7 per cent), a decrease of 88 basis points year-on-year. ROCE is enhanced by the net retirement benefit obligations, which reduces capital employed.

ROCE excluding the net retirement benefit obligations over the 52 weeks to 12 March 2016 was 8.3 per cent (2014/15: 9.0 per cent), a year-on-year decrease of 68 basis points. ROCE decline was due mainly to the fall in underlying operating profit.

Return on capital employed

52 weeks to 12 March 2016

	2016	2015
Total underlying operating profit (£m)	**700**	782
Underlying share of post-tax profit from JVs (£m)	**8**	6
Underlying profit before interest and tax (£m)	**708**	788
Average capital employed[1] (£m)	**8,037**	8,136
Return on capital employed (%)	**8.8**	9.7
Return on capital employed (%) (excluding net retirement benefit obligations)	**8.3**	9.0
52 week ROCE movement to 12 March 2016	**(88)bps**	
52 week ROCE movement to 12 March 2016 (excluding net retirement benefit obligations)	**(68)bps**	

1. Average of opening and closing net assets before net debt.

Summary balance sheet

Total equity as at 12 March 2016 was £6,365 million (14 March 2015: £5,539 million), an increase of £826 million, mainly attributable to the issue of the perpetual securities, net of fees, of £494 million, £181 million due to trade and other receivables and £116 million due to property, plant and equipment.

Net debt was £517 million lower than at 14 March 2015 primarily driven by the issue of the perpetual securities.

Sainsbury's Bank net assets at 29 February 2016 of £650 million (28 February 2015: £504 million) have been consolidated and separately identified.

Accounting for the perpetual securities as equity, adjusted net debt to EBITDAR was 4.0 times (2014/15: 4.1 times). Gearing decreased during the year to 28.7 per cent (14 March 2015: 42.3 per cent) as a result of the increase in equity shareholder funds. Excluding the net retirement benefit obligations, gearing decreased to 27.0 per cent

(14 March 2015: 37.9 per cent). Treating the perpetual securities as debt, adjusted net debt to EBITDAR increases to 4.3 times. Gearing increases to 39.5 per cent and gearing excluding the net retirement benefit obligations increases to 37.1 per cent.

Interest cover reduced year-on-year to 5.9 times (2014/15: 7.4 times). Fixed charge cover reduced year-on-year to 2.7 times (2014/15: 2.9 times). Excluding the perpetual securities coupon from underlying net finance costs, interest cover increases to 6.7 times and fixed charge cover increases to 2.8 times.

Summary balance sheet (Sainsbury's Bank separated) at 12 March 2016	**2016 £m**	2015 £m	Movement £m
Land and buildings (Freehold & long leasehold)	**6,978**	6,890	88
Land and buildings (Short leasehold)	**820**	791	29
Fixtures and fittings	**1,926**	1,941	(15)
Property, plant and equipment	**9,724**	9,622	102
Other non-current assets	**736**	828	(92)
Inventories	**968**	997	(29)
Trade and other receivables	**338**	294	44
Sainsbury's Bank assets[1]	**4,531**	4,267	264
Cash and cash equivalents	**577**	403	174
Debt	**(2,403)**	(2,746)	343
Net debt	**(1,826)**	(2,343)	517
Trade and other payables and provisions	**(3,836)**	(3,712)	(124)
Retirement benefit obligations, net of deferred tax	**(389)**	(651)	262
Sainsbury's Bank liabilities[1]	**(3,881)**	(3,763)	(118)
Net assets	**6,365**	5,539	826

1. As at 29 February 2016.

Impact of perpetual securities on key financial ratios	**Perpetual securities accounted for as equity As at 12 March 2016**	**Perpetual securities treated as debt As at 12 March 2016**	As at 14 March 2015
Net debt[1]	**(1,826)**	**(2,320)**	(2,343)
Adj. net debt to EBITDAR[2]	**4.0 times**	**4.3 times**	4.1 times
Gearing[3]	**28.7%**	**39.5%**	42.3%
Gearing (excluding net retirement benefit obligations)[4]	**27.0%**	**37.1%**	37.9%

Impact on key financial ratios of recognising perpetual securities coupon within underlying finance costs[5]	**UPBT ex. perpetual securities coupon 52 weeks to 12 March 2016**	**UPBT inc. perpetual securities coupon 52 weeks to 12 March 2016**	52 weeks to 14 March 2015
Interest cover[6]	**6.7 times**	**5.9 times**	7.4 times
Fixed charge cover[7]	**2.8 times**	**2.7 times**	2.9 times

1. Treating the perpetual securities, net of transaction fees, as debt increases net debt to £2,320 million, and reduces net assets to £5,871 million.
2. Net debt of £1,826 million plus capitalised lease obligations of £5,500 million (5.5 per cent discount rate), divided by Group underlying EBITDAR of £1,830 million, calculated for a 52 week period to 12 March 2016.
3. Net debt divided by net assets.
4. Net debt divided by net assets, excluding net retirement benefit obligations.
5. Excluding the perpetual securities coupons, underlying net finance costs reduces to £106 million.
6. Underlying profit before interest and tax divided by underlying net finance costs.
7. Group underlying EBITDAR divided by net rent and underlying net finance costs.

As at 12 March 2016, Sainsbury's estimated market value of properties, including our 50 per cent share of properties held within property JVs, was £10.6 billion (14 March 2015: £11.1 billion). The £0.5 billion decrease year-on-year was due to property valuation movements relating to rental value decrease of £0.2 billion, a yield movement of £0.2 billion and British Land JV valuation decline of £0.1 billion. The summary balance sheet discloses Sainsbury's Bank assets and liabilities separately to aid interpretation. A summary balance sheet is also presented with Sainsbury's Bank consolidated by line.

Summary balance sheet (Sainsbury's Bank consolidated) at 12 March 2016	**2016 £m**	2015 £m	Movement £m
Land and buildings (Freehold & long leasehold)	**6,981**	6,892	89
Land and buildings (Short leasehold)	**820**	791	29
Fixtures and fittings	**1,963**	1,965	(2)
Property, plant and equipment	**9,764**	9,648	116
Other non-current assets	**2,748**	2,411	337
Inventories	**968**	997	(29)
Trade and other receivables	**2,251**	2,070	181
Sainsbury's Bank cash and cash equivalents	**566**	882	(316)
Cash and cash equivalents	**577**	403	174
Debt	**(2,403)**	(2,746)	343
Net debt	**(1,826)**	(2,343)	517
Trade and other payables and provisions	**(7,717)**	(7,475)	(242)
Retirement benefit obligations, net of deferred tax	**(389)**	(651)	262
Net assets	**6,365**	5,539	826

Defined benefit pensions

As at 12 March 2016, the post-tax pension deficit was £389 million, an improvement of £262 million since the year-end (14 March 2015: £651 million). The reduction in the deficit was mainly driven by a contribution of £206 million to the Group's pension scheme, which included the first 50 per cent of a one-off £250 million contribution with the second 50 per cent to follow in 2016/17, and an increase in the discount rate, partly offset by lower fair value of plan assets.

Retirement benefit obligations at 12 March 2016	**2016 £m**	2015 £m
Present value of funded obligations	**(7,625)**	(7,680)
Fair value of plan assets	**7,235**	6,988
Pension deficit	**(390)**	(692)
Present value of unfunded obligations	**(18)**	(16)
Retirement benefit obligations	**(408)**	(708)
Deferred income tax asset	**19**	57
Net retirement benefit obligations	**(389)**	(651)

The scheme is subject to a triennial actuarial valuation at 14 March 2015, carried out by Willis Towers Watson, on the projected units basis. The results of this valuation are expected to be finalised in June 2016.

John Rogers
Chief Financial Officer

Approval of the Strategic Report

Pages 1 to 47 of the Annual Report form the Strategic Report. Disclosures concerning diversity, greenhouse gas emissions and human rights appear on pages 57, 60 and 80 respectively.

By order of the Board
Tim Fallowfield
Company Secretary and Corporate Services Director

3 May 2016

J Sainsbury PLC: Our Board of Directors

1. David Tyler (63)
Chairman

✱

Appointed to the Board on 1 October 2009, David became Chairman on 1 November 2009. He is also non-executive Chairman of Hammerson plc and of Domestic and General Group Limited. He was previously Finance Director of GUS plc (1997-2006) and has held senior financial and general management roles with Christie's International Plc (1989-96), County NatWest Limited (1986-89) and Unilever PLC (1974-86). He was Chairman of Logica plc (2007-12) and of 3i Quoted Private Equity PLC (2007-09), and a Non-Executive Director of Experian plc (2006-12), Reckitt Benckiser Group plc (2007-09) and Burberry Group Plc (2002-2015).

2. Mike Coupe (55)
Chief Executive Officer

♥

Appointed Chief Executive Officer on 9 July 2014, Mike has been a member of the Operating Board since October 2004 and an Executive Director since 1 August 2007. He joined Sainsbury's from Big Food Group where he was a Board Director of Big Food Group plc and Managing Director of Iceland Food Stores. He previously worked for both ASDA and Tesco, where he served in a variety of senior management roles. Mike is also a Non-Executive Director of Greene King plc.

3. John Rogers (47)
Chief Financial Officer

Appointed Chief Financial Officer on 19 July 2010, John is also a member of the Board of Sainsbury's Bank plc, and in June 2015, his role was expanded to include online, business development and strategy. John joined Sainsbury's in November 2005 as Director of Corporate Finance and then became Director of Group Finance from March 2007 to July 2008. In July 2008, he was appointed to the Operating Board as Property Director. Prior to Sainsbury's, John was Group Finance Director for Hanover Acceptances, a diversified corporation with wholly-owned subsidiaries in the food manufacturing, real estate and agri-business sectors. John is a Non-Executive Director of Travis Perkins plc and a director of Insight 2 Communication LLP.

4. John McAdam (68)
Senior Independent Non-Executive Director

♦✱

Appointed to the Board on 1 September 2005, John is the Senior Independent Director. John will step down from the Board on 6 July 2016. He is Chairman of Rentokil Initial plc and United Utilities plc and also a Non-Executive Director of Rolls-Royce Group plc. John joined Unilever PLC as a management trainee in 1974 and went on to hold a number of senior positions in Birds Eye Walls, Quest and Unichema, before the sale of the Specialty Chemical Businesses to ICI in 1997. He was Chief Executive of ICI plc, until its sale to Akzo Nobel, and was formerly a Non-Executive Director of Sara Lee Corporation (2008-12) and Severn Trent plc (2000-05).

5. Matt Brittin (47)
Non-Executive Director

●✱

Appointed to the Board on 27 January 2011, Matt is Google's President – Europe, Middle East and Africa. Before joining Google to run its UK operations at the start of 2007, Matt spent much of his career in media and marketing, with particular interests in strategy, commercial development and sales performance. This included commercial and digital leadership roles in UK media. He is also a Director of charitable organisation, The Media Trust.

6. Brian Cassin (48)
Non-Executive Director

●✱

Appointed to the Board on 1 April 2016, Brian is Chief Executive Officer of Experian plc. Brian joined Experian as Chief Financial Officer in April 2012, a post he held until his appointment as Chief Executive Officer in July 2014. Prior to this, Brian spent his career in investment banking at Baring Brothers International (1992-98), Greenhill & Co (1998-2012) where he was Managing Director and Partner and the London Stock Exchange (1988 to 92) where he held senior roles.

7. Mary Harris (50)

Non-Executive Director

◆♥✻

Appointed to the Board on 1 August 2007, Mary is a member of the supervisory boards of TNT Express NV and Unibail-Rodamco S.E. Mary is a Non-Executive Director of ITV plc and Reckitt Benckiser Group plc. She previously spent much of her career with McKinsey & Company, most recently as a partner, where she worked primarily with retail/consumer clients in China, South East Asia and Europe. Her previous work experience includes working for PepsiCo in Greece and the UK, as a sales and marketing executive.

8. David Keens (62)

Non-Executive Director

●✻

Appointed to the Board on 29 April 2015, David is also a Non-Executive Director and the Senior Independent Director of Auto Trader Group plc, and chairs its Audit Committee. David was formerly Group Finance Director of NEXT plc (1991-2015) and their Group Treasurer (1986-1991). Previous management experience includes nine years in the UK and overseas operations of multinational food manufacturer Nabisco (1977-1986) and, prior to that, seven years in the accountancy profession.

9. Susan Rice (70)

Non-Executive Director

◆●✻

Appointed to the Board on 1 June 2013 and is due to be appointed Senior Independent Director on 6 July 2016. Susan is also Chairman of Scottish Water, Business Stream, President of the Scottish Council for Development and Industry, and a Non-Executive Director of Big Society Capital Limited, the North American Income Trust and the Banking Standards Board. She is the first Chairman of Scotland's new Fiscal Commission and a lay member of Court of Edinburgh University. She also chairs the Patrons' Board of Governors of the National Galleries of Scotland. Susan was formerly Chief Executive Officer and subsequently Chairman of Lloyds TSB Scotland plc (2000-2009), and a Non-Executive Director of Bank of England (2007-2014), SSE plc (2003-2014), the Edinburgh International Book Festival (2001-2015), and Scotland's Futures Forum.

10. Jean Tomlin (61)

Non-Executive Director

◆♥✻

Appointed to the Board on 1 January 2013, Jean is an Independent Board member of Michael Kors Holdings Limited, a Trustee of The Join In Trust and Step Up To Serve, and a Council Member at Loughborough University. Formerly, she was Director of HR, Workforce and Accreditation for The London Organising Committee of the Olympic and Paralympic Games, where she oversaw the creation and execution of the hugely successful Games Maker volunteering programme. She was previously Group HR Director at Marks and Spencer Group Plc, HR Director and founder member of Egg plc and Sales & Operations Director of Prudential Direct.

Key to Committee members

- ◆ Remuneration Committee
- ● Audit Committee
- ✻ Nomination Committee
- ♥ Corporate Responsibility and Sustainability Committee
- ◆●✻♥ Denotes Chairman of Committee

Life President

Lord Sainsbury of Preston Candover KG

Operating Board

1. Mike Coupe
Chief Executive Officer
See page 48

2. John Rogers
Chief Financial Officer
See page 48

3. Tim Fallowfield
Company Secretary and Corporate Services Director
Tim joined Sainsbury's in 2001 as Company Secretary and joined the Operating Board in 2004. In addition to his role as Company Secretary, Tim is responsible for the Corporate Services Division comprising Legal Services, Safety, Shareholder Services, Insurance, Data Governance and Central Security. He chairs the Group Safety Committee and the Data Governance Committee. Tim joined Sainsbury's from Exel plc, the global logistics company, where he was Company Secretary and Head of Legal Services (1994-2001). He began his career at the international law firm Clifford Chance and is a qualified solicitor.

4. Peter Griffiths
Chief Executive Officer, Sainsbury's Bank
Peter was appointed Chief Executive Officer, Sainsbury's Bank plc in November 2012 and joined the Operating Board in May 2014. Prior to joining Sainsbury's he was Group Chief Executive of Principality, the largest building society in Wales, growing it from the 13th largest building society in the UK to the 7th, during his decade in charge. He previously worked for NatWest (1977-2000), and was Chief Operating Officer at Morgan Chambers Plc. He is former Chairman of the CBI Wales and the Building Societies Association, and is a Fellow of UWIC and The Chartered Institute of Management. Peter was awarded an OBE in the Queen's Birthday Honours 2010, in recognition of his support for the Financial Services Industry.

5. Jon Hartland
Acting Retail and Operations Director
Jon joined Sainsbury's in 1986 and held the position of Store Director for numerous stores until 1996. He then held a number of senior roles before becoming the Change Director in 2002 and later becoming the Central Retail Director. Jon was appointed Director for Non Food Operations in 2011 and has been acting Retail and Operations Director since October 2015. He sits on the GS1 apparel Europe board and was previously a Regional manager for Fine Fare (part of Associated British Foods plc).

6. Paul Mills-Hicks
Food Commercial Director
Paul joined the Operating Board in May 2014 as Food Commercial Director having spent more than ten years at Sainsbury's. He was closely involved in the formation and execution of the 'Making Sainsbury's Great Again' strategy in a variety of roles in commercial, strategy and finance, most recently as Business Unit Director for Grocery. Previously Paul was European Controller at Marks and Spencer Group plc and a Director at UBS Warburg. Paul is a qualified electronic engineer and a Chartered Accountant.

7. Angie Risley

Group HR Director

Angie was appointed Group HR Director and a member of the Operating Board in January 2013 with responsibility for human resources. She is a Non-Executive Director of Serco Group plc and chairs their Remuneration Committee. She is also a Director of Sainsbury's Bank plc. Angie was most recently Group HR Director at Lloyds Banking Group and prior to this an Executive Director of Whitbread plc with responsibility for HR and Corporate Social Responsibility. She was a member of the Low Pay Commission.

8. Jon Rudoe

Digital and Technology Director

Jon joined the Operating Board in March 2014 with responsibility for Digital and the IT function. He joined Sainsbury's in July 2011 as Director of Online and in March 2013 he took on responsibility for Digital. Jon joined Sainsbury's from Ocado where he led marketing, user experience, trading, own-brand and supply chain. Previously, Jon was a management consultant at Bain & Company and worked in venture capital.

9. Sarah Warby

Marketing Director

Sarah joined Sainsbury's and the Operating Board in January 2012 as Marketing Director. She has responsibility for all Sainsbury's marketing activity: all-brand communications, in-store, loyalty and customer insight. She also has responsibility for Customer Service and Experience. Sarah previously held a number of senior positions at Heineken and was their UK Marketing Director where she was responsible for a number of the UK's most high-profile FMCG brands. Prior to this, she was Innovation Director at Heineken where she led the combined technical and marketing team. Earlier in her career, Sarah worked for several marketing agencies and was a graduate employee at Unilever PLC.

Corporate Governance

Dear Shareholder,

The Board's particular focus this year has been the successful implementation across the business of the strategy announced in November 2014. We are pleased with the progress made to date and remain confident that successful execution of the strategy will drive shareholder value. In addition, the Board has been very engaged with the proposed acquisition of the Home Retail Group plc, owner of the Argos retail chain, which we believe will accelerate our strategy for shareholders' benefit.

The Board is committed to strong governance and, during the year, the Company has complied with all the provisions of the UK Corporate Governance Code 2014 (the Governance Code). This report explains how the main principles of the Governance Code were applied throughout the financial year.

I would like to highlight some of the other activities that we have focused on during the year.

— David Keens took over as Audit Committee Chairman with effect from our AGM in July 2015.

— Brian Cassin, Chief Executive of Experian plc, was appointed to the Board in April 2016.

— We have successfully undertaken the transition of our auditors to Ernst & Young LLP (Ernst & Young) from PricewaterhouseCoopers LLP (PwC).

— We are now required by the Governance Code to include an assessment of the viability of the Company. This is covered in further detail in the Audit Committee report on page 63.

— The Remuneration Committee firmly believes in the link between pay and performance. Mary Harris' letter to shareholders and our Remuneration Report are set out on pages 66 to 79.

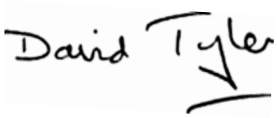
The culture and values of the Company, together with our commitment to strong governance, are embedded throughout the organisation. This continues to underpin our success. In March, we carried out a comprehensive internal review of the Board's performance which built upon the conclusions and action plan from the prior year's review. This year's review is described in detail on pages 54 and 55.

Succession remains a key focus of the Board and we continue to identify and reviewed the resourcing needs across the business. Particular focus is given to ensuring that the skills mix of Board and senior management positions are optimised to deliver shareholder value, through our commitment to developing our own people and attracting external talent.

I would like to thank John McAdam for his very valuable contribution over the last ten years and particularly for his counsel as Senior Independent Director. As previously advised, John will step down at the forthcoming AGM. I am delighted to welcome Brian Cassin, the CEO of Experian, who joined the Board in April 2016. His experience in big data and analytics, and of running a FTSE 40 company, will be invaluable over the coming years. I am also pleased that Susan Rice will be appointed as our Senior Independent Director at the AGM.

The commitment to diversity on the Board and across senior management continues to be an area of focus. In particular, our recruitment policy takes into account each candidate's merits and considers a number of diversity factors including experience, gender and ethnicity. Gender diversity on the Board continues to be in line with the Davies Report target and, more importantly, is appropriate for both Sainsbury's and our customer base. Further information on diversity can be found on page 57.

Our strong governance, culture and values, in conjunction with our established strategy and our committed and challenging Board, provide the foundations which are the basis of Sainsbury's long-term success.



David Tyler
Chairman

1. Published by the Financial Reporting Council, the Governance Code is publicly available at www.frc.org.uk.

Leadership

The role of the Board

The Board's key areas of focus in helping to create long-term sustainable value for shareholders are on strategic leadership, performance management, risk management, governance, succession planning and investor relations.

The Board has a scheduled forward programme of meetings to ensure that we can allocate sufficient time to each of these key areas. This enables us to plan Board and Committee meetings appropriately and use the Board's time together most effectively. There is sufficient flexibility in the programme for specific items to be added to any particular agenda and this ensures that the Board can focus on the key matters relating to the business at the appropriate time.

The Board's scheduled forward programme includes the following items, some of which are considered at each meeting, and others are reviewed periodically throughout the year:

- Annual budget
- Corporate (five year) plan
- CEO Report and trading update
- Financial items
- Preliminary and Interim results
- Annual Report
- Cyber security
- Dividend policy and recommendations
- Committee reports
- Investor Relations
- Strategic items
- Safety reports (Health & Safety and Food)
- Customer insights
- HR policy
- Pensions
- Project updates
- Treasury and tax policy
- Governance
- Risk management
- Board evaluation
- Public Affairs
- Litigation

Key activities

The principal activities of the Board during the financial year were:

Strategic leadership
Given the fundamental change in the sector, the Board has particularly focused on strategic matters in the last year. The principal focus has been the proposed acquisition of Home Retail Group plc. The Board has also closely monitored the execution of the strategic plan approved in November 2014, the Bank transition programme and other key strategic projects, as well as the competitive landscape and the rapid growth of multi-channel retail. A two-day Strategy Conference, with the attendance of the Board and Operating Board Directors, was held in the autumn. This enabled the Board to conduct an in-depth review of each of these topics, and the latest customer insights. The Board evaluated key opportunities and threats, and the five year corporate plan, including cost savings, capital expenditure and balance sheet projections. Our brokers UBS and Morgan Stanley, strategic advisers OC&C and our investor relations advisers Makinson Cowell, attended for part of the meeting in order to provide an external view of the sector.

Performance management
Performance against delivery of the agreed key targets was reviewed at every meeting, with particular reference to the detailed Group management accounts. The Chief Executive and Chief Financial Officer provided an update on the market and current trading at each meeting and presented comparative data and customer insight.

Risk management
The Board reviewed the Company's principal risks, and received regular updates on risk management and internal controls from the Chairman of the Audit Committee after each Committee meeting (see page 64 for further details).

The Board received an annual update on all matters relating to safety, supported by quarterly updates, together with updates on other relevant controls and governance. Specific issues on these and other matters which could have affected the Company's reputation were reported to the Board as they occurred.

Investor relations
The Board received an independent survey from Makinson Cowell, on the views of major shareholders and analysts, together with updates at each Board meeting on the Investor Relations programme and feedback from major shareholders, particularly following each announcement of the Company's results (see page 55 for further details).

Board operation and attendance

The Board held eight scheduled meetings during the year, including a two-day Strategy Conference. Additional ad hoc meetings and conference calls were also convened to deal with specific matters particularly in relation to key reviews and decisions concerning the proposed acquisition of Home Retail Group plc.

We ensure that all Directors are aware of the key discussions and decisions of each of the four principal Committees, partly by the Chairman of each Committee providing a detailed summary to all Directors at the Board meeting following the relevant Committee meeting. Minutes of Board and Committee meetings are circulated to Directors shortly after those meetings take place. The Board has a schedule of formally reserved powers, which it reviews each year, and receives a number of in-depth presentations during the year. A copy of the reserved powers is available on the Company's website.

There were a number of informal meetings during the year when Directors met individual members of the Operating Board to receive updates on their specific areas of responsibility. In addition, the Chairman and Non-Executive Directors met without the Executive Directors being present, and the Non-Executive Directors also met without the Executive Directors or the Chairman being present.

The following table shows the attendance of Directors at scheduled Board and Committee meetings.

	Board	Audit Committee	CR&S Committee	Nomination Committee	Remuneration Committee
Matt Brittin	7(8)	3(4)	–	2(2)	–
Mike Coupe	8(8)	–	2(2)	–	–
Mary Harris	8(8)	–	1(2)	2(2)	4(4)
Gary Hughes	3(3)	1(1)	–	–	–
David Keens	8(8)	4(4)	–	2(2)	–
John McAdam	8(8)	–	–	2(2)	4(4)
Susan Rice	8(8)	4(4)		2(2)	2(3)
John Rogers	6(8)	–	–	–	–
Jean Tomlin	7(8)	–	2(2)	2(2)	4(4)
David Tyler	8(8)	–	–	2(2)	–

Note: The maximum number of meetings held during the year that each Director could attend is shown in brackets.

On the rare occasions that a Director is unavoidably unable to attend a meeting, the Chairman briefs them before the meeting so that their comments and input can be taken into account at the meeting, and provides an update to them after the meeting. John Rogers attended the Advanced Management Programme in Harvard which coincided with the September and October Board meetings.

Division of responsibilities

Chairman
There is a clear division of responsibilities between the Chairman and the Chief Executive which is set out in writing and has been approved by the Board. The Chairman is responsible for leadership of the Board, ensuring its effectiveness in all aspects of its role and for setting its agenda. The Chairman ensures effective communication with shareholders and that the Board is aware of the views of major shareholders. He facilitates the contribution of the Non-Executive Directors through a culture of openness and debate, and ensures constructive relations between Executive and Non-Executive Directors.

Senior Independent Director
The role of the Senior Independent Director is to act as a sounding board for the Chairman and as a trusted intermediary for the other Directors. In addition, the Senior Independent Director meets with the other Non-Executive Directors in the absence of the Chairman at least once a year in order to undertake a review of the Chairman's performance. He is also available to shareholders as required.

Chief Executive
The Chief Executive is responsible for the day-to-day management of the Company and executing the strategy, once agreed by the Board. He creates a framework of strategy, values, organisation and objectives to ensure the successful delivery of results, and allocates decision making and responsibilities accordingly. He manages the risk profile in line with the risk appetite and categories of risk identified and accepted by the Board. He takes a leading role, with the Chairman, in the relationship with all external agencies and in promoting Sainsbury's.

Board effectiveness

Composition and diversity

The Board currently comprises two Executive Directors, the Chairman and seven Non-Executive Directors. Following the 2016 AGM the Board will revert to having six Non-Executive Directors. The Non-Executive Directors bring wide and varied commercial experience to Board and Committee deliberations. They are appointed for an initial three-year term, subject to election by shareholders at the first AGM after their appointment and re-election at each AGM thereafter, after which their appointment may be extended for further terms, subject to mutual agreement. All members of the Board, other than John McAdam, will retire and seek election or re-election by shareholders at this year's AGM.

The Board's policy on diversity is set out on page 57.

Independence and conflicts

The Chairman satisfied the independence criteria of the Governance Code on his appointment to the Board and all the Non-Executive Directors are considered to be independent.

Each of the Directors has a duty under the Companies Act 2006 to avoid a situation where he/she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. The Company's articles of association permit the Directors to authorise conflicts and potential conflicts, where appropriate. The Board has established procedures for the disclosure by Directors of any such conflicts, and also for the consideration and authorisation of these conflicts by the Board. In accordance with the Act, the Board considered and authorised each Director's potential conflicts of interest during the year. Whenever a Director takes on additional external responsibilities, the Board considers any potential conflicts that may arise. The Board continues to monitor and review potential conflicts of interest on a regular basis.

The Board has specifically considered the executive or non-executive roles that some of the Non-Executive Directors have with companies that may be suppliers to Sainsbury's. The Board is satisfied that the independence of the Directors who have executive or non-executive roles with other companies is not compromised.

Prior to appointment, each Non-Executive Director confirms that they will have sufficient time available to be able to discharge their responsibilities effectively. During the year, the Board reviewed, in advance, disclosures by Non-Executive Directors seeking to undertake additional commitments. The Board remains confident that individual members are able to devote sufficient time to undertake their responsibilities effectively.

Induction and development

We have a programme for meeting Directors' training and development requirements.

Directors participate in a comprehensive and tailored induction programme including store and depot visits and meetings with other members of the Board, members of the Operating Board, senior management and external advisers.

The induction programme includes a full review of corporate responsibility and the Company's values and culture. This programme is ongoing for Non-Executive Directors who often meet members of the management team on an individual basis to continue to build their knowledge of the Company, or visit stores, depots and suppliers. Subsequent training is available on an ongoing basis to meet any particular needs. Detail on David Keens' induction can be found in his statement as chairman of the Audit Committee on page 61.

During the year, the Company Secretary, Tim Fallowfield, has provided updates to the Board on relevant governance matters, Directors' duties and obligations, and new legislation and its impact on the Company. The Audit Committee regularly considers new accounting developments through presentations from management and the external auditor. This year this included changes to the UK Corporate Governance Code applicable to the Group for the 2015/16 financial year, including the requirement for a viability statement and changes to risk management disclosures and current and future accounting standard changes, such as the new consolidation standards, revenue recognition and lease accounting.

The Board programme includes regular presentations from management and informal meetings which increase the Non-Executive Directors' understanding of the business and the sector. During the year, the Board held a meeting and toured the distribution centre at Daventry which was opened in 2015. The Board met and received presentations from the Retail and Operations Director, the Director of Logistics and senior members of the Retail Leadership team. The Board visited Sainsbury's Bank in September, met with management and colleagues and reviewed the Bank's operations. Directors have also visited stores and other sites on an informal basis as part of their continuing engagement with the business.

Information and support

The Chairman, in collaboration with the Company Secretary and management, is responsible for ensuring that all Directors are properly briefed on issues arising at Board meetings and that they have full and timely access to relevant information. Directors also have access to independent professional advice as well as to the advice of the Company Secretary in fulfilling their duties and responsibilities.

Board evaluation

2014/15 Review

Key findings	Progress made
Given the scale of change in the sector the Board agreed to continue to devote more time to reviewing the implementation of the strategy.	See Strategic leadership on page 53 and following paragraphs
The Board would continue to develop strong links to the broader management team.	See Induction and development above

2015/16 Review
The Board agreed that the 2015/16 review would be carried out by the Company Secretary. The Board is satisfied that the internal review follows an established process which enables a thorough evaluation with full and open participation from all Directors. The key objectives were to determine whether progress had continued on the key points raised by the previous evaluation exercise, to identify any emerging themes, and to consider whether the Board and its Committees were working effectively.

A questionnaire was circulated to all Directors seeking their evaluation of a number of matters, which was updated in order to include new questions focused on specific points of interest. The questionnaire covered strategy, Board and management succession, Board culture, balance and diversity, meetings and processes, investor relations, decision making, risk management and Board committees. This was followed up in separate discussions with each of the Directors to take their detailed feedback on any emerging themes. The Company Secretary then presented the principal conclusions to the Board at a meeting convened for that purpose, and the Board discussed the key points and agreed certain actions.

As part of the Board Evaluation exercise, the Senior Independent Director reviewed the Chairman's performance with the other Directors and subsequently met him to provide feedback. The Chairman provided feedback to each Director on their individual contributions to the Board and, with each of them, considered their development priorities.

The Board concluded that good progress had been made under Mike Coupe's leadership in the year and that the execution of the strategy was being well managed, with appropriate pace of change. The strategic debate had been effective with more opportunities to discuss key aspects, including a highly effective Strategy Conference. The Committees were performing effectively with good balance, debate and challenge.

The Board identified the following actions:

- Continue to develop strong links with the Board of Sainsbury's Bank and the broader management team;
- Some specific items could be given more visibility at Board level, including the work to increase diversity at all levels across the business; and
- Continue to monitor the broader competition landscape, given the extent of the multi-channel retail market and the pace of change.

The last external evaluation was conducted in 2014. It is therefore anticipated that the 2017 Board Evaluation will be externally facilitated.

Investor relations

The Company is committed to maintaining good communications with investors. Normal shareholder contact is the responsibility of Mike Coupe, John Rogers and Duncan Cooper, Head of Investor Relations. The Chairman is generally available to shareholders and meets with institutional and other large investors; the Senior Independent Director is also available as required.

The Company regularly meets with its large investors and institutional shareholders who, along with sell-side research analysts, are invited to presentations by the Company immediately after the announcement of the Company's interim and full-year results. They are also invited to participate in conference calls following the announcement of the Company's trading statements. The content of these presentations and conference calls are webcast and are posted on the Company's website (www.j-sainsbury.co.uk/investor-centre) so as to be available to all investors.

The Board receives feedback at each Board meeting on the views of major investors and the Investor Relations ('IR') programme. In addition, Makinson Cowell provides investor relations consultancy services to the Company and external analysis to the Board on the views of institutional investors and sell-side analysts. Non-Executive Directors also receive regular market reports and broker updates from the Company's IR department.

Shareholders have the opportunity to meet and question the Board at the AGM, which this year will be held on 6 July 2016. There will be a display of various aspects of the Company's activities and Mike Coupe will make a business presentation. All resolutions proposed at the AGM will be taken on a poll vote. This follows best practice guidelines and enables the Company to count all votes, not just those of shareholders who attend the meeting.

Information on matters of particular interest to small shareholders is set out on pages 152 to 154 and on the Company's website (www.j-sainsbury.co.uk/investor-centre).

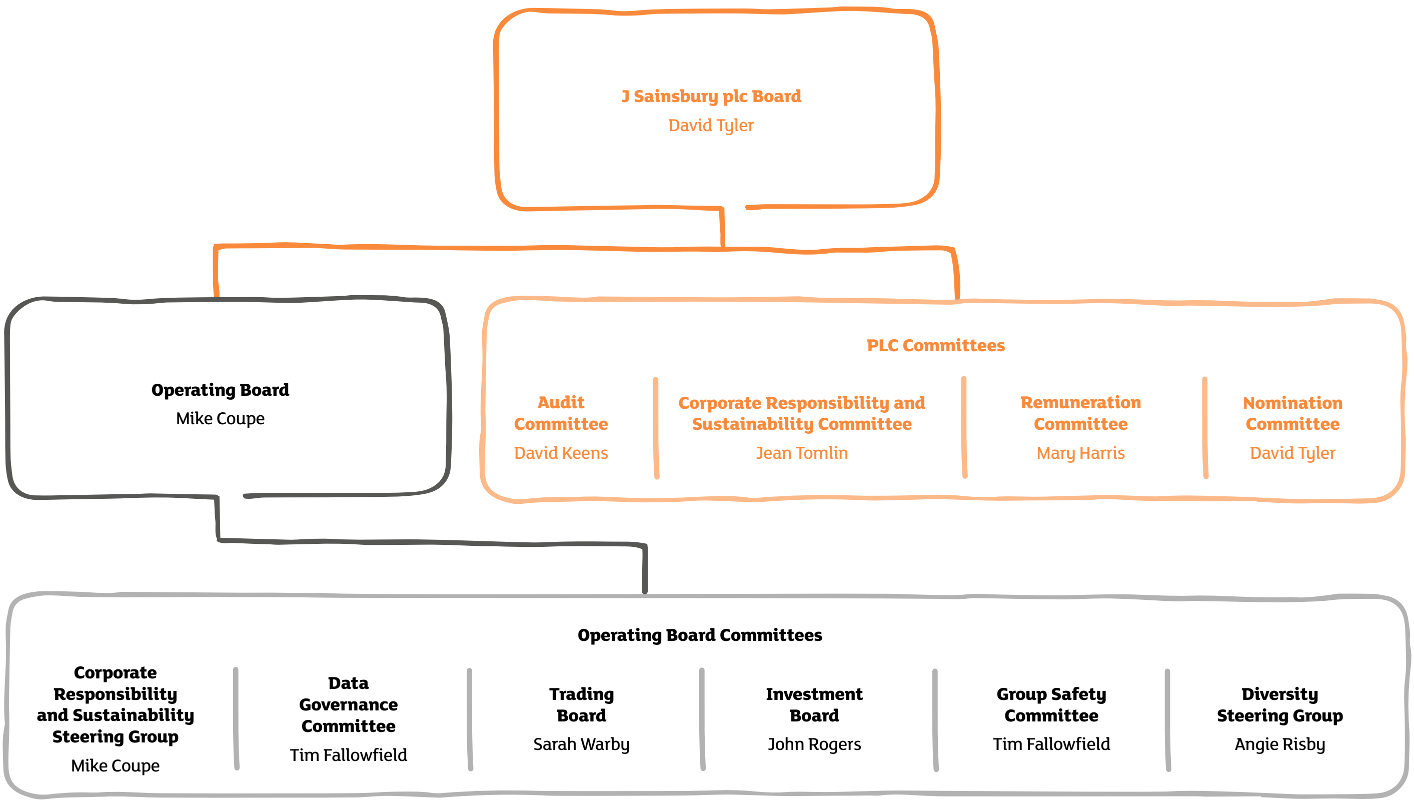
Board committees

The Board has delegated certain responsibilities to the Audit, Nomination, Remuneration and Corporate Responsibility and Sustainability Committees. The terms of reference for each Committee are available on the Company's website.

Operating Board

Day-to-day management of the Group is delegated to the Operating Board, which is chaired by Mike Coupe. The Operating Board held 11 scheduled meetings during the year and each Director's responsibilities are set out on pages 50 and 51. It has formal terms of reference setting out its key responsibilities.

The Operating Board has delegated certain powers to the Trading Board, the Investment Board, the Group Safety Committee, the Corporate Responsibility and Sustainability Steering Group, the Diversity Steering Group and the Data Governance Committee, each of which has approved terms of reference setting out its areas of responsibility.



Nomination Committee

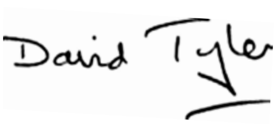
Dear Shareholder,

The Nomination Committee ensures that the Board has an effective balance of skills and experience around the Boardroom table. Succession and diversity at board and senior management levels are key aspects of our agenda.

The key focus of the Committee this year has been on managing the appointment process for a new Non-Executive Director to replace John McAdam and to decide upon his successor as Senior Independent Director. The Committee has also continued to review the succession planning at the Operating Board and senior management levels.

The appointment of Brian Cassin to the Board has been made taking into account the balance of skills, experience and diversity of the Board as a whole. The Board is satisfied that it continues to have the necessary skills mix and experience to enable it to operate effectively.

Succession and diversity at senior management levels are key aspects of our agenda. The Committee also oversees the Company's approach to resourcing the needs of the business, developing our colleagues and recruiting new talent. Diversity on a broader basis is an important feature of the Committee's agenda. A detailed summary of the diversity priorities is set out below.



David Tyler
Chairman

Succession planning

The Board takes succession planning for both Board members and senior management very seriously. All of the Non-Executive Directors are members of the Nomination Committee which is chaired by David Tyler. Mike Coupe is not a member of the Committee although he is invited to attend meetings.

Our Board evaluations consider the balance, skills and diversity of the Board. They also consider succession planning. The evaluation reviews any senior appointment processes during the year and identifies priorities for the year ahead.

We believe we have good balance and diversity amongst our Non-Executive Directors with several having extensive experience of consumer-facing businesses and other highly relevant skills derived from serving in a range of major executive and non-executive positions throughout their careers. Each of our Non-Executive Directors has been recruited following a robust selection process which has been facilitated by Egon Zehnder International, who provide search and recruitment services for the Company.

Egon Zehnder was engaged to identify a suitable candidate to fill the vacancy resulting from John McAdam stepping down from the Board at the 2016 AGM. The Committee considered the balance of skills, experience and diversity of the Board and identified that the preferred candidate would have experience of running a major listed company, in order to complement the existing Board skills. Following a thorough search process which involved meetings with the Chairman and other Directors, the Board was pleased to be able to appoint Brian Cassin as a Non-Executive Director.

Our Non-Executive Directors' tenure on our Board as at the year-end is as follows:

Board tenure Non-Executive	Number	Percentage
0-1 years	1	14
2-3 years	2	29
4-5 years	1	14
6-7 years	1	14
8-9 years	1	14
9-10 years	1	14

The above table includes the Chairman.

On an annual basis, the Committee reviews succession plans for the Operating Board, as well as Divisional Director development and talent management.

The Committee's terms of reference are available on the website at www.jsainsbury.co.uk/investor-centre/corporate-governance and set out the Committee's responsibilities. The Committee meets on such occasions as are necessary and in 2015/16 held two formal meetings and a number of other updates, particularly relating to the search process for the new Non-Executive Director.

Diversity and inclusion

Our diversity and inclusion vision is to be 'the most inclusive retailer where people love to work and shop'. We will achieve this aspiration by recruiting, retaining and developing diverse and talented people and creating an inclusive environment where everyone can be the best they can be and where diverse views are listened to. This will enable us to anticipate and accommodate the needs of our diverse customers, reflecting the communities we serve.

Four Board Sponsors lead our diversity strategy: Peter Griffiths (gender), Angie Risley (ethnicity, religion and belief), Tim Fallowfield (disability and carers) and Sarah Warby (lesbian, gay, bisexual and transgender). Our Board Sponsors, together with our Head of Talent and Performance Deborah Dorman, form our Diversity Steering Group. The Group meets regularly to govern progress. They are also responsible for updating the Board and Operating Board. In addition, we have 160 Diversity Champions who support the agenda in every part of our organisation.

Over half of our colleagues are women and we are taking active steps to support talented women to develop their careers at all levels of management. At year-end, women made up 33 per cent of our Board and 22 per cent of our Operating Board. A number of our senior women also hold non-executive director positions in other organisations. However, there remain areas of management where women are under-represented. Research shows that mentoring is a great way to support women with their career development and our recently launched Mentoring Matters programme targeting women has been well received, with over 1,400 female colleagues signing up since November 2015. Over the last 12 months more of our colleagues have signed up to the Inspiring the Future campaign, and we now have over 500 colleagues actively sharing their careers experience with young women and girls in schools and colleges.

	Colleagues	Male	Female
Board	9	6 (67%)	3 (33%)
Operating Board	9	7 (78%)	2 (22%)
Divisional Directors and Senior Managers	199	136 (68%)	63 (32%)
Company	164,535	72,486 (44%)	92,049 (56%)

We are Champion members of Race for Opportunity. Around 14 per cent of the population of England and Wales and 11 per cent of the UK workforce is from a BAME (Black Asian Ethnic Minority) background. This compares with 14 per cent of all Sainsbury's colleagues. We are working to increase our representation of BAME colleagues at management grades through participating both in Race for Opportunity's cross-organisational mentoring circles and our own internal mentoring networks. Last year, we were also co-sponsors of the largest ever race at work survey in the UK. Run by Business in the Community, the survey was completed by 24,000 working people (over 4,000 of which were Sainsbury's colleagues) to better understand the experience of BAME people at work. We are committed to supporting all of our BAME colleagues to reach their potential and are using these findings to inform our future plans.

We aspire to take a leadership approach to disability, commensurate with our Paralympic commitment to create a legacy of greater inclusion for people with disabilities. We sit on the Paralympic Legacy Advisory Group and take an active role in the Government's Disability Confident campaign. We are Partner members of the Business Disability Forum and received two Disability-Smart Awards that recognise organisations that demonstrate an outstanding commitment to employing and working with individuals with disabilities. These awards were for our exclusively designed disabled child trolleys and for our You Can scheme which helps those who have previously faced significant barriers to finding work, to enter the workplace. Since its launch in 2008 we have successfully recruited over 25,000 colleagues through the You Can programme.

We are one of only a few FTSE 100 companies with a carers' policy and have worked closely with Carers UK over the last 16 years to ensure that we properly support our estimated 18,000 colleagues with caring responsibilities. Carers UK celebrated its 50th anniversary last year and we supported Carers Rights Day for the fifth year running. Tim Fallowfield, Operating Board sponsor for Disability and Carers, also hosted the Carers Rights Day reception in parliament. We hosted events for local support and community groups during Carers Week. We also continue to invest in licences of Carers UK's Jointly App for all our colleagues who are juggling work with caring responsibilities.

We are members of Stonewall's Diversity Champions programme and featured for the first time in this year's Stonewall Workplace Equality Index. Sarah Warby, our LGBT sponsor, hosted the Stonewall Multi-Faith event in early 2016, which saw attendees from diverse religious, spiritual and non-religious communities come together for discussion and networking. Our LGBTA (lesbian, gay, bisexual, transgender and allies) network, Proud@ Sainsbury's, continues to grow and engage with colleagues from across our business. The elected co-chairs work alongside a panel of committed individuals to drive forward our LGBT agenda. Last year we also attended 27 Pride events across the UK and were presented with the Leeds' Pride Partner of the Year award for our involvement with this event.

Corporate Responsibility and Sustainability Committee

Dear Shareholder,

Our values are part of our DNA at Sainsbury's and fundamental to how we do business. We are always listening and understanding the role that business plays in driving sustainability.

As Chair of the Board's Corporate Responsibility and Sustainability Committee, I oversee the governance of our Sustainability Plan which spans our five values: 'Living healthier lives', 'Sourcing with integrity', 'Respect for our environment', 'Making a positive difference to our community' and 'A great place to work'.

This year marks the halfway point to 2020, since the launch of our plan in 2011 and we took this opportunity to undertake a strategic review of our Sustainability Plan, ensuring it was stretching and focused on the most material issues for our customers, colleagues, stakeholders and business.

This year also marked the launch of the UN Sustainable Development Goals, a set of global targets designed to improve the world by 2030. As we reviewed our plan it was important that we aligned ourselves to this sustainable development agenda, as well as our business strategy. We also wanted to be transparent and accountable through a clear set of KPIs that measures our performance across our Sustainability Plan.

The strategic review process looked at research into what our customers care about. We know our customers care about a wide range of issues. Our Closer to Customers insight launched in May 2015 and looked at what corporate responsibility areas matter most to our customers. Resoundingly, food waste emerged as a top priority where our customers wanted our support in managing household waste, and ultimately their household budget. This led to the launch of our *Waste less, Save more* initiative, a £10 million investment in helping our customers reduce their food waste by engaging communities, schools and organisations in developing a blueprint for the nation to reduce domestic waste.

Highlights for us over the past year have been our Carbon Disclosure Project Score of 100 per cent, our highest score yet. This made us one of 37 companies in the world awarded a position on the FTSE 350 Climate Disclosure Leadership Index (CDLI). We are also proud of the work we have achieved across our values, from supporting hundreds of local food donation partnerships to receiving gold accreditation from Investors in People, twice in a row – the only retailer to have done so. We also made great progress against our Sustainability Standards, successfully implementing our Farmed Prawn standard that works across our prawn farmers in Thailand.

Whether it is our alignment with the UN Sustainable Development Goals, our *Waste less, Save more* initiative or our work with suppliers to identify key risks over the coming years, we are constantly looking for ways to improve the world around us through our business wherever we can.

Further information about our progress can be found at www.j-sainsbury.co.uk/responsibility.

Jean Tomlin
Chair of Corporate Responsibility and Sustainability Committee

Corporate Responsibility and Sustainability Committee

Our Corporate Responsibility and Sustainability Committee is chaired by Jean Tomlin and attended by Mary Harris, Mike Coupe and David Tyler. It met twice during the year to oversee the governance of each of our five values as well as our Sustainability Plan.

These formal Committee meetings were supported by Corporate Responsibility and Sustainability (CR&S) stakeholder meetings that were hosted by Jean Tomlin and Mike Coupe. Each meeting is based around one of our five values and key external stakeholders are invited to attend including representatives from the government, industry, non-governmental organisations and key suppliers to our business. During the year three such meetings were held, relating to the values areas of Sourcing with integrity, Respect for our environment and Making a positive difference to our community.

The Committee is supported by an internal CR&S governance structure whereby members of the Operating Board have responsibility for each of our five values and sit on our CR&S Steering Group, chaired by Mike Coupe. The members of this biannual Steering Group are shown below.

The terms of reference of the Committee are available at www.j-sainsbury.co.uk/investor-centre/corporate-governance.

Our Sustainability Plan

Sustainability is at the core of our business strategy. Throughout our 147-year history, we have strived to lead by acting as a responsible retailer. Examples of our contribution over the past decade include supporting the future of British farming, transforming the market for fairly traded products and sustainable seafood, improving animal welfare and championing food waste.

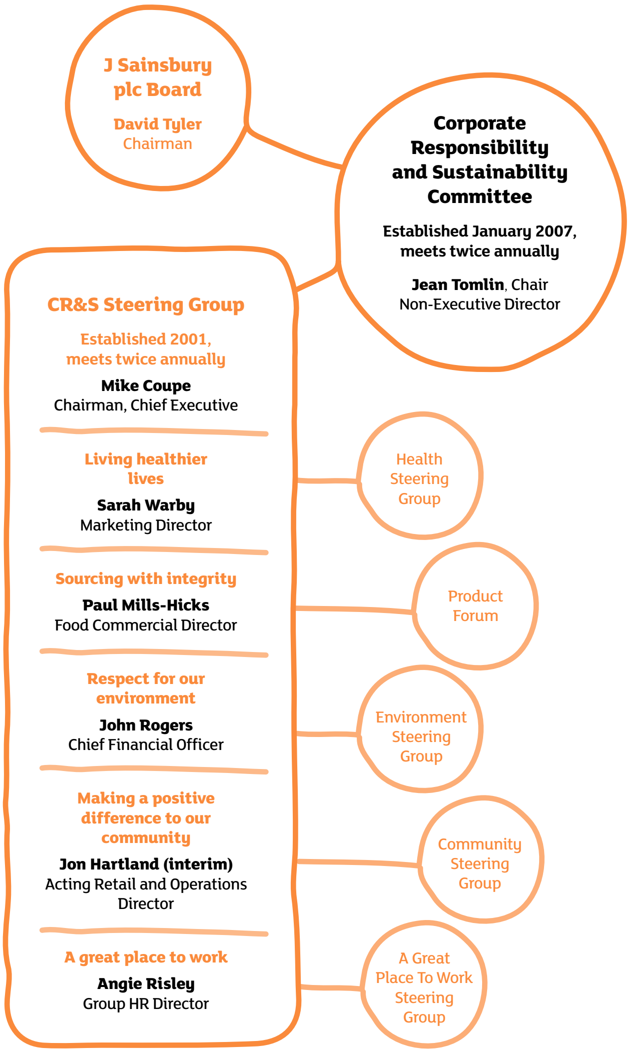
During the year we refreshed our Sustainability Plan and formalised our activities against our values in light of the new and changing issues that today's world faces. We launched this in December 2015 to our stakeholders, sharing our vision and plan for the next five years. In developing the plan we undertook a detailed auditing and consultation process. We have continued to listen to our customers, colleagues, suppliers and stakeholders to make sure we have the most relevant and effective strategy, leverage the knowledge and experience of experts and remain at the forefront of sustainability between now and 2020 and beyond.

Further information about our approach can be found at www.j-sainsbury.co.uk/responsibility, with quarterly updates also given as part of our broader trading statements.

Ethical trading and the Modern Slavery Act

Our commitment to ethical trade is long-standing and as a founding member of the Ethical Trading Initiative (ETI) we expect our policies, which are underpinned by the ETI base code, to be upheld throughout our supply-chains. Extensive second and third party audits underpin our approach to assurance and we undertake, both collectively and solely, significant capacity and capability activities to ensure and improve standards within our global supply chains. Examples of this include our collaborative working within project Issara, our strategic relationship and training programme with The Gangmasters Licensing Authority and a number of focused activities with our strategic suppliers.

The Modern Slavery Act, passed in March 2015, and the associated Transparency in Supply Chains Clause (TISC), further reflect the importance and wide ranging nature of ethical trade. The requirements to report against TISC are already being updated into our commercial terms and conditions. As a business we will update more broadly on our approach to modern slavery in the context of the TISC guidance before the end of 2016, ahead of our first regulatory reporting requirement due by September 2017.



Greenhouse gas emissions

We have measured our greenhouse gas (GHG) footprint since 2005 and set ourselves a challenging target to reduce our emissions by 30 per cent by 2020, compared to our baseline (and 65 per cent relative to sales floor area).

For further information on initiatives to reduce our GHG footprint, please refer to our Sustainability Plan available at www.j-sainsbury.co.uk/responsibility.

Location-based emissions

In 2015/16 our emissions reduced by 3.11 per cent.

	GHG emissions (tCO_2e)			
Emission source	2005/06 (baseline)	2013/14	2014/15	2015/16
Combustion of fuel and operation of facilities ('Scope 1')	536,694	635,191	571,673	601,091
Electricity, heat, steam and cooling purchased for own use ('Scope 2')	833,805	737,074	794,429	722,512
Total	1,370,499	1,372,266	1,366,102	1,323,603
Intensity measurement (tCO_2e/'000 sq ft)	90.36	61.93	59.87	57.05

Intensity ratio

In order to express our annual emissions in relation to the growth of our business, we report an emissions intensity measurement, calculated using sales area ('000 sq ft). Using this measure, our emissions intensity decreased by over 4.7 per cent in 2015/16 and has decreased by over 36.8 per cent since 2005/06.

Market-based emissions

The market-based emissions method reflects the emissions from the electricity that a company is using, which may be different from emissions for the electricity that is generated as a UK average. For example, different electricity suppliers emit more or less greenhouse gases depending on the energy source or technology, and companies who have invested in their own renewable or low carbon energy generation by this method can show the actual emissions level for the energy used. Using this methodology our total absolute GHG emissions in 2015/16 are lowered by 192,799 tCO_2e (14.6 per cent). As this is the first year this method has been used it is not possible to compare to previous years.

	GHG emissions (tCO_2e)
Emission source	2015/16
Combustion of fuel and operation of facilities ('Scope 1')	589,702
Electricity, heat, steam and cooling purchased for own use ('Scope 2')	541,102
Total	1,130,804
Intensity measurement (tCO_2e/'000 sq ft)	48.74

Dual emissions reporting

Overall emissions have been presented to reflect both location and market-based methodologies, affecting both Scope 1 & Scope 2 emissions. Scope 1; 12 per cent of total natural gas usage is covered by Green Gas Certification (100 per cent Renewable Gas Guarantee of Origin Contract); therefore 12 per cent of natural gas emissions have been reported at zero emissions. All other Scope 1 market-based emissions have been calculated using UK Government's GHG Conversion Factors for Company Reporting 2015 for all sources. Scope 2; 17 per cent of UK electricity is covered by a PPA, which meets all of the required quality criteria; therefore 17 per cent of UK electricity emissions have been reported at zero emissions. Remaining UK electricity has been reported at supplier-specific emissions rate. Non-UK electricity has been reported at local grid average.

Electricity use

Our absolute electricity consumption has decreased this year by 2.74 per cent, as a result of our investment in energy reduction initiatives, for example fitting our 355,000 sq ft distribution centre in Tamworth with over 4,000 solar panels. Overall, our energy reduction measures have decreased absolute electricity use by over ten per cent since 2005/06 despite a 53% increase in sales area.

Methodology

We have reported on all of the emission sources required under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. We have calculated and reported our emissions in line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) and emission factors from UK Government's GHG Conversion Factors for Company Reporting 2015. The reporting period is the financial year 2015/16, the same as that covered by the Annual Report and Financial Statements. The boundaries of the GHG inventory are defined using the operational control approach. In general, the emissions reported are the same as those which would be reported based on a financial control boundary.

Audit Committee

David Keens, Chairman, Audit Committee

Dear Shareholder,

The Committee's work during the year has included reviewing the risk framework in light of changes to the Governance Code, continuing to monitor both the transition of Sainsbury's Bank and the management of data security throughout the business.

This is my first report as Chairman of the Audit Committee. I joined the Board in April 2015 and became Chairman of the Committee in July. My priority in this first year has been to invest time in visiting Company sites, meeting with colleagues and understanding the risk management processes and internal controls. I have also met with the Company's professional advisers as appropriate to my duties. My site visits have been operational, financial and risk-based, encompassing a range of stores, distribution facilities and administration centres.

At the 2015 AGM Ernst & Young were appointed as the Group's auditor for the year to March 2016. The transition from PwC to Ernst & Young has been conducted professionally and effectively. We thank them both for their diligence and support during what has been a very busy period.

The Committee has promoted the Company's culture of identification and management of significant risks across the business, with continuous oversight by the Operating Board. We are satisfied that the business has maintained robust risk management and internal controls, supported by strong overall governance processes, and that the Board continues to instil a strong risk management culture across the business.

The Company's principal risks and uncertainties are set out on pages 36 to 38. We have reviewed these during the year and consider that the business has addressed them appropriately within its ongoing operating model and through specific actions.

The Committee continues to pay particular attention to data governance, with an emphasis on information security. We have requested and received detailed presentations and have thereby encouraged the Company's strong approach to risk management and controls, given that any data breach could have a detrimental impact on the Company's reputation.

We have monitored the transition programme and governance of Sainsbury's Bank, which is included on the agenda of, and is represented at, each Committee meeting.

New provisions of the Governance Code have been introduced. There is now a requirement to make a statement in the Annual Report concerning the Company's long-term viability over a specified period of time. In response to this, the Committee has developed its risk management monitoring processes to accommodate the longer-term nature of this statement. Further details are on page 39.

The significant issues considered by the Committee during the year are set out on page 63.

Finally, I would like to thank my predecessor as Audit Chair, Gary Hughes, and all Audit Committee members for their work and support during this past year of transition. My aim for the coming year is to increase my own Company knowledge whilst ensuring that this Committee continues to provide diligent enquiry across all aspects of our business.

David Keens
Chairman, Audit Committee

Committee membership

The Audit Committee is chaired by David Keens, with Matt Brittin, Brian Cassin (appointed 1 April 2016) and Susan Rice as its other members, all of whom are independent Non-Executive Directors. Susan Rice will step down as a member of the Committee on 4 May 2016. The Board has determined that David Keens has recent and relevant financial experience. The Chairman, Mike Coupe, John Rogers, Susannah Parden (Director of Internal Audit), Ed Barker (Director of Group Finance), Tim Fallowfield (Company Secretary and Corporate Service Director), representatives from Sainsbury's Bank and the external auditor are invited to attend Committee meetings.

Committee activities

The Committee's role primarily covers five areas being, internal controls, risk management, internal audit, external audit and financial reporting.

The Committee's activities during the financial year were as follows:

At each meeting the Committee received a report on the internal controls framework and the Internal Audit activities. This included a fraud update. The Committee also received updates on the key agenda items discussed at the meeting of the Sainsbury's Bank Audit Committee and on all important operating and regulatory matters, including the transition of the Bank following its acquisition, its liquidity, cash flows, capital adequacy and risk management processes. The Committee received accounting and tax updates covering all relevant accounting issues and regulatory decisions. In addition, the Committee regularly reviewed the Company's funding and liquidity position and considered its impact on the Company's financial and operational capabilities. Updates on litigation were also provided.

Other activities at each meeting were as follows:

	Standard items
September	— Approved the external audit plan and fee proposal. — Reviewed and approved the H2 internal audit plan. — Received an update on risk management. — Received an update on data governance and information security. — Reviewed the process being undertaken to support the long-term viability statement. — Received an update on the integration of Sainsbury's Bank. — Reviewed the Committee's terms of reference and proposed some amendments to the Board.
November	— Reviewed the Interim Results, including the recommendation to the Board that the going concern basis be adopted. — Reviewed the findings of the internal report of the external auditor. — Received a progress report on the viability statement. — Reviewed developments in the PCI compliance landscape and the Company's compliance programme.
March	— An update on the long-term viability statement including stress testing against risk materialisation. — Reviewed and approved the H1 internal audit plan. — Reviewed the FRC AQR letter. — Received an update on risk management. — Received an update on data governance and information security. — Received an update on information security within Sainsbury's Bank. — Reviewed a report of the external auditor.
April	— Reviewed the Annual Report and Financial Statements, including the recommendation to the Board that the going concern basis be adopted and that the Annual Report and Financial Statements are fair, balanced and understandable. — Reviewed the year-end report of the external auditor. — Reviewed the preliminary statement and recommended its adoption by the Board. — Recommended the appointment of Ernst & Young as auditor and confirmed their independence. — Approved the non-audit fees. — An update on compliance with the Grocery Supply Code of Practice and approval of the annual compliance report to the OFT. — A risk management update including a review of principal risks and uncertainties. — Reviewed and approved the Internal Audit Charter.

Fair, balanced and understandable assessment

One of the key compliance requirements of the Code is for the Board to confirm that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable (see page 82). To enable the Board to make this declaration, a formal process is embedded in the year-end review process to ensure the Committee, and the Board as a whole, has access to all relevant information and, in particular, management's papers on significant issues faced by the business. The Committee receives a paper from management detailing the approach taken in the preparation of the Annual Report and Financial Statements, highlighting areas where it has met the requirements of the Code. The Committee, and all other Board members, also receive drafts of the Annual Report and Financial Statements in sufficient time to facilitate their review and enable them to challenge the disclosures where necessary. In addition, the Group's external auditor reviews the consistency between the narrative reporting of the Annual Report and the Financial Statements.

Financial statements and significant issues

An accounting and tax paper is prepared by management and presented to the Audit Committee four times a year, which provides detail on the main financial reporting judgements and issues. Specific accounting papers have also been prepared when considered necessary.

Significant financial and reporting issues considered in the year, in no particular order, were as follows:

Significant financial and reporting issues and how the issue has been addressed

Impairment of financial and non-financial assets	The impairment of financial and non-financial assets is always a significant area of focus for the Audit Committee, especially in today's challenging marketplace. As disclosed in note 2 to the financial statements, a review for impairment triggers is performed at each reporting date by considering if any current or future events suggest the recoverable value of certain assets may be less than their carrying value. The Committee reviewed management's assessment of recoverable value and relevant judgements made. No impairment triggers were identified in the year.
Complex property transactions	The Committee has reviewed a number of complex property transactions executed during the year to ensure that all accounting and tax issues are identified and appropriately presented in the accounts, including whether amounts recognised reflect the overall substance of these transactions. Please refer to note 3 to the financial statements for property profits recognised in the year.
Pensions accounting	The Committee reviewed a summary of the key assumptions used in arriving at a valuation for the defined benefit pension scheme for both half-year and year-end reporting. The Committee reviewed the key assumptions driving the movement in the retirement benefit funded obligations including inflation, discount and mortality rates. Benchmarking is assessed to ensure that the assumptions are appropriate.
Items excluded from underlying results	The Committee is satisfied that the Group's definition of items excluded from underlying results remains clear and further disclosure is included where appropriate. The definition has been updated this year to show the coupons on the perpetual capital securities and perpetual convertible bonds within underlying profit in order to be transparent to readers of the accounts around the costs of these securities.
Sainsbury's Bank reporting	The Committee received updates on the key agenda items discussed at the Bank's Audit Committee including accounting judgements and estimates and on all important operating and regulatory matters such as its liquidity, cash flows, capital adequacy and risk management processes. Representatives from the Bank's Audit Committee, Risk Committee and Internal Audit team attend all meetings of the Committee. During the year the accounting judgements and estimates reviewed by the Committee have included impairment assessments of the loans and advances due to Sainsbury's Bank customers, progress on the bank transition, tax judgements and provisions.
Supplier arrangements	As in previous years, the Committee reviewed the amounts and movements in supplier arrangements in the year. The Committee remain comfortable with the controls in place to manage any estimation or judgement. The Committee also considered the disclosures in respect of supplier arrangements, and as a result of this have decided to disclose quantified balance sheet and income statement amounts for any areas of supplier arrangements that involve a level of judgement or estimation, but not those which are calculated through a mechanical process. The Committee believes this represents best practice disclosure.
Viability statement	Changes to the Corporate Governance Code ('the Code') have introduced a Directors' 'longer-term viability statement' into annual reports. This is the first year that we have adopted this new requirement so significant time was spent assessing the appropriate timeframe over which to make the statement. The processes underpinning the assessment of the Group's longer-term prospects were also reviewed in detail. As a result, an assessment period of three years has been chosen for which the Directors have confirmed the Group's viability (see page 39).
Audit Quality Review	During the year, the Audit Quality Review team of the Financial Reporting Council ("FRC") team reviewed PwC's March 2015 year-end audit of the Group. The FRC has given us a copy of their confidential report which has been reviewed and discussed by the Committee and separately with both PwC and our current external auditor EY. The Committee is satisfied that the matters raised do not give it concerns over the quality, objectivity or independence of the audit.

We note that within the External Audit report there is a risk associated with adjustments made to revenue. We have considered this and have concluded that we have appropriate procedures and controls in place not to include this as a significant area of judgement.

External Auditor

Independence of External Auditor

In order to ensure their independence, the Committee has overseen the Company's policy which restricts the engagement of Ernst & Young in relation to non-audit services. We are satisfied that Ernst & Young are fully independent from the Company's management and free from any conflicts of interest.

The policy is consistent with the Auditing Practices Board's Ethical Standards No. 5 – Non Audit Services. The policy is designed to ensure that the provision of such services does not have an impact on the external auditors' independence and objectivity. It identifies certain types of engagement that the external auditors shall not undertake, including internal audit and actuarial services relating to the preparation of accounting estimates for the financial statements. It also requires that individual engagements above a certain fee level may only be undertaken with appropriate authority from the Committee Chairman or the Committee. The policy also recognises that there are some types of work, such as accounting and tax advice, where a detailed understanding of the Company's business is advantageous. The policy is designed to ensure that the auditor is only appointed to provide a non-audit service where it is considered to be the most suitable supplier of the service. The Committee receives a report at each meeting on the non-audit services being provided and the cumulative total of non-audit fees. In the event that cumulative non-audit fees exceed the audit fee then all subsequent non-audit expenditure must be approved by the Committee Chairman.

Audit and professional fees paid to the auditor

The majority of the non-audit work undertaken by Ernst & Young during 2015/16 was audit related assurance services such as the interim review and the provision of accounting advice, which totalled £0.1 million. The audit fee for the year in respect of the Group, Company and its subsidiaries totalled £0.7 million. For a breakdown on the fees please refer to note 5 of the Notes to the financial statements. The Committee remains satisfied with Ernst & Young's independence and their overall challenge to management.

Effectiveness of External Auditor

Ernst & Young were appointed in July 2015 replacing PwC as the Company's auditor following a competitive tender which completed in January 2015. An effectiveness review was undertaken as part of the tender process.

Appointment of External Auditor

The Committee reviewed Ernst & Young's overall work plan, and approved their remuneration and terms of engagement. The Committee has made a recommendation to the Board to reappoint Ernst & Young as the Company's auditor for the 2016/17 financial year. Accordingly, a resolution proposing the reappointment will be tabled at the 2016 AGM.

CMA Order 2014 Statement of compliance

The Committee confirms that during the year the Company has complied with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, as published by the UK Competition and Markets Authority.

Risk management and internal controls

The Board has overall responsibility for risk management and the system of internal controls and for reviewing their effectiveness. Certain of these responsibilities have been delegated to the Audit Committee as outlined below. The system is designed to manage rather than eliminate the risk of failure to achieve the Company's business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The risk management process and the system of internal controls have been in place for the whole year, up to the date of approval of the Annual Report and Financial Statements, and accord with the UK Financial Reporting Council's Guidance on Risk Management, Internal Control and Related Financial and Business Reporting and the Governance Code.

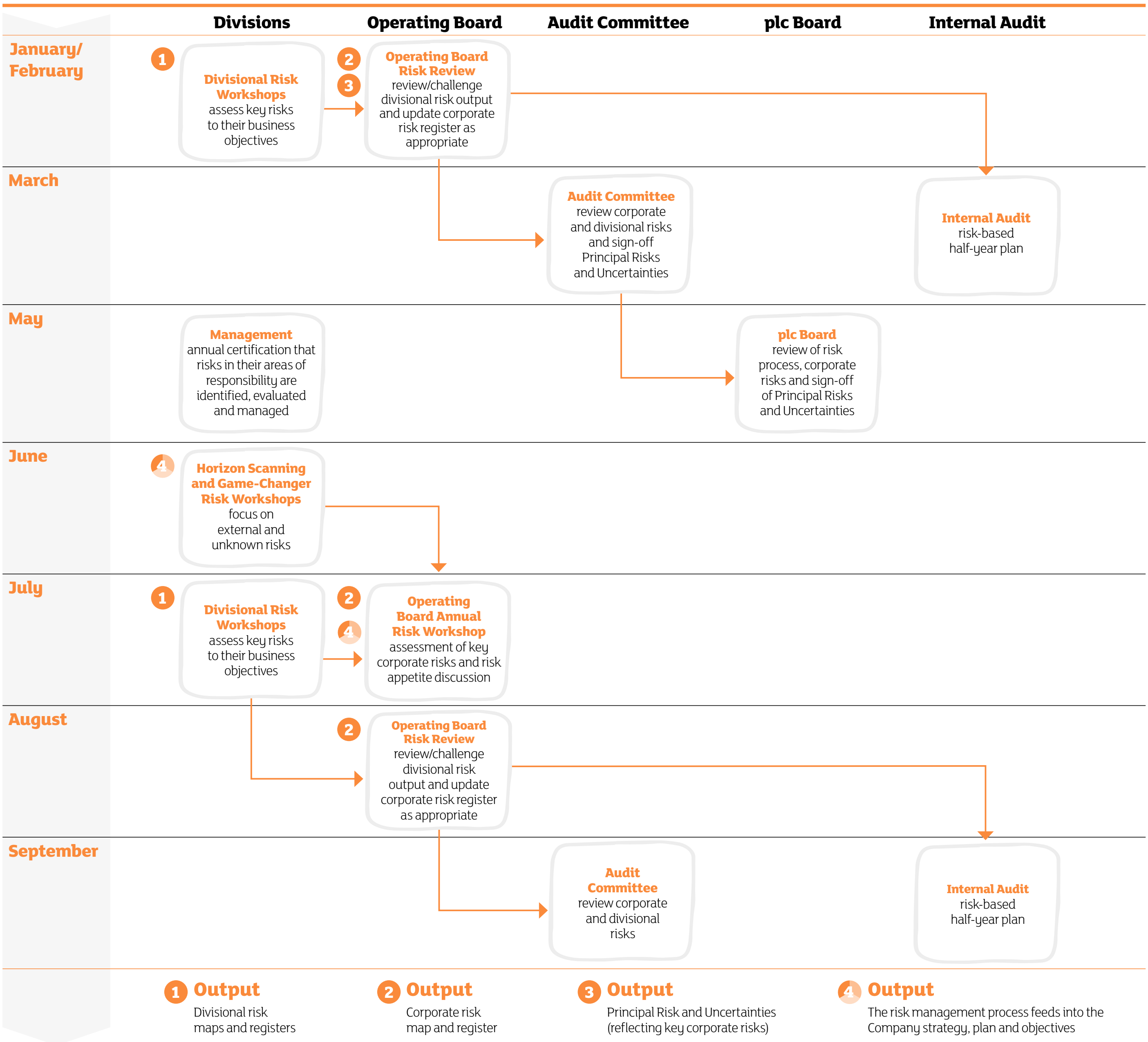
The Audit Committee has reviewed the effectiveness of the system of internal controls and has ensured that any required remedial action on any identified weaknesses has been or is being taken.

Risk management

Accepting that risk is an inherent part of doing business, the risk management system is designed to identify key risks and to provide assurance that these risks are fully understood and managed. The effectiveness of the process is reviewed twice a year by the Audit Committee. The Board carries out an annual review of the significant risks facing the business, which includes reviewing risk appetite.

The Operating Board maintains an overall corporate risk register which is reviewed twice yearly by the Audit Committee and formally discussed with the Board. The risk register contains the significant risks faced by the business and identifies the potential impact and likelihood at both a gross level (before consideration of mitigating controls) and net level (after consideration of mitigating controls). This gives the Board the opportunity to review the level of risk that the business is prepared to accept. The register also contains the assurance provided over current key mitigating controls. Where further actions have been identified to mitigate risks to a level deemed acceptable, these are agreed with specific timelines for delivery and progress on implementation of these actions is monitored.

Risk Management Process



Summary

The Corporate Risk Management process as referenced on page 64 continues to be effectively embedded and robust discussion on risk, mitigations and risk appetite occurs at both the Operating Board and Divisional leadership team levels. The risk management process is supported by the principle that the Board is focused on those risks capable of undermining the strategy or long-term viability of the Company and damaging its reputation, and business as usual risks are assessed and managed by the divisional leadership teams.

Risk management process

The risk management process is embedded at the Operating Board level and through the review of the risk registers of each of the operating divisions of the business:

- the divisional operating management teams are responsible for managing the risks to their business objectives and for identification and implementation of internal controls so as to provide reasonable, but not absolute, assurance that the risks in their areas of responsibility are appropriately identified, evaluated and managed;
- this divisional risk process is achieved through twice yearly workshops held by the divisional management and facilitated by Internal Audit. Each divisional management team produces and maintains a divisional key risk register. The likelihood and impact of each key risk is evaluated, management's risk appetite is discussed and any further actions deemed necessary to mitigate the risk are identified. In addition, the risks and the robustness of the mitigating controls are regularly reviewed by divisional management as part of their normal business activities;
- management certify annually that they are responsible for managing their business objectives and that the internal controls are such that they provide reasonable but not absolute assurance that the risks in their areas of responsibility are appropriately identified, evaluated and managed;
- the Operating Board reviews and challenges the output of the divisional risk process and then updates the overall corporate risk register as appropriate;
- game-changer and horizon scanning risk workshops are held annually to focus on external and unknown risks. Key themes and outputs from these are reviewed by the Operating Board and the potential impact on key risks is discussed;
- the corporate and divisional risk registers form the basis of the risk based plan of Internal Audit for the subsequent half-year period;
- Internal Audit provides independent assurance to management and the Audit Committee as to the existence and effectiveness of the risk management process; and
- the Board reviews the risk process and corporate risks at the year end and approves the Company's principal risks and uncertainties (as set out on pages 36 to 38).

Internal controls

The system of internal control encompasses all controls, including those relating to financial reporting processes (including the preparation of the consolidated Group accounts), operational and compliance controls and those relating to risk management processes. It also includes the controls over Sainsbury's interests in joint ventures.

The Audit Committee assesses the effectiveness of the internal controls systems on an ongoing basis, enabling a cumulative assessment to be made. The processes used during the year to support this assessment are as follows:

- discussion and approval by the Board of the Company's strategy, plans and objectives, and the risks to achieving them;
- review and approval by the Board of budgets and forecasts, including those for both revenue and capital expenditure;
- regular reviews by management of the risks to achieving objectives and mitigating controls and actions;
- regular reviews by management and the Audit Committee of the scope and results of the work of Internal Audit across the Company and of the implementation of their recommendations;
- regular reviews by the Audit Committee of the scope and results of the work of the external auditors and of any significant issues arising;
- regular reviews by the Audit Committee of accounting policies and levels of delegated authority; and
- regular reviews by the Board and the Audit Committee of material fraudulent activity and any significant whistleblowing by colleagues or suppliers and actions being taken to remedy any control weaknesses.

Additional matters

Internal Audit

The Committee has regularly reviewed the Internal Audit department's resources, budget, work programme, results and management's implementation of its recommendations.

The Director of Internal Audit, Susannah Parden, reports to the Committee Chairman and has direct access to all members of the Committee and the Chairman. She is given the opportunity after each meeting to meet with the Committee separately without management being present. She has regular meetings with all Committee members. The purpose, authority and responsibility of Internal Audit are defined in the Internal Audit Charter which the Committee reviews annually.

Whistleblowing

The Company's whistleblowing procedures ensure that arrangements are in place to enable colleagues and suppliers to raise concerns about possible improprieties on a confidential basis. All issues raised have been investigated and appropriate actions taken. Any significant issues are highlighted to the Audit Committee.

Sainsbury's Bank

Sainsbury's Bank is a subsidiary of the Company which has an independent board responsible for setting the Bank's strategy, risk appetite and annual business plan as well as the day-to-day management of the business. The Board of the Bank has an independent Chairman and a majority of independent Non-Executive Directors.

The Bank will continue to provide to each Audit Committee an update on performance and the chairs of the Bank's Audit Committee and Risk Committee will present to the Audit Committee. There is alignment between the Sainsbury's Internal Audit function and their colleagues within Sainsbury's Bank equivalent team.

Grocery Supply Code of Practice

In February 2010, a new Grocery Supply Code of Practice ('GSCOP') was implemented following the recommendation of the Competition Commission. Each grocery retailer to which it applies had to appoint a Code Compliance Officer whose duties include hearing disputes between suppliers and the relevant retailer. Sainsbury's appointed the Director of Internal Audit as its Code Compliance Officer.

GSCOP requires that each grocery retailer (to which it applies) delivers an annual compliance report to the Groceries Code Adjudicator which has been approved by the Chairman of the Audit Committee. Furthermore, a summary of the compliance report must be included in our Annual Report and Financial Statements.

Summary Annual Compliance Report

Sainsbury's has invested significant time and resource in providing comprehensive training to all relevant colleagues as required under GSCOP which is reinforced by online knowledge testing. Sainsbury's has also dedicated internal resource to provide all relevant colleagues with day-to-day advice and guidance. The Trading Division, in consultation with the Legal Services Team and the Code Compliance Officer, continues to assess the adequacy of policies and procedures in place to support GSCOP awareness and compliance.

A small number of alleged breaches of GSCOP have been received in the reporting period, which were dealt with within the Trading Division using our standard internal escalation procedure. The resolution of four of these alleged breaches was facilitated by the Code Compliance Officer.

Annual Statement from the Remuneration Committee Chairman

Mary Harris, Chairman, Remuneration Committee

Dear Shareholder,

The grocery retail market remains highly competitive and so it is as important as ever that our remuneration principles support and encourage the delivery of our strategy to enable us to differentiate ourselves from our peers.

This was Mike Coupe's first full financial year as Chief Executive. During the year, Mike, together with the Operating Board and senior leaders, continued to implement the strategy that was launched in November 2014. Through the dedication and hard work of colleagues throughout the business, we are making strong progress against our strategic objectives, which will support the long-term success of the Company in future years.

2015/16 remuneration decisions

As well as making progress against our strategic objectives, we have also outperformed our main supermarket peers and maintained market share in a sector facing competitive pricing strategies and deflation. Outcomes for performance-related pay reflect the achievement of stretching targets which were set in the context of the environment in which we are operating. Overall variable pay has increased as a result of a payout under the annual bonus (unlike last year) and a higher level of Deferred Share Award. However, Future Builder – our long-term incentive plan – did not vest for a second consecutive year, which reflects the shift in market conditions since this award was originally granted.

At the start of the year there was considerable uncertainty regarding the retail environment and to a large extent performance expectations had been reset across the UK grocery sector. The Committee firmly believes in pay for performance and the targets set for 2015/16 were demanding in the context of this challenging and competitive retail environment. The Committee notes the year-on-year reduction in profit and like-for-like sales. However, the results for 2015/16 represent a good outcome, demonstrated by maintaining market share (as measured by Kantar), the outperformance of both internal and external forecasts as well as outperformance of our main supermarket peers.

Annual bonus

The Executive Directors' bonus assessed performance against profit, sales, customer and individual measures. During the year the Company made good progress against these metrics and as such the bonus paid out at 76 per cent of maximum for Mike Coupe and 78 per cent of maximum for John Rogers. In a move towards greater transparency and consistent with best practice, in this year's report, expanded retrospective disclosure has been provided regarding both the bonus outcomes and the targets set (see page 71). I hope this provides useful additional insight into the decision making process.

Deferred Share Award ('DSA')

Reflecting the Company's significant outperformance of the target for sales and profit, strong performance against peers and progress against specific strategic goals, awards were made at 80 per cent of the maximum available (compared to 52 per cent last year). These outcomes are detailed on page 72.

John Rogers' role change

On 31 July 2015, John Rogers' role was expanded to include Business Development. In his expanded role, John has assumed responsibility for Group strategy, Sainsbury's Online, Netto and new business development, in addition to his existing responsibilities of finance, property, procurement and operational efficiency. John is a valued member of the Operating Board and it was a natural progression for John to take on further operational responsibilities. Alongside Mike and the rest of the Operating Board, John will play a major operational and strategic role in driving forward our business. As announced to the market at the time of the change, John's salary was increased to £675,000 to reflect his additional responsibilities.

Looking ahead to 2016/17

We will continue to operate within the policy as approved by shareholders at the 2014 AGM. The overall structure of the remuneration package and incentive award levels will remain unchanged for 2016/17.

Base salary

Salaries for the Executive Directors increased in March 2016 by 1.5 per cent, which is in line with the percentage salary increases for other management and central colleagues and below the four per cent for store colleagues awarded in August 2015.

From a wider pay perspective, the announcement of the legislative National Living Wage during 2015 was significant and has particular impact within the retail sector. The Committee will continue to monitor the Company's plans for colleague pay over both the short and longer term.

Annual bonus

A minor change is to be made to the annual bonus for 2016/17 in relation to how the customer element is assessed. This year it will be based on the Customer Satisfaction Index, which measures the satisfaction of our customers across the business whether they shop with us in-store or online. This measure will help drive our strategic objective of being there for our customers.

Future Builder

Prior to the grant of Future Builder awards, the Committee rigorously reviews the performance criteria to ensure the measures and targets are aligned to our corporate strategy and appropriately motivate participants to deliver performance above and beyond the expected level. Ordinarily these targets would be disclosed in the Directors' Remuneration Report prior to the grant of the awards.

In light of the proposed acquisition of Home Retail Group plc, the Committee has decided that, on a one-off basis, the setting of the performance criteria for the 2016 awards should be deferred until the outcome of the acquisition is known. The Committee believes it is important to ensure that the performance conditions and targets are aligned to the Company's strategic objectives over the next three years. If the acquisition successfully completes, the targets need to be meaningful in the context of the enlarged group and the strategy communicated to shareholders. The targets for any awards would be expected to be of comparable stretch to those granted in prior years. Following determination of the performance criteria later in the year, the Committee will communicate details of the measures and targets to shareholders.

AGM

In line with the regulations, this Directors' Remuneration Report, excluding the Directors' Remuneration Policy, will be put to an advisory vote at the AGM on 6 July 2016.

In addition this year, the Company will be seeking shareholder approval for a renewal of the Company's share incentive plan. The current Long-Term Incentive Plan ('LTIP'), under which Future Builder awards are granted, was approved by shareholders in 2006 and will expire in July 2016. The new plan is principally the same as the existing plan except for minor updates to reflect evolving market and best practice. The operation of the plan will remain unchanged and will continue to be fully in line with the policy approved by shareholders at the 2014 AGM.

Structure of report

Following this letter, the remainder of the report is split into the following sections:

- A remuneration summary, on pages 68 and 69, detailing remuneration decisions made in relation to 2015/16 and how remuneration arrangements will be operated for 2016/17. I hope this section provides shareholders with a useful overview of the key features of our remuneration arrangements.
- The Annual Report on Remuneration, on pages 70 to 77, discusses all payments and decisions made in relation to the 2015/16 financial year.
- For ease of reference, at the back of this report the policy tables which formed part of the Directors' Remuneration Policy approved by shareholders at the 2014 AGM have been included. The full policy can be found in our 2014 Annual Report on our website at: http://www.j-sainsbury.co.uk/investor-centre/reports/.

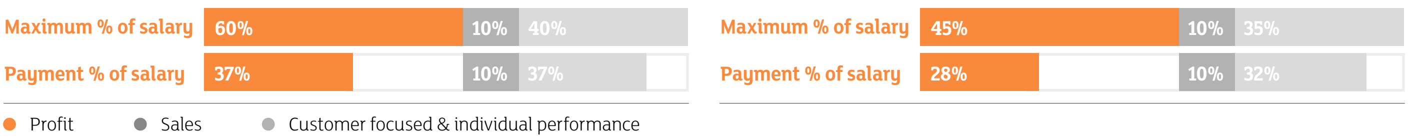
The Remuneration Committee remains firmly committed to the principle of pay for performance, ensuring that rewards of the senior leadership team are aligned with the experience of long-term shareholders, while staying true to our Company values.

Mary Harris
Chairman, Remuneration Committee

Summary of 2015/16 remuneration decisions

Pay element	2015/16 decisions
Salary	— Mike Coupe – £915,750 – salary increase of 1.75 per cent in March 2015, in line with other management and central colleagues. — John Rogers – £675,000 – salary increase on 31 July 2015, to reflect expanded role and additional responsibility of Business Development.
Annual bonus **Payout of 76% of max for the CEO and 78% of max for the CFO**	The Company performed well against the challenging targets that were set at the start of the year, which reflected the stretching internal and external forecasts for the retail market. — Profit delivered between the threshold and stretch targets — Stretch sales target exceeded — Customer-focused measure exceeded and strong individual performance assessed against key objectives — Profit gateway achieved For 2014/15, reflecting performance and the targets set, no bonus was paid to Mike and John.

Mike Coupe **John Rogers**



Deferred Share Award **Award of 80% of max**	Performance assessed taking into account financial performance, returns to shareholders, relative performance against peers and strategic goals. — Significant outperformance of target for sales and profit — Performed strongly compared to peers in terms of financials, returns, price, quality and service — One-year total shareholder return ahead of FTSE 100 and listed peers — Significant progress against strategic goals; the proposed acquisition of Home Retail Group plc has the scope to further accelerate the Company's strategy — Profit gateway achieved For 2014/15 the DSA paid out at 52 per cent of the maximum.
LTIP/Future Builder **Vesting 0% of max**	No awards will vest in May 2016. The Company's performance was within the vesting range for the performance conditions but the earnings gateway was not achieved. In May 2015 there was also no vesting due to the earnings gateway not being achieved.

Total remuneration

As a result of the weighting on performance-related pay, total remuneration levels are higher for 2015/16 due to the payouts under the annual bonus and DSA as described above.

				Mike Coupe £000		John Rogers £000
		2015/16	2014/15 annual[1]	2014/15 actual[1]	2015/16[2]	2014/15
Fixed pay	Salary	**916**	900	801	**650**	600
	Benefits	**38**	17	17	**17**	17
	Pension	**275**	270	231	**163**	150
Performance-related pay	Annual bonus	**767**	–	–	**472**	–
	Deferred Share Award	**806**	515	458	**486**	281
	LTIP/Future Builder	**–**	–	–	**–**	–
Total pay		**2,802**	1,702	1,507	**1,788**	1,048

1. Mike Coupe was appointed Chief Executive on 9 July 2014. The 2014/15 actual figures relate to the actual payments for the 2014/15 financial year; the 2014/15 annual figures relate to his annualised payments as Chief Executive.
2. John Rogers' salary was increased to £675,000 on 31 July 2015 when he took on the additional responsibility of Business Development.

Summary of 2016/17 remuneration

No major changes to the remuneration structure are proposed for the coming year.

Pay element	Summary of policy	Approach for 2016/17
Salary **Increase in line with colleagues**	Salaries are set taking into consideration a range of internal and external factors. Increases are normally in line with those for the wider workforce.	The Executive Directors received a salary increase of 1.5 per cent in March 2016 in line with other management and central colleagues. The 2016/17 salaries are: — Mike Coupe – £929,486 — John Rogers – £685,125
Benefits	Range of benefits provided in line with market practice and reflecting individual circumstances.	No changes to current arrangements.
Pension	Participation in either the Company defined contribution plan and/or a cash salary supplement. The maximum value is 30 per cent of salary.	No changes to salary supplement in lieu of pension for Mike Coupe (30 per cent of salary) and John Rogers (25 per cent of salary).
Annual bonus **No change to quantum and general structure**	Based on key financial, operational and individual objectives measured over one year, with bonus payable in cash after the year-end. Maximum opportunity of up to 125 per cent of salary per annum.	Performance is based on profit, sales, customer and individual performance. Profit will account for at least half of the bonus. A profit gateway needs to be achieved before any bonus is payable. The maximum bonus for 2016/17 is: — Mike Coupe – 110 per cent of salary — John Rogers – 90 per cent of salary
Deferred Share Award **No change to quantum and general structure**	Recognises and rewards for delivery of short-term strategic and financial objectives which contribute towards long-term sustainable growth. Performance measured over one year, after which award made as conditional shares deferred for two financial years. Maximum opportunity of up to 125 per cent of salary per annum.	Performance over the financial year is based on financial performance, returns to shareholders, relative performance against peers and strategic goals. Financial performance and returns to shareholders account for over half of the DSA. A profit gateway needs to be achieved before any award is made. The maximum award for 2016/17 is: — Mike Coupe – 110 per cent of salary — John Rogers – 90 per cent of salary
LTIP/Future Builder **No change to quantum** **Performance measures aligned to strategic priorities**	Recognises and rewards for delivery of Company performance and shareholder value over the longer term. Awards dependent on performance measured over a period of at least three financial years. 50 per cent vests following the end of the performance period and 50 per cent is deferred for a further year. Maximum award of up to 250 per cent of salary per annum.	Awards are structured as core awards, with a performance multiplier of up to four times. The 2016/17 awards are: — Mike Coupe – core award of 62.5 per cent of salary (max 250 per cent) — John Rogers – core award of 50 per cent of salary (max 200 per cent) As a result of the proposed acquisition of Home Retail Group plc, setting of the performance criteria for the 2016 Future Builder award has been deferred, to ensure they remain aligned to our strategic priorities over the three-year period. Shareholders will be updated with details of the measures and targets in due course.
Shareholding guidelines	The Executive Directors are required to build a shareholding (Mike Coupe 2.5 x salary and John Rogers 1.5 x salary), within five years of appointment.	
Recovery provisions	The Executive Directors' incentive arrangements are subject to malus and clawback.	

Annual Report on Remuneration

Remuneration principles

Our colleagues are central to the Company's ongoing success and the Company's overall reward strategy supports this. Our objective is to have a fair, equitable and competitive total reward package that supports our vision of being the most trusted retailer where people love to work and shop, encourages colleagues to perform in ways that deliver great service for customers, drives sales and provides opportunities for colleagues to share in Sainsbury's success. This overall reward strategy is the foundation for the remuneration policy for senior executives.

The over-arching objectives of the remuneration policy are to ensure rewards are performance-based and encourage long-term shareholder value creation. The remuneration policy for senior executives is based on the following principles:

Linked to business strategy
Specifically built around our strategy

Supports Sainsbury's values
Aligned to the Company's values as outlined in our Sustainability Plan

Drives long-term growth
Encourages the right behaviours to deliver long-term growth

Secures high calibre leaders
Recruit and retain high calibre leaders who can deliver operational excellence

Encourages share ownership
Enables executives to become shareholders in the Company

The Committee takes a rounded approach to pay and considers a variety of factors when determining, and subsequently implementing, the remuneration policy for senior executives. It believes it is important to exercise suitable judgement at all stages during the process to ensure that executive pay levels appropriately reflect performance and are aligned with the interests of shareholders.

The Committee regularly reviews the overall structure of remuneration for senior executives to ensure that it continues to evolve and is aligned to the corporate plan and business goals as well as supporting the interests of shareholders. When reviewing remuneration arrangements, the Committee considers pay practices across the Company and the retail sector more generally, the impact on colleagues, the cost to the Company, stakeholder views (including shareholders, governance bodies and colleagues) and best practice.

Single total figure of remuneration for Executive Directors (audited information)

The table below shows a single remuneration figure for all qualifying services for the 52 weeks to 12 March 2016, together with comparative figures for the 52 weeks to 14 March 2015.

		Mike Coupe[6] £000		John Rogers[6] £000	
	Notes	**2015/16**	2014/15	**2015/16**	2014/15
Base salary	1	**916**	801	**650**	600
Benefits	2	**38**	17	**17**	17
Pension		**275**	231	**163**	150
Total fixed pay		***1,229***	*1,049*	***830***	*767*
Annual bonus	3	**767**	–	**472**	–
Deferred Share Award	4	**806**	458	**486**	281
Long-Term Incentive Plan	5	**–**	–	**–**	–
Total		**2,802**	**1,507**	**1,788**	**1,048**

1. The 2014/15 base salary figure for Mike Coupe reflects his promotion to Chief Executive on 9 July 2014. The 2015/16 base salary figure for John Rogers reflects his salary increase from £610,500 to £675,000 on 31 July 2015.
2. Benefits include a combination of cash and non-cash benefits, valued at the taxable value. For Mike Coupe and John Rogers this includes a cash car allowance (£15,250) and private medical cover. Also included is a value for Sharesave options based on a 20 per cent discount on the savings in the year. The 2015/16 figure for Mike Coupe includes a one-off payment for the reimbursement of costs incurred as a result of Company commitments (£21,160). During 2015/16 Justin King received taxable benefits of £423; these have now ceased.
3. Annual bonus relates to performance during the financial year, paid in May following the relevant year-end.
4. The Deferred Share Award relates to performance during the financial year, shares are granted in May following the relevant year-end and vest after a two-year deferral period.
5. The Long-Term Incentive Plan relates to Future Builder awards.
6. The Executive Directors are entitled to retain the fees earned from non-executive appointments outside the Company. Mike Coupe was appointed a Non-Executive Director of Greene King plc on 26 July 2011 and received £45,744 (2014/15: £44,269) for his services during 2015/16. John Rogers was appointed a Non-Executive Director of Travis Perkins plc on 1 November 2014 and received £56,240 (2014/15: £23,192) for his services during the year.

The following sections provide detail for each element of the package during 2015/16 as well as details of the Committee's intended approach in respect of 2016/17.

Base salary

	Salary as at 2015/16 year-end	Salary effective from 13 March 2016
Mike Coupe	£915,750	£929,486
John Rogers	£675,000	£685,125

In line with our remuneration policy, the Committee takes account of a number of factors when considering salaries, with particular focus on the general level of salary increases awarded throughout the Company. The salary review for management and central colleagues in March 2016 was generally 1.5 per cent and for hourly paid retail colleagues in August 2015 was four per cent. External pay data is provided to the Committee for reference, relating to the UK retail market and similar-sized companies in terms of sales revenue and market capitalisation, but the Committee applies judgement when considering market data.

As outlined in the Annual Statement, and as disclosed to the market at the time of the change, John Rogers' salary was increased to £675,000 with effect from 31 July 2015, to reflect the expansion of his role to include Business Development. The Committee agreed a 1.5 per cent increase for both Mike Coupe and John Rogers effective 13 March 2016, in line with other management and central colleagues.

Pension

In lieu of pension plan participation, Mike Coupe receives a cash pension supplement of 30 per cent of salary and John Rogers 25 per cent of salary. Neither Director has any entitlement to a Sainsbury's defined benefit pension.

Benefits

For 2015/16 and 2016/17, benefits for Executive Directors include the provision of company car benefits, private medical cover, long-term disability insurance, life assurance and colleague discount. Mike Coupe's taxable benefits for 2015/16 also include a one-off payment for the reimbursement of the costs incurred as a result of Company commitments.

Performance-related pay

The Committee believes it is important that for Executive Directors a significant portion of the package is performance-related and the performance conditions applying to incentive arrangements support the delivery of the Company's strategy and the long-term sustainable success of the Company. The Committee considers performance against a range of metrics to ensure that the assessment is rounded, taking into account both qualitative and quantitative factors.

The table below outlines each of the performance measures currently used in our performance-related pay arrangements and how they support our business strategy.

	What the business is focused on		
	Great products and services at fair prices There for our customers Colleagues making the difference	We know our customers better than anyone else	Our values make us different
Annual bonus			
Profit	✓		
Sales	✓	✓	✓
Customer	✓	✓	✓
Individual performance	✓	✓	✓
DSA			
Financial performance	✓		
Returns to shareholders	✓		
Relative performance	✓	✓	
Strategic goals	✓	✓	✓
Future Builder			
ROCE	✓		
EPS	✓		
Cash flow	✓		
Strategic element: cost savings	✓		

The Board is of the opinion that the performance targets for the 2016/17 annual bonus and Deferred Share Award are commercially sensitive as the Company operates in a highly competitive, consumer-facing sector. The disclosure of targets would provide competitors with insights into the Company's strategic aims, budgeting and growth projections. However, for the first time, the Company is retrospectively disclosing the financial performance targets set for the 2015/16 annual bonus in order to provide greater transparency. Consistent with previous years, detailed disclosure is provided in relation to the Deferred Share Award so that shareholders can understand the basis for payments.

Annual bonus

2016/17 policy

All bonus plans across the Company are aligned under a set of common principles. The Board and senior management plans are based on profit, sales, a customer-focused measure and individual performance. Bonus awards are weighted to the achievement of profit, at least 50 per cent under the current structure, and profit also acts as the overall 'gateway' measure for the plan, reflecting the emphasis on profit. The annual bonus is paid in cash after the year-end.

The profit and sales targets are set against the Company's expected performance and are subject to a rigorous process of challenge before the proposals are considered by the Board. For 2016/17, the targets have been set such that considerably stretching performance in excess of internal and external forecasts is required for maximum payout. The customer-focused measure for 2016/17 has been amended to be more aligned to our strategic objective of being there for our customers. It will now be based on the Customer Satisfaction Index, which is a survey operated by a third party, that assesses the satisfaction of our customers across the business whether they shop with us in-store or online.

Individual performance objectives are set annually for each Executive Director and are reviewed by the Committee. These objectives cover a variety of financial and operational targets that contribute to the achievement of longer-term strategic goals; some of these objectives relate, either directly or indirectly, to the Company's values.

2015/16 annual bonus payment (audited information)

The performance measures for 2015/16 were the same as outlined above for 2016/17 with the exception of the change to the customer-focused measure.

The table below sets out the threshold and stretch profit and sales targets set at the start of the year and the actual outturn for 2015/16.

	Threshold	Stretch	Actual
Profit[1]	£525m	£625m	£587m
Sales[2]	£25,034m	£25,234m	£25,502m

1. Underlying profit before tax.
2. Total sales including VAT and duty, including petrol sales, excluding Sainsbury's Bank. Petrol volumes and prices held constant to remove the effect of fuel volatility on sales.

The profit and sales targets were set at the start of the year and reflected the continuing challenges in the UK retail market. The targets were set reflecting both our internal and external forecasts at that time. During the year, the Company performed strongly against these targets as the Company focused on the execution of the strategy which was launched in November 2014. Our senior team, managers and colleagues throughout our business all shared a consistent focus to drive sales, control costs and to deliver great products and services to our customers whenever and wherever they want. The Committee acknowledges the absolute year-on-year decline in profit and like-for-like sales, but is comfortable that the targets were robustly set, particularly when the broader context of the retail market and Sainsbury's outperformance of our main supermarket peers is considered. In the context of expectations at the start of the year, the profit and sales results represent strong performance outcomes.

The remainder of the bonus was subject to customer-focused and individual performance objectives. The customer-focused measure, which related to how well store support centre colleagues supported customers and stores, was met. The Committee also carefully reviewed the performance of the Executive Directors against key financial and strategic priorities that were set at the start of the year. Both Executive Directors exceeded their stretching personal objectives and had significant impact on the strong progress that has been made with executing the Company's strategy.

The table below shows the overall bonus payable as well as a breakdown by element. These are the figures included in the annual bonus row in the single total figure table.

	Maximum opportunity	Outcome	
	Per cent of salary	Per cent of salary	Value £000
Mike Coupe			
Profit	60%	37%	£341
Sales	10%	10%	£92
Customer-focused & individual performance	40%	37%	£334
Total	**110%**	**84%**	**£767**
John Rogers			
Profit	45%	28%	£188
Sales	10%	10%	£68
Customer-focused & individual performance	35%	32%	£216
Total	**90%**	**70%**	**£472**

Deferred Share Award

2016/17 policy

The Deferred Share Award ('DSA') is used to drive performance against a diverse range of key financial and strategic scorecard measures and rewards Executive Directors for achieving the short-term objectives that will directly lead to building the sustainable, long-term growth of the Company. These awards are made in shares to ensure further alignment of Executive Directors' interests with shareholders.

The DSA covers broadly the top 40 senior leaders in the Company, including Executive Directors. Performance is assessed in the round based on the Committee's judgement of performance achieved against a number of measures within four broad categories. The categories and examples of the measures that will be reviewed for 2016/17 are set out below.

Financial performance	*Profit, earnings per share, sales*
Returns to shareholders	*Total shareholder return, dividend yield*
Relative performance against peers	*Market share, industry profit pool*
Strategic goals	*Products, services, price, customers, colleagues, values*

As outlined in our remuneration policy, at least 50 per cent of the award will be based on the delivery of financial performance and returns to shareholders. In addition, no shares will be awarded unless a profit gateway target is achieved.

Performance is assessed over one financial year, but any shares awarded are deferred for a further two financial years. The shares are subject to forfeiture if the participant resigns or is dismissed for cause prior to their release date. Dividends accrue on any shares that subsequently vest.

The maximum DSA award opportunity for the Chief Executive is 110 per cent of base salary and for the Chief Financial Officer 90 per cent of base salary.

2015/16 Deferred Share Award (audited information)
Following the year-end, the Committee conducted a rigorous assessment of performance. Consistent with the underlying principles of the DSA, the Committee assessed achievements in the round and also considered the manner in which these performance goals had been delivered, in particular how the overall performance of the Company had contributed to its future sustainable growth and success.

2015/16 continued to be a challenging year for retailers and the Company performed well against its key financial objectives. The Company's performance was strong against its peers in terms of financials, returns, price, quality and service. Significant progress was made against specific strategic goals and the proposed acquisition of Home Retail Group plc has scope to further accelerate the Company's strategy.

The profit gateway which enables awards to be made was met and, as a result, the Committee agreed that for 2015/16 awards would be made at 80 per cent of the maximum level, compared with 52 per cent last year. The table below sets out details of the awards and these are the figures set out in the DSA row of the single total figure table. The share award is made after the end of the 2015/16 financial year and the shares vest in March 2018 subject to continued employment.

	Maximum opportunity	Outcome	
	Per cent of salary	Per cent of salary	Value £000
Mike Coupe	110%	88%	£806
John Rogers	90%	72%	£486

Although some of the specific measures and targets are commercially sensitive, the table below presents a selection of performance highlights which the Committee took into account within each of the four categories.

2015/16 Deferred Share Award performance

Financial performance
- Retail sales of £25,502 million, significant outperformance of target of £25,034 million
- Underlying profit before tax of £587 million, significant outperformance of target of £525 million
- Strong sales and retail operating profit performance relative to listed peers
- Sainsbury's Bank growth of 4.8 per cent, non-food sales up five per cent, Groceries Online sales up nearly nine per cent and orders growth of nearly 15 per cent, convenience sales growth of over nine per cent

Returns to shareholders
- One-year total shareholder return ahead of the FTSE 100 and listed peers
- Maintained an affordable dividend, with a proposed full-year dividend of 12.1 pence, and dividend cover 2.0x underlying earnings
- Underlying basic EPS of 24.2 pence per share

Relative performance against peers
- Sales and retail operating profit have outperformed our main supermarket peers
- Sales growth ahead of the market for the 52 weeks to 12 March 2016, based on Institute of Grocery Distribution ('IGD')
- Maintained market share, as measured by Kantar
- Competitive price position
- Continued to lead on quality perception, based on HPI brand and communications tracker

Strategic goals

Accelerating our strategy
- Our proposed acquisition of Home Retail Group plc will accelerate our strategy to be the multi-product, multi-channel proposition of choice
- It optimises the use of the combined retail space
- Combines delivery networks for fast, flexible and reliable delivery to store or to home for food, clothing and general merchandise
- Creates a financial services proposition with consumer-centric services
- Delivers significant cost and revenue synergies

Great products and services at fair prices
- We are making improvements to the quality of 3,000 own-brand products and we continue to lead on quality perception
- We have invested in the price of everyday products and this continues to drive improved price satisfaction scores and ensure we are competitive
- We have seen strong growth in our clothing and general merchandise businesses this year, both in stores and online
- Sainsbury's Bank continues to perform well with an operating profit increase of 4.8 per cent to £65 million

There for our customers
- Convenience now generates sales of over £2.3 billion – we have opened 69 convenience stores in the year, reaching a total of 773 stores
- Groceries Online achieved nearly nine per cent sales growth and order growth of nearly 15 per cent. We have rolled out 101 Click & Collect grocery sites
- Clothing online launched in August 2015, giving customers access to our full clothing offer
- Six new format supermarkets being trialled

Colleagues making a difference
- Achieving our customer service targets, winning Grocer Gold Customer Service and Availability Awards for the third year running
- We were named Grocer 33 Store of the Week 19 times in the year, the highest of any grocer
- We continue to invest in colleague training and development, with new mentoring programmes launched to support women that we identify as future talent in our business

We know our customers better than anyone else
- We introduced a new customer insight system that gives us an even better understanding of our customers and allows us to better meet their individual needs
- Through Nectar we reward people for their loyalty across our different products and services
- Our coupon-at-till technology also enables us to reward our customers with offers tailored specifically to them

Our values make us different
- This year we launched our ambitious Waste less, Save more initiative, to invest £10 million over the next five years to help households reduce their food waste
- More than £1.5 million raised from the book and companion toy from our 2015 Mog's Christmas Calamity campaign was donated to Save the Children's literacy campaign, Read on, Get on
- We have now raised over £100 million for Comic and Sport Relief since 1999

Long-term incentives

2016/17 policy

The long-term incentive vehicle in use at Sainsbury's is known as Future Builder. Around 200 senior managers participate in this arrangement. A core award of shares is granted, calculated as a percentage of salary and scaled according to level of seniority. Vesting of the core award is dependent upon performance against specific measures (common for all participants) tested at the end of a three-year performance period. The core award can grow by up to four times at stretch levels of performance. Half of any vested shares are released at the end of the performance period, while the remaining half are released after a further year. Dividends accrue on any shares that subsequently vest.

As noted in the Chairman's Annual Statement, in light of the proposed acquisition of Home Retail Group plc, the Committee has decided to defer the setting of performance criteria for the 2016 awards until the outcome of the acquisition is known. This is to ensure that the performance conditions are aligned to the Company's strategic objectives and are meaningful in the context of the enlarged group. Following determination of the performance criteria later in the year, the Committee will communicate the criteria to shareholders.

Furthermore, if the acquisition does complete, the Committee recognises that under the terms of the plan, adjustments may also be required to the assessment under the 2014 and 2015 Future Builder awards to ensure they remain a fair reflection of performance over the relevant period. Details of any adjustments made will be disclosed in due course.

At the 2016 AGM, the Company will also be seeking shareholder approval for a renewal of the LTIP, as the current plan, which was approved by shareholders in 2006, will expire in July 2016. The replacement plan will enable the Committee to continue to grant long-term share awards in future years. The terms of the 2016 plan are principally the same as the existing 2006 plan, save for minor updates to reflect evolving market and best practice. Further details regarding the terms of the new plan will be included in the Notice of AGM.

In 2016 Mike Coupe will receive a core award of 62.5 per cent of salary (maximum 250 per cent of salary) and John Rogers will receive a core award of 50 per cent of salary (maximum 200 per cent of salary).

2015 awards

The table below details the performance measures, targets and weightings applying to the Future Builder awards made in May 2015.

Measure	Weighting	Threshold target (1.0x core award)	Maximum target (4.0x core award)
Return on capital employed ('ROCE')	25%	9.0%	12.0%
Underlying basic earnings per share ('EPS')	25%	23.0p	30.0p
Cumulative underlying cash flow from retail operations after capex ('cash flow')	25%	£3,500m	£5,150m
Cumulative strategic cost savings ('cost savings')	25%	£450m	£600m

Performance gateway:
The Remuneration Committee must be satisfied that the Company's underlying performance over the period justifies the level of vesting. Vesting will be reduced if the vesting outcome is not considered to be justified. At vesting, when making this judgement the Committee has scope to consider such factors as it deems relevant.

Future Builder performance measures

ROCE

- ROCE reflects the returns generated for shareholders and measures the efficiency of capital use.
- It is based on the underlying profit before interest and tax for the whole business, with Sainsbury's Bank fully consolidated, including the underlying share of post-tax profit from joint ventures. The capital employed figure excludes the impact of movements in the IAS 19 pension deficit.

EPS

- EPS directly reflects returns generated for shareholders.
- Underlying basic EPS is based on underlying profit after tax divided by the weighted average number of ordinary shares in issue during the year.

Cash flow

- Cash flow measures the total flow of cash in and out of the business as well as providing an assessment of underlying profitability.
- Cumulative underlying cash flow from retail operations after capital expenditure is based on the reported cash flow generated from core retail operations over the performance period after adding back net rent, cash pension costs and deducting core capital expenditure. Only core retail operations are included in recognition of the differences in cash generation between the retail business and Sainsbury's Bank.

Strategic element: cost savings

- Cost savings is one of our key strategic targets and the level of savings targeted will require structural changes. This is a key long-term measure which is fundamental to delivering returns to shareholders.
- Cumulative strategic cost savings represents cost reductions over the performance period as a result of identified initiatives. It excludes Sainsbury's Bank.

2016 vesting (audited information)

The 2013 Future Builder award was subject to ROCE, cash flow and relative sales performance targets. In addition, the award was also subject to an EPS performance gateway which required EPS growth of at least four per cent per annum (further details are set out in the footnotes to the table on page 77). The EPS gateway applicable to the 2013 awards was not achieved and therefore no awards will vest under this plan in May 2016, despite the Company's performance being within the vesting range for the performance conditions.

Recovery provisions

The approved remuneration policy contains a recovery provision in relation to Future Builder awards. In cases of material mis-statement of financial results, serious reputational damage, serious misconduct and fraud, the Committee may reduce the number of shares under an unvested award, cancel an unvested award in full or impose further conditions on an unvested award. This provision was extended to the Deferred Share Award from 2015/16.

Also from 2015/16 the Committee further strengthened the recovery provisions applicable to future awards by introducing a clawback provision in relation to all incentive plans. In the circumstances listed above, the Committee may require an Executive Director to make a repayment in relation to bonus payments or share awards received within two years of the end of the relevant performance period.

Share awards made during the financial year (audited information)

The following share awards were made to Executive Directors during the year. The Future Builder award levels are determined by the normal grant policy for the role and, in the case of the DSA, performance over the previous year.

	Scheme	Basis of award (maximum)	Face value	Percentage vesting at threshold performance	Number of shares	Performance period end date
Mike Coupe	Future Builder[1]	250% of salary	£2,289,375	25% of each element	828,880	10/03/2018
	DSA[2]	57% of salary	£458,237	N/A	165,907	N/A
John Rogers	Future Builder[1]	200% of salary	£1,221,000	25% of each element	442,068	10/03/2018
	DSA[2]	47% of salary	£280,800	N/A	101,665	N/A

1. The performance conditions applying to 2015 Future Builder awards are set out on page 73. The basis of award shows the maximum value, being four times the core award. The award was made on 14 May 2015 and the number of shares has been calculated using the five-day average share price prior to grant (7 to 13 May 2015) of £2.762. Subject to performance, 50 per cent of the award vests on 14 May 2018 and 50 per cent 12 months later. The award is structured as a nil-cost option with a two-year exercise period.
2. The DSA was made on 14 May 2015 based on performance over the 2014/15 financial year. The award was made at 52 per cent of the maximum level (maximum of 110 per cent of salary for Mike Coupe and 90 per cent of salary for John Rogers). The number of shares has been calculated using the five-day average share price prior to grant (7 to 13 May 2015) of £2.762. No further performance conditions apply. Awards become exercisable on 17 March 2017. The award is structured as a nil-cost option with an eight-year exercise period.

Executive Directors' shareholdings and share interests (audited information)

The table below sets out details of the Executive Directors' shareholdings and a summary of their outstanding share awards at the end of the 2015/16 financial year. Further details of the movements of the Executive Directors' share awards during the year are set out on page 77.

	Ordinary shares[1]			Scheme interests[3]			
	14 March 2015	12 March 2016	3 May 2016[2]	Deferred Share Awards[4]	Value/Future Builder awards with performance period completed[5]	Future Builder awards with performance period outstanding[6]	SAYE
Mike Coupe	960,487	1,068,515	1,068,515	292,468	0	1,734,604	4,518
John Rogers	501,351	560,226	560,306	213,780	62,975	1,072,468	6,302

1. Ordinary shares are beneficial holdings which include the Directors' personal holdings and those of their spouses and minor children. They also include the beneficial interests in shares which are held in trust under the Sainsbury's Share Purchase Plan.
2. The total includes shares purchased under the Sainsbury's Share Purchase Plan between 12 March 2016 and 3 May 2016.
3. Deferred Share Awards and Value/Future Builder awards are structured as nil-cost options.
4. Relates to 2013/14 and 2014/15 Deferred Share Awards.
5. Where amounts shown, relate to vested but unexercised 2011 Value Builder awards. The 2012 Future Builder awards lapsed.
6. Relates to 2013, 2014 and 2015 Future Builder awards (maximum) where the performance period has not ended. The 2013 awards have subsequently lapsed after the end of the financial year.

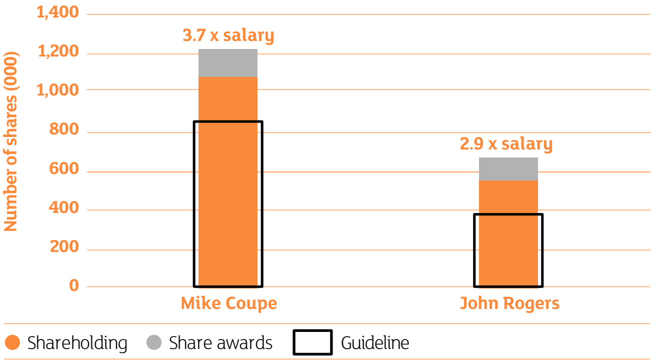
Note: The Executive Directors are potential beneficiaries of the Company's employee benefit trust, which is used to satisfy awards under the Company's employee share plans, and they are therefore treated as interested in the 7.9 million shares (2015: 6.0 million) held by the Trustees.

Shareholding guidelines (audited information)

The Executive Directors are required to build up a specified level of shareholding in the Company. This is to create greater alignment of the Directors' interests with those of shareholders, in line with the objectives of the remuneration policy. The guidelines require the Chief Executive to have a holding of 2.5 times base salary and the Chief Financial Officer 1.5 times base salary. Directors are required to build this shareholding within five years of appointment to the relevant role. In addition to shares held, share awards under the DSA and Value/Future Builder awards where the performance period has ended count towards the guideline (on a net of tax basis).

Both Executive Directors have shareholdings that meet and significantly exceed the current shareholding guideline.

Shareholding guidelines



Shareholding calculated using (i) salaries as at 12 March 2016, (ii) share total based on total of shareholding plus net of tax value (tax assumed to be 47 per cent) of share awards not subject to performance as at 12 March 2016 and (iii) the closing mid-market share price on 11 March 2016 of £2.733.

All-employee share plans

The Company encourages share ownership and operates two all-employee share plans for colleagues, namely the Savings-Related Share Option Plan ('Sharesave') and the All-Employee Share Ownership Plan, of which the Sainsbury's Share Purchase Plan ('SSPP') is a part. Executive Directors may participate in these plans in the same way as all other colleagues. Mike Coupe participates in Sharesave and John Rogers currently participates in both plans. As these are all-employee plans there are no performance conditions. The Committee approves the adoption or amendment of these plans and awards to Executive Directors.

The 2010 Sharesave plan (five-year), with a £2.97 option price, and the 2012 Sharesave plan (three-year), with a £2.67 option price, came to an end on 1 March 2016 for over 12,000 colleagues. Colleagues could either take their savings and any tax-free bonus or use the money to buy Sainsbury's shares at the option price. Using the market price on the date of the first exercise, the value of all the shares subject to the maturity was just over £21 million. The Company currently has over 30,000 colleagues participating in Sharesave with around 65,000 individual savings contracts.

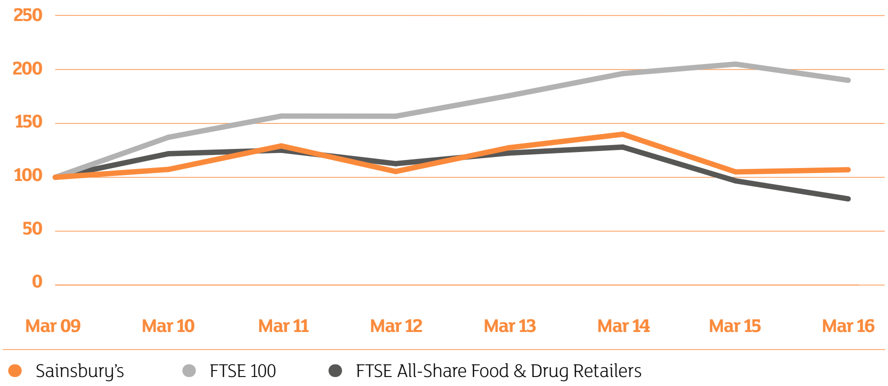
Dilution

The Company ensures that the level of shares granted under the Company's share plans and the means of satisfying such awards remains within best practice guidelines so that dilution from employee share awards does not exceed ten per cent of the Company's issued share capital for all-employee share plans and five per cent in respect of executive share plans in any ten-year rolling period. The Company monitors dilution levels on a regular basis and the Committee reviews these at least once a year. Up to 12 March 2016, an estimated 8.6 per cent of the Company's issued share capital has been allocated for the purposes of its all-employee share plans over a ten-year period, including an estimated 3.1 per cent over ten years in respect of its executive share plans. This is on the basis that all outstanding awards vest in full.

Performance and CEO remuneration

The graph shows the TSR performance of an investment of £100 in J Sainsbury plc shares over the last seven years compared with an equivalent investment in the FTSE 100 Index. The FTSE 100 Index has been selected to provide an established and broad-based index. The graph also includes data for the FTSE All-Share Food & Drug Retailers Index. The Company is a constituent of both indices. The table details the total remuneration for the Chief Executive over this period.

TSR performance since March 2009



		Chief Executive's total remuneration in last seven financial years						
		2009/10	2010/11	2011/12	2012/13	2013/14	2014/15[1]	2015/16
Single figure remuneration £000	M Coupe						1,507	2,802
	J King	4,441	4,380	3,471	4,366	3,906	405	
Bonus/DSA award as a percentage of maximum	M Coupe						26%	78%
	J King	92%	65%	61%	84%	73%	0%	
LTIP vesting percentage of maximum	M Coupe						0%	0%
	J King	80%	48%	43%	44%	40%	0%	

1. Justin King's figures relate to the time he was Chief Executive during 2014/15. Consistent with the single figure table, the figures for Mike Coupe relate to the whole of 2014/15; he was Chief Executive from 9 July 2014.

Percentage change in Chief Executive's remuneration

The table below shows how the percentage change in the Chief Executive's salary, benefits and bonus between 2014/15 and 2015/16 compares with the percentage change in the average of each of those components of pay for all our colleagues.

	Salary % change	Benefits % change	Bonus % change
Chief Executive[1]	14.4%	0.0%	N/A
All colleagues[2]	1.9%	(4.1)%	92.2%

1. The salary % change incorporates Mike Coupe's promotion to Chief Executive during the 2014/15 financial year. At the start of 2015/16 financial year he received an increase of 1.75 per cent of salary, in line with other management and central colleagues. For ease of comparison, the benefits % change excludes the one-off payment in 2015/16 relating to the reimbursement of cost incurred as a result of Company commitments. The bonus % change relates to the cash annual bonus and there was no payment in 2014/15.
2. Figures relate to average based on number of full-time equivalent colleagues. While there has been a decline in the benefit % change figure, the Company continues to offer the same benefits as in previous years.

Relative importance of spend on pay

The table below illustrates the year-on-year change in total colleague pay (being the aggregate staff costs as set out in note 7 to the financial statements) and distributions to shareholders (being declared dividends).

Colleague pay			Distribution to shareholders		
2014/15 £m	2015/16 £m	% change	2014/15 £m	2015/16 £m	% change
2,445	2,541	3.9%	330	234	(29.1)%

Single total figure of remuneration for Non-Executive Directors (audited information)

The table below shows a single remuneration figure for all qualifying services for the 52 weeks to 12 March 2016 for each Non-Executive Director, together with comparative figures for the 52 weeks to 14 March 2015.

	2015/16			2014/15		
	Fees[1] £000	Benefits[2] £000	Total £000	Fees[1] £000	Benefits[2] £000	Total £000
David Tyler	495	1	496	490	1	491
Matt Brittin	64	–	64	62	–	62
Mary Harris	82	4	86	80	4	84
Gary Hughes[3]	25	8	33	80	12	92
David Keens[4]	68	–	68	–	–	–
John McAdam	82	–	82	80	–	80
Susan Rice	64	14	78	62	8	70
Jean Tomlin	76	2	78	75	–	75

1. Paid in relation to the year.
2. David Tyler received a non-cash benefit of private medical cover. The benefits for the other Non-Executive Directors relate to the reimbursement of travelling expenses to Board meetings held at the Company's registered office.
3. Gary Hughes ceased to be a Director on 8 July 2015.
4. David Keens was appointed to the Board on 29 April 2015.

The Chairman receives an annual cash fee and benefits of private medical cover and a colleague discount card.

Non-Executive Directors receive a base annual cash fee; additional fees are paid to the Senior Independent Director and to the Chairmen of the Audit, Remuneration and Corporate Responsibility and Sustainability Committees. Non-Executive Directors receive no benefits other than a colleague discount card.

Details of the Board and Committee schedule of meetings and the number of meetings attended by the Directors are set out on page 53.

During the year, the Chairman and Non-Executive Directors' fees were reviewed. From 27 September 2015, the fees were amended (for the first time in two years) reflecting the responsibilities and time commitment of the roles, as set out in the table below.

	Fees effective from 29 September 2013	Fees effective from 27 September 2015
Chairman fee	£490,000	£500,000
Base fee	£62,500	£65,000
Senior Independent Director fee (additional)	£17,500	£18,500
Chairman of Remuneration Committee fee (additional)	£17,500	£18,500
Chairman of Audit Committee fee (additional)	£17,500	£18,500
Chairman of Corporate Responsibility and Sustainability Committee fee (additional)	£12,500	£13,000

The beneficial interest of the Non-Executive Directors, in post at the year-end, and their families in the shares of the Company are shown below.

	Ordinary shares[1]		
	14 March 2015	12 March 2016	3 May 2016
David Tyler	50,000	50,000	50,000
Matt Brittin	1,000	1,000	1,000
Mary Harris	12,848	13,252	13,252
Gary Hughes[2]	35,006	35,006	N/A
David Keens[3]	100,000	100,000	100,000
John McAdam	1,000	1,000	1,000
Susan Rice	1,000	1,000	1,000
Jean Tomlin	1,315	1,315	1,315

1. Ordinary shares are beneficial holdings which include the Directors' personal holdings and those of their spouses and minor children.
2. 12 March 2016 figure relates to 8 July 2015 when Gary Hughes ceased to be a Director.
3. 14 March 2015 figure relates to 29 April 2015 when David Keens was appointed as a Director.

Directors' appointment dates

Mike Coupe	1 August 2007 (post appointment as Chief Executive 9 July 2014)
John Rogers	19 July 2010
David Tyler	1 October 2009 (Chairman from 1 November 2009)
Matt Brittin	27 January 2011
Brian Cassin	1 April 2016
Mary Harris	1 August 2007
David Keens	29 April 2015
John McAdam	1 September 2005
Susan Rice	1 June 2013
Jean Tomlin	1 January 2013

Governance – the Remuneration Committee

Committee membership

The Remuneration Committee during the year comprised Mary Harris, John McAdam, Susan Rice (from September 2015) and Jean Tomlin. All members of the Committee are independent Non-Executive Directors.

Role and responsibilities of the Committee

The Committee complies with relevant regulations and considers the UK Corporate Governance Code and best practice when determining pay and policy. The specific responsibilities of the Committee include:

- Determining and agreeing with the Board the remuneration policy for the Chairman, Executive Directors and the Operating Board Directors;
- Setting individual remuneration arrangements for the Chairman, Executive Directors and Operating Board Directors;
- Reviewing and noting the remuneration trends across the Company;
- Approving the service agreements of each Executive Director, including termination arrangements; and
- Considering the achievement of the performance conditions under annual and long-term incentive/bonus arrangements.

The Committee's terms of reference are available on the Company's website (www.j-sainsbury.co.uk/investor-centre/corporate-governance).

Tim Fallowfield, Company Secretary, acts as secretary to the Committee. David Tyler, Mike Coupe, Angie Risley (Group HR Director), Sarah Desai (Executive Reward Manager) and Ed Barker (Director of Group Finance) are invited to attend Committee meetings. John Rogers has also attended selected meetings. The Committee considers their views when reviewing the remuneration of the Executive Directors and Operating Board Directors. Individuals who attend Remuneration Committee meetings are not present when their own remuneration is being determined.

Principal activities and matters addressed during 2015/16

The Committee has a calendar of standard items within its remit and in addition it held in-depth discussions on specific topics during the year. The Committee typically meets four times each year, or more as required. The table below shows the standard items considered at each meeting. The key issues the Committee discussed during the year were remuneration arrangements in relation to changes on the Operating Board, new LTIP rules and share plans in light of the proposed acquisition of Home Retail Group plc. The Committee also remained updated on the impact of the National Living Wage legislation on colleague pay.

	Standard agenda items
September	— Performance update on outstanding incentive awards — Review of incentive arrangements — Review of dilution under Company share plans — Corporate governance and market update — Review of the Chairman's fee
January	— Competitive review of Executive Directors' salary and total remuneration packages — Performance update on outstanding incentive awards — Initial discussions on incentive arrangements for the next financial year — Corporate governance update
March	— Review of incentive arrangements for the next financial year — Executive Directors' salary review decisions — Performance update on outstanding incentive awards — Review of advisers and their independence
April	— Review of performance and outcomes under the annual bonus and Deferred Share Award — Review of performance and vesting under long-term incentives — Determining incentive structure for the next financial year including finalisation of targets — Directors' Remuneration Report

Advisers to the Remuneration Committee

The Committee is authorised by the Board to appoint external advisers if it considers this beneficial. Over the course of the year, the Committee was supported by its appointed advisers, Deloitte LLP ('Deloitte'). Deloitte were reappointed by the Committee as advisers in 2013 following a competitive tender. During the year they provided advice to the Committee on a range of topics including remuneration trends, corporate governance, incentive plan design and a review of the incentive plan rules. Their consultants attended all of the Committee meetings. In relation to their advice, Deloitte received fees of circa £103,000 (fees are based on hours spent). During the year, Deloitte provided the Company with unrelated advice and consultancy regarding due diligence on the proposed acquisition of Home Retail Group plc, information technology, organisational structure, data analytics, taxation and matters relating to Sainsbury's Bank.

Willis Towers Watson provided comparative data, which was considered by the Committee in setting remuneration levels, for which they received fees of circa £23,000. Willis Towers Watson also provided comparative data to Sainsbury's Bank and other services to the Company relating to pensions and employee engagement.

Both Deloitte and Willis Towers Watson are members of the Remuneration Consulting Group and, as such, operate under the Code of Conduct in relation to executive remuneration consulting in the UK. During the year, the Committee reviewed the advice provided by Deloitte and Willis Towers Watson and has confirmed that it has been objective and independent. The Committee has also determined that the Deloitte partner who provides remuneration advice to the Committee does not have any connections with the Company that may impact their independence. The Committee has reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

Statement of voting at general meeting

The table below sets out the votes on the Annual Report on Remuneration at the 2015 AGM and the Remuneration Policy at the 2014 AGM. The Committee is keen to hear the views of all shareholders and continually reviews the remuneration policy and implementation.

	Votes for	Votes against	Votes abstained
Remuneration Report (2015 vote)	98.78% 1,229 million	1.22% 15 million	34.7 million
Remuneration Policy (2014 vote)	99.15% 1,154 million	0.85% 9.8 million	49.8 million

Details of the Executive Directors' share awards and movements during the year (audited information)

The table below shows the conditional awards granted and exercised under each of the Company's share plans.

Name	Award	Date of grant	Share price at date of award (pence)	Option price (pence)	Number of options held as at 15 March 2015	Number of options granted/ dividend shares allocated during the year	Number of options released during the year	Number of options lapsed during the year	Date of exercise	Share price on exercise (pence)	Number of options exercised	Notional gain on exercise[6] (£000)	Number of options held as at 12 March 2016
Mike Coupe	Long-Term Incentive Plan 2006[1]	19/05/2011	343	Nil	63,730	16,227[5]	79,957	–	10/06/2015	261	79,957	209	–
		17/05/2012	295	Nil	370,988	–	–	370,988		–	–	–	–
		16/05/2013	375	Nil	305,984	–	–	–		–	–	–	305,984
		15/05/2014[4]	333	Nil	599,740	–	–	–		–	–	–	599,740
		14/05/2015	269	Nil	–	828,880	–	–		–	–	–	828,880
	Deferred Share Award[2]	16/05/2013	375	Nil	111,948	12,287[5]	124,235	–	06/05/2015	265	124,235	329	–
		15/05/2014	333	Nil	126,561	–	–	–		–	–	–	126,561
		14/05/2015	269	Nil	–	165,907	–	–		–	–	–	165,907
	Sharesave[3]	11/12/2013	388	332	4,518	–	–	–		–	–	–	4,518
Total					**1,583,469**	**1,023,301**	**204,192**	**370,988**			**204,192**	**538**	**2,031,590**
John Rogers	Long-Term Incentive Plan 2006[1]	19/05/2011	343	Nil	50,194	12,781[5]	62,975	–		–	–	–	62,975
		17/05/2012	295	Nil	329,052	–	–	329,052		–	–	–	–
		16/05/2013	375	Nil	271,056	–	–	–		–	–	–	271,056
		15/05/2014	333	Nil	359,344	–	–	–		–	–	–	359,344
		14/05/2015	269	Nil	–	442,068	–	–		–	–	–	442,068
	Deferred Share Award[2]	16/05/2013	375	Nil	99,293	10,898[5]	110,191	–	06/05/2015	265	110,191	292	–
		15/05/2014	333	Nil	112,115	–	–	–		–	–	–	112,115
		14/05/2015	269	Nil	–	101,665	–	–		–	–	–	101,665
	Sharesave[3]	09/12/2011	297	238	6,302	–	–	–		–	–	–	6,302
Total					**1,227,356**	**567,412**	**173,166**	**329,052**			**110,191**	**292**	**1,355,525**

1. The 2013 and 2014 awards are based on ROCE – 50 per cent (threshold – 10.75 per cent; maximum – 12 per cent), cumulative cash flow from operations – 30 per cent (2013: threshold – £5,500m; maximum – £6,500m; 2014: threshold – £5,750m; maximum – £6,750m) and relative sales against the IGD index – 20 per cent (threshold – match index; maximum – index + 1 per cent pa). In addition, a performance gateway must be achieved. For 2013 awards, EPS must grow by at least four per cent per annum for any award to vest. For 2014 awards, the Remuneration Committee must be satisfied that the Company's underlying performance over the period justifies the level of vesting. Details of the performance conditions applying to 2015 Future Builder awards are set out on page 73. The LTIP share figures relate to the maximum that could be achieved.
2. See page 72 for details of the Deferred Share Award, including performance conditions.
3. Sharesave is an all-employee share option plan and has no performance conditions as per HMRC Regulations.
4. Mike Coupe's 2014 Future Builder award was made in two parts on 15 May 2014 and 10 July 2014. The combined award is shown.
5. In accordance with the plan rules under which the awards were granted, the vested awards have been increased to reflect the dividends paid in the period from date of grant to the vesting date.
6. This is the notional gain on the date of exercise had all shares been sold.

Directors' Remuneration Policy

The Directors' Remuneration Policy was approved by shareholders at the AGM on 9 July 2014. The full policy, including approach to recruitment, service contracts, termination arrangements etc, can be found in the 2014 Annual Report on our website.

The approved remuneration policy tables for Executive Directors and Non-Executive Directors, which were first published in the 2014 Directors' Remuneration Policy, are set out below. For clarity, where the policy table included references to implementation of the policy in 2013/14 or 2014/15, these references have been removed. Details of remuneration arrangements for 2015/16 and 2016/17 are set out in the Annual Report on Remuneration.

Remuneration policy for Executive Directors

Base salary	
Purpose and link to strategy	Core element of remuneration used to attract and retain executives who can deliver our strategic objectives.
Operation	Typically reviewed annually in March. Consideration is given to a number of internal and external factors including business and individual performance, role, responsibilities, scope, market positioning, inflation and colleague pay increases.
Opportunity	Salary increases (in percentage of salary terms) for Executive Directors will normally be within the range of those for the wider workforce. There is no maximum salary opportunity. Where the Committee considers it necessary and appropriate, larger increases may be awarded in individual circumstances such as: — A change in scope or responsibility; — If a new Executive Director is appointed at a lower rate and the salary is realigned over time as the individual gains experience in the role; or — Alignment to market level.
Performance details	None

Benefits	
Purpose and link to strategy	Competitive benefits to assist in attracting and retaining executives.
Operation	A range of benefits may be provided including, but not limited to, the provision of company car benefits (or cash equivalent), private medical cover, life assurance, long-term disability insurance, all-employee share plan participation and colleague discount. The Committee keeps the benefits offered, the policies and the levels provided under regular review.
Opportunity	The value of benefits provided will be reasonable in the context of relevant market practice for comparable roles and taking into account any individual circumstances (e.g. relocation). There is no maximum monetary value. Participation in any HMRC-approved all-employee share plan is limited to the maximum award levels permitted by the relevant legislation.
Performance details	None

Pension	
Purpose and link to strategy	Provides an income following retirement and assists colleagues building wealth for their future.
Operation	JS Self Invested Pension Plan ('SIPP', a defined contribution plan) and/or a cash salary supplement.
Opportunity	Maximum value of up to 30 per cent of salary per annum for existing Executive Directors. For new hires the nature and value of any pension provided will be, in the Committee's view, reasonable in the context of market practice for comparable roles and take account of both the individual's circumstances and the cost to the Company.
Performance details	None

Annual bonus	
Purpose and link to strategy	Rewards performance on an annual basis against key financial, operational and individual objectives.
Operation	Performance measured over one year, bonus payable in cash after the year-end. Bonus level determined by the Committee after the year-end based on performance against targets. Measures and targets are reviewed annually.
Opportunity	Maximum opportunity of up to 125 per cent of salary per annum. The level of threshold payment for performance varies depending on the performance measure, with payouts from zero per cent. Full vesting requires outperformance of stretch objectives.
Performance details	Based on a combination of financial (e.g. profit), operational (e.g. customer, availability) and individual metrics. A profit gateway must be achieved before any bonus payments can be made. The detail of the measures, targets and weightings may be varied by the Committee year-on-year based on the Company's strategic goals. At least half of any award will be subject to financial measures.

Deferred Share Award ('DSA')	
Purpose and link to strategy	Recognises and rewards for delivery of short-term strategic and financial objectives which contribute towards long-term sustainable growth. Balance with annual bonus to ensure management remain mindful of long-term consequences of short-term actions. Awards delivered in shares to provide further alignment with shareholders.
Operation	Performance measured over one year, after which award made as conditional shares (or equivalent) deferred for two financial years. After the year-end, performance is assessed in the round based on the Committee's judgement of performance achieved. Measures and targets are reviewed annually in light of the strategic plan. Dividends (or equivalents) may accrue on shares during the deferral period.
Opportunity	Maximum opportunity of up to 125 per cent of salary per annum. No DSA grants are made unless threshold performance levels are reached, with full vesting requiring outperformance of stretch objectives.
Performance details	Basket of metrics covering four categories: financial performance, returns to shareholders, relative performance against peers and strategic goals. A profit gateway must be achieved before any awards can be made. The detail of the measures, targets and weightings may be varied by the Committee year-on-year based on the Company's strategic goals. At least half of any award will be based on the delivery of financial performance and returns to shareholders.

Long-Term Incentive Plan ('LTIP') – Future Builder	
Purpose and link to strategy	Recognises and rewards for delivery of Company performance and shareholder value over the longer term. Share-based to provide greater alignment with shareholder interests.
Operation	Awards of conditional share awards (or equivalent) with vesting dependent on performance measured over a period of at least three financial years. To the extent that targets are met, 50 per cent vests following the end of the performance period and 50 per cent is deferred for a further year. The Committee reviews the metrics, targets and weightings prior to each grant to ensure that they remain appropriate. Recovery provisions apply. Dividends (or equivalents) may accrue on vested shares.
Opportunity	Maximum award of up to 250 per cent of salary per annum under the rules of the plan in respect of any financial year. Awards structured as core award (up to 62.5 per cent per annum) with a performance multiplier of up to four times. For performance at threshold levels of performance, up to 25 per cent of maximum under each element may vest. Based on the current structure this is equivalent to a multiplier of one times the core award.
Performance details	Performance measures and targets will be reviewed and then disclosed once there is clarity on the proposed acquisition of Home Retail Group plc. Any revisions will be within the scope of the approved policy and shareholders will be consulted as appropriate. A performance gateway must be achieved before any awards vest. Prior to granting awards, the Committee will review the performance conditions and may opt to vary the metrics and weightings to ensure targets and measures remain aligned with the corporate strategy. The Committee would seek to consult as appropriate with its major shareholders regarding any material changes.

Shareholding Guidelines	
Purpose and link to strategy	Alignment of Executive Directors with shareholders.
Operation	Guideline expected to be met within five years of appointment. Guidelines are: Chief Executive 2.5 times salary, other Executive Directors 1.5 times salary.

Remuneration policy for the Chairman and Non-Executive Directors

The remuneration of the Chairman is determined by the Remuneration Committee and the remuneration of the Non-Executive Directors by the Chairman and Executive Directors. The Chairman and Non-Executive Directors receive fees and are eligible for certain benefits. They are not entitled to any performance-related pay or pension.

Remuneration	
Approach to setting remuneration	The fees for Non-Executive Directors are set at a level which is considered appropriate to attract individuals with the necessary experience and ability to oversee the business. Fees may be paid in cash or shares. Typically reviewed annually in September. Judgement is used but consideration is given to a number of internal and external factors including responsibilities, market positioning, inflation and colleague pay increases. Where appropriate, benefits may be provided such as private medical cover, annual medical assessment and colleague discount. Travel and other reasonable expenses (including any associated taxes) incurred in the course of performing their duties are reimbursed to Non-Executive Directors.
Opportunity	Fee opportunity reflects responsibility and time commitment. Additional fees are paid for further responsibilities such as chairmanship of committees. The value of benefits provided will be reasonable in the market context and take account of the individual circumstances and benefits provided in comparable roles.

The Directors' Remuneration Report, excluding the Directors' Remuneration Policy, will be put to an advisory vote at the AGM on 6 July 2016. The Directors confirm that this report has been prepared in accordance with the Companies Act 2006 and reflects the provisions of the Large and Medium-sized Companies and Groups (Accounts & Reports) (Amendment) Regulations 2013.

Approved by the Board on 3 May 2016.

Mary Harris
Chairman, Remuneration Committee

Other disclosures

Dividends

The Directors recommend the payment of a final dividend of 8.1 pence per share (2015/16: 8.2 pence), making a total dividend for the year of 12.1 pence per share (2015/16: 13.2 pence), a decrease of 8.3 per cent over the previous year. Subject to shareholders approving this recommendation at the Annual General Meeting ('AGM'), the dividend will be paid on 8 July 2016 to shareholders on the register at the close of business on 13 May 2016.

Share capital and control

Except as described below in relation to the Company's employee share schemes, there are no restrictions on the voting rights attaching to the Company's ordinary shares or the transfer of securities in the Company; no person holds securities in the Company carrying special rights with regard to control of the Company; and the Company is not aware of any agreements between holders of securities that may result in restrictions in the transfer of securities or voting rights. Further details of the rights, restrictions and obligations attaching to the share capital of the Company, including voting rights, are contained in the Company's Articles of Association. The Articles of Association may only be changed with the agreement of shareholders.

Shares acquired through the Company's employee share plans rank pari passu with shares in issue and have no special rights. Where, under the Company's All Employee Share Ownership Plan, participants are beneficial owners of the shares but the Trustee is the registered owner, the voting rights are normally exercised by the registered owner at the direction of the participants. The J Sainsbury Employee Benefit Trusts waive their right to vote and to dividends on the shares they hold which are unallocated. Some of the Company's employee share plans include restrictions on transfer of shares while the shares are held within the plan.

At the AGM held in July 2015, the Company was authorised by shareholders to purchase its own shares, within certain limits and as permitted by the Articles of Association. The Company made no purchases of its own shares during the year and no shares were acquired by forfeiture or surrender or made subject to a lien or charge.

All of the Company's employee share plans contain provisions relating to a change of control. On a change of control, options and awards granted to employees under the Company's share plans may vest and become exercisable, subject to the satisfaction of any applicable performance conditions at that time.

Certain of the Company's credit facilities and banking arrangements contain change of control clauses under which lenders may cancel their commitments and declare all outstanding amounts immediately due and payable. There are no other significant agreements that would take effect, alter or terminate upon a change of control following a takeover bid.

Ordinary shares

Details of the changes to the ordinary issued share capital during the year are shown on page 121. At the date of this report, 1,925,075,512 ordinary shares of $28^{4}/_{7}$ pence have been issued, are fully paid up and are listed on the London Stock Exchange.

Major interests in shares

As at 3 May 2016, the Company had been notified by the following investors of their interests in three per cent or more of the Company's shares. These interests were notified to the Company pursuant to Disclosure and Transparency Rule 5:

	% of voting rights
Judith Portrait	3.31
Qatar Holdings LLC	25.02

Directors' interests

The beneficial interests of the Directors and their families in the shares of the Company are shown in the Annual Report on Remuneration on pages 74 and 76. The Company's Register of Directors' Interests contains full details of Directors' interests, shareholdings and options over ordinary shares of the Company.

During the year, no Director had any material interest in any contract of significance to the Group's business.

Directors' indemnities

The Directors are entitled to be indemnified by the Company to the extent permitted by law and the Company's Articles of Association in respect of all losses arising out of or in connection with the execution of their powers, duties and responsibilities. The Company has executed deeds of indemnity for the benefit of each Director in respect of liabilities which may attach to them in their capacity as Directors of the Company. The Company purchased and maintained Directors' and Officers' liability insurance throughout 2015/16, which has been renewed for 2016/17. Neither the indemnities nor the insurance provide cover in the event that the Director is proved to have acted fraudulently.

Employment policies

The Company is committed to an equal opportunities policy for recruitment and selection, through training and development, performance reviews and promotion through our 'A Great Place to Work' strategy. The Company has well developed policies for the fair and equal treatment of all colleagues and the employment of disadvantaged persons. During the year, a number of training courses have been held to ensure that our policies are understood throughout the organisation. We will adapt and retrain colleagues who have become disabled during their employment. See page 57 for further information on our diversity strategy.

As well as creating jobs we are committed to providing a workplace where people feel they are given the right opportunities to succeed in a safe, healthy and respectful environment. We know this is important and this is the reason why a Great Place to Work is one of our five values. Our Sustainability Plan includes a number of commitments within the category; for further information see our website at http://www.j-sainsbury.co.uk/responsibility/factsheets/.

Human rights

The Company does not have a specific human rights policy but fairness and integrity are an important part of the responsible way we run our business, as shown by the values and policies described above and throughout this report. In addition, our customers want to be confident that the people who make and sell our products are not being exploited, or exposed to unsafe working conditions. Our Code of Conduct for Ethical Trade covers the employment practices we expect from our suppliers, both in the UK and abroad. As we are a founder member of the Ethical Trading Initiative ('ETI'), our Code of Conduct is consistent with the ETI Base Code and national and international laws. For further information on this Code of Conduct see our website at http://www.j-sainsbury.co.uk/suppliers/ethical-trading/.

Political donations

The Company made no political donations in 2015/16 (2014/15: £nil).

Essential contracts

Sainsbury's has contractual and other arrangements with numerous third parties in support of its business activities. None of the arrangements is individually considered to be essential to the business of Sainsbury's.

Taxation

The Company complies with relevant tax laws, regulations and obligations regarding the filing of tax returns, payment and collection of tax. Sainsbury's does not undertake any tax planning schemes that seek to use so-called 'tax havens' for aggressive tax planning and for the purpose of tax avoidance.

Sainsbury's aims to develop an open, honest relationship with the tax authorities and involve them at an early stage should any complex tax issues arise. The taxation policy is reviewed annually by the Board. Tax is a key item on the Audit Committee agenda and is discussed quarterly where large or complex tax items will feature, together with compliance and key risk management updates.

All of Sainsbury's stores are based in the UK, and all our sales are generated here. As such, substantially all (more than 99 per cent) of our taxes are paid here. The Group also includes companies based in the following jurisdictions: Hong Kong, China, India and Bangladesh – these offices source many of our non-food products, and local taxes of £2 million were paid in the year (2014/15: £1 million); Isle of Man – our insurance company is based here for regulatory reasons, as are many other insurance companies; Ireland, Jersey, and the USA – these companies are all dormant and accordingly do not pay any tax. There are also other Group companies that were incorporated in Ireland, USA and Jersey that are UK tax resident, meaning that all relevant taxes are payable to the UK Government.

Post balance sheet events

There were no post balance sheet events.

Financial risk management

The financial risk management and policies of the Group are disclosed in note 29 on pages 126 to 134 to the financial statements.

Disclosure of information to the external auditor

Each of the Directors has confirmed that, so far as he/she is aware, there is no relevant audit information of which the auditor is unaware. Each Director has taken all steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information.

Appointment of the external auditor

Ernst & Young have expressed their willingness to be reappointed as auditor of the Company. Upon the recommendation of the Audit Committee, resolutions to appoint them as auditor and to authorise the Audit Committee to determine their remuneration will be proposed at the AGM.

Directors' Report

The Directors' Report comprises pages 1 to 65 and 80 to 82 of this Annual Report and Financial Statements.

The following information is also incorporated into the Directors' Report:

	Location in Annual Report
Interest capitalised	See note 11
Publication of unaudited financial information	Leverage ratio, see note 29
Details of any long-term incentive schemes	See Remuneration Report and note 32
Shareholder waiver of dividends	See note 26
Shareholder waiver of future dividends	See note 26

Other information requirements set out in LR9.8.4R are not applicable to the Company.

By order of the Board

Tim Fallowfield
Company Secretary and Corporate Services Director
3 May 2016

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Company financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Having taken all the matters considered by the Board and brought to the attention of the Board during the year into account, we are satisfied that the Annual Report and financial statements, taken as a whole, is fair, balanced and understandable.

The Board believes that the disclosures set out in this Annual Report provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the Directors, whose names and functions are listed on pages 48 to 49, confirms that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- the Strategic Report and Directors' Report contained in the Annual Report and financial statements include a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

By order of the Board

Tim Fallowfield
Company Secretary and Corporate Services Director
3 May 2016

Independent auditors' report to the members of J Sainsbury plc

Our opinion on the financial statements

In our opinion:

- J Sainsbury plc's Group financial statements and parent company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the parent company's affairs as at 12 March 2016 and of the Group's profit for the period then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

J Sainsbury plc's financial statements comprise:

Group	Parent company
Group income statement for the period ended 12 March 2016	Balance sheet as at 12 March 2016
Group statement of comprehensive income for the period ended 12 March 2016	Cash flow statement for the period then ended
Group balance sheet as at 12 March 2016	Statement of changes in equity for the period then ended
Group cash flow statement for the period then ended	Related notes 1 to 38 to the financial statements
Group statement of changes in equity for the period then ended	
Related notes 1 to 38 to the financial statements	

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Overview of our audit approach

Risks of material misstatement

- Supplier arrangements
- Aspects of revenue recognition
- Sainsbury's Bank customer receivables impairment
- Impairment of land and stores and onerous leases
- Pensions accounting
- IT environment

Audit scope

- We performed a full scope audit of the complete financial information of the following components: J Sainsbury plc, Sainsbury's Supermarkets Limited and Sainsbury's Bank plc. We performed audit procedures on specific balances for the property companies, joint ventures and insurance company due to the size and risk of certain individual balances within these components.
- The components where we performed full or specific audit procedures accounted for 98 per cent of Profit before tax before one-off items, 100 per cent of Revenue and 95 per cent of Total assets.

Materiality

- Overall Group materiality is £31.9 million which represents 5 per cent of profit before tax before one-off items.

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the financial statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk

Supplier arrangements

Refer to the Audit Committee Report (page 63); Accounting policies (page 96); and note 2 of the Consolidated Financial Statements (page 102)

The Group receives material discounts from suppliers, referred to as supplier arrangements. There are three streams as described in note 1 to the financial statements. We focused our audit procedures on the areas where management applies judgement, where the processing is either manual or more complex and where the quantum of agreements is high.

Our response to the risk

- We walked through and tested the design effectiveness of controls in place within the supplier arrangements process. We were able to take a controls-reliance approach over certain aspects of the process.
- We selected a sample of suppliers to send confirmations across all deal types to confirm key deal input terms. We did not receive any response where suppliers disagreed with the deal terms recorded. Where we did not receive a response from the supplier, we performed alternative procedures, including obtaining evidence of initiation and settlement of the deal.
- We tested the existence and valuation of balance sheet amounts recognised in accounts receivable and as a contra-asset in accounts payable by reviewing post-period end settlement. We also performed a 'look-back' analysis of prior period balance sheet amounts to check that these amounts were appropriately recovered.
- We tested the accurate settlement of a sample of supplier arrangements recognised in the income statement, which included settlement in cash or by off-set to amounts payable.
- Using data extracted from the accounting system, we tested the appropriateness of journal entries and other adjustments to supplier arrangements.
- We obtained the register of client entertaining to cross check this against significant deals made during the period to look for correlations that might indicate a higher risk of management override. Conversely we also reviewed entertainment expenses charged in the year to corroborate unusual movements. There was nothing outside of our expectations meriting further investigation.
- We tested deals recorded post period end and obtained the supplier agreement to validate that the deal was correctly recorded post period end.
- We assessed management's approach to provisioning for specific supplier arrangements' recoverability and concur that the amounts recorded reflect management's best estimate of amounts to be recovered.
- We performed detailed analytical review procedures to understand movements in income statement and balance sheet accounts period on period, including ageing analysis. Where unusual movements were identified these were investigated further.
- We discussed details of supplier relationships with certain category managers of key suppliers to confirm our understanding of the balances recorded and identify how disputes with suppliers are identified and dealt with. These discussions corroborated the balances and movements in the accounts and the results of substantive procedures described above.
- We reviewed management's disclosure in respect of supplier arrangement amounts recorded in the income statement and balance sheet.

What we concluded to the Audit Committee

Supplier arrangement amounts are appropriately recognised in the income statement and balance sheet and disclosures included are appropriate.

Risk

Aspects of revenue recognition

Refer to the Audit Committee Report (page 63); Accounting policies (page 96); and note 4 of the Consolidated Financial Statements (page 103)

Our assessment is that the vast majority of Sainsbury's revenue transactions are non-complex, with no judgement applied over the amount recorded. We focused our work on the manual adjustments that are made to revenue. These adjustments included the deferral and recognition of revenues for the Nectar loyalty scheme, coupon redemptions and gift cards and vouchers. Our procedures were designed to address the risk of manipulation of accounting records and the ability to override controls that otherwise appear to be operating effectively.

Our response to the risk

- We obtained a detailed understanding of these adjustments and walked through the controls over them and found them to be operating effectively. Due to the manual nature of some of these adjustments, we did not test these controls, but performed substantive audit procedures.
- We used our computer aided analytics tools to perform a correlation analysis to identify those revenue journals for which the corresponding entry was not cash. We obtained corroborating evidence for these adjustments which included coupon redemptions, gift cards and vouchers. For the Nectar loyalty scheme adjustment we obtained and corroborated to evidence from the administrator of the scheme.
- Using data extracted from the accounting system, we tested the appropriateness of journal entries impacting revenue, as well as other adjustments made in the preparation of the financial statements. We considered unusual journals such as those posted outside of expected hours, or by unexpected individuals and for large or unusual amounts.
- We performed cut-off testing procedures including review of post period end cash receipts and an analytical review of significant movements.

What we concluded to the Audit Committee

Adjustments to revenue have been appropriately recognised.

Risk
Sainsbury's Bank customer receivables impairment
Refer to the Audit Committee Report (page 63); Accounting policies (page 100); and note 17(b) of the Consolidated Financial Statements (page 115)

Sainsbury's Bank customer receivables relating to credit cards or loans recognised at 29 February 2016 are £3,423 million (2015: £3,098 million). The provision for impairment is £79 million (2015: £87 million).

Sainsbury's Bank customer receivables, through either credit cards or loans, are significant. There is judgement in the assumptions applied to calculate the loan provisions against outstanding balances.

Our response to the risk
The audit of Sainsbury's Bank was completed by a component auditor from another audit firm. We agreed an audit strategy with the component auditor in advance of their testing and we reviewed the results of their work. We also attended meetings with the management of Sainsbury's Bank. The audit strategy included the following:

- The loan impairment methodology was reviewed, to confirm it was consistent with both the IFRS requirements and that previously applied.
- The mathematical accuracy of management's impairment models was verified and confirmed that the methodology applied was in accordance with the requirements of IAS 39, 'Financial instruments: Recognition and measurement'.
- The completeness and accuracy of the data from underlying systems that were used in the impairment models was tested.
- Key assumptions including the probability of default and the size of the loss if default occurred were assessed against internal and external evidence. The key assumptions within the models were compared to knowledge of assumptions used in the banking sector and also with historical trends within Sainsbury's Bank, concluding that, based on the evidence obtained, management's conclusions were supportable.
- The accuracy of prior year impairment reserves was considered to assess the quality of management's estimation process.
- Changes to the modelling assumptions were assessed to confirm these were appropriate and in line with accounting standards.

What we concluded to the Audit Committee
The impairment of Sainsbury's Bank receivables due from customers has been appropriately recognised.

Risk
Impairment of land and stores and onerous leases
Refer to the Audit Committee Report (page 63); Accounting policies (page 97); and notes 3, 11 and 22 of the Consolidated Financial Statements (pages 103, 110 and 121)

A net impairment and onerous lease charge of £1 million (2014/15: £628 million) has been recognised during the period. Based on the current volatility in the industry and the magnitude of the Group's fixed assets and lease portfolio this was an area of audit focus.

Our response to the risk

- We understood management's process for identifying whether an indicator of impairment existed in line with IAS 36, 'Impairment of assets'.
- Where there has been a known change in future use of an asset, a more detailed impairment review has been performed. We discussed the changes in use or changes in development plans with management. We corroborated key assumptions to confirm the changes in use assumptions were appropriate and recalculated the impairment charges and releases.
- Where previously impaired stores had new capitalisation in the period we investigated to validate that an appropriate business case was in place and capitalisation was appropriate.
- We understood management's process for identifying onerous leases as well as the factors considered and determined whether appropriate provision had been made. This included an assessment of whether the appropriate discount rate had been applied.

What we concluded to the Audit Committee
The net impairment and onerous lease charge of £1 million is appropriately recognised.

Risk
Pensions accounting
Refer to the Audit Committee Report (page 63); Accounting policies (page 99); and note 31 of the Consolidated Financial Statements (page 141)

The net defined benefit pension deficit is £408 million (2014/15: £708 million) comprising scheme assets of £7,235 million and a defined benefit obligation of £7,643 million. Our focus is on the areas of significant judgement, including the assumptions underpinning the valuation of the pension obligation and the valuation of certain unquoted assets.

Our response to the risk
Pension obligation

- With the assistance of our EY actuarial specialists, we reviewed the methodology used to value the defined benefit obligation to confirm consistency with IFRS and the prior period.
- We reviewed and benchmarked the key input assumptions of discount rate and inflation to relevant industry and internal benchmarks.

Pension assets

- Unquoted assets amounted to £1,417 million at period end (2014/15: £897 million). These included private equity investments and swaps. For these assets we confirmed bid price valuation and existence to independent sources and reviewed period on period movements to look for unusual movements. For the swaps we recalculated a sample of contracts to confirm appropriate valuation.

What we concluded to the Audit Committee
The net defined benefit deficit is appropriately recognised.

Risk
IT environment
The IT systems across the Group are complex and there are varying levels of integration between them. The systems are vital to the ongoing operations of the business and to the integrity of the financial reporting process. We assessed the IT general controls environment for the key systems impacting the accurate recording of transactions and the presentation of the financial statements. For Sainsbury's Bank the key systems as described above are provided by an external outsource provider.

Our response to the risk

- We held discussions with management to understand the IT environment and walked through the key financial processes to understand where IT systems were integral to the Group's controls over financial reporting. From this we identified which IT systems to include in the scope for our detailed IT testing.
- We designed our IT audit procedures to assess the IT environment, including an assessment of controls over changes made to the system and controls over appropriate access to the systems.
- Where we found that adequate IT general controls were not in place, we performed additional substantive testing to mitigate the risk of material misstatement.
- Sainsbury's Bank's auditors received a report from the auditors of the outsourced systems and followed up on matters arising, performing further procedures as necessary. We discussed the work performed by Sainsbury's Bank's auditors and reviewed their work.

What we concluded to the Audit Committee
We have not identified any misstatements in the financial statements due to the limitations of the IT environment.

The scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent internal audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts of the components of the Group in the Group financial statements, we selected J Sainsbury plc, Sainsbury's Supermarkets Limited and Sainsbury's Bank plc components to perform full scope procedures, which represent the principal business units within the Group based on their size and risk characteristics. For the property companies, joint ventures and insurance components we performed audit procedures on specific accounts which we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

For remaining balances we performed other procedures, including analytical review, testing of consolidation journals, intercompany eliminations and foreign currency translation recalculations to respond to any potential risks of material misstatement to the Group financial statements.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from the other firm operating under our instruction. Of the full scope components, audit procedures were performed on the J Sainsbury plc, Sainsbury's Supermarkets Limited components and consolidation of the Group. The work at the specific scope locations was performed by the primary team.

For the Sainsbury's Bank full scope component, where the work was performed by auditors from another audit firm, we instructed the component auditor to perform specified procedures in response to our risk assessment. We then determined the appropriate level of direct involvement to enable us to determine that sufficient audit evidence had been obtained as a basis for our opinion on the Group as a whole. During the current period's audit cycle, the Senior Statutory Auditor visited Sainsbury's Bank and held discussions with management. Separately he and other senior team members from EY discussed the audit approach with the component team and significant issues arising from their work, reviewing key audit working papers on risk areas. The closing discussion was attended by the primary team. The primary team interacted regularly with the component team where appropriate during various stages of the audit, reviewed key working papers and were responsible for the scope and direction of the audit process. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £31.9 million, which is five per cent of profit before tax excluding one-off items of £90 million as described in note 3. We believe that this materiality basis provides us with the best assessment of the requirements of the users of the financial statements. This is consistent with the approach taken by the auditors in the prior period.

Starting basis	— Profit before tax £548 million
Adjustments	— One-off items £90 million
Materiality	— Totals £638 million Profit before tax before one-off items — Materiality of £31.9 million (five per cent)

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment and this being our first period of engagement, our judgement was that performance materiality was approximately 50 per cent of our planning materiality, namely £16 million.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current period, the range of performance materiality allocated to components was £3.0 million to £11.3 million.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £1.5 million, which is set at approximately five per cent of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 82, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

ISAs (UK and Ireland reporting)	We are required to report to you if, in our opinion, financial and non-financial information in the Annual Report is: — materially inconsistent with the information in the audited financial statements; or — apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or — otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the Directors' statement that they consider the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the Annual Report appropriately addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed.	We have no exceptions to report.
Companies Act 2006 reporting	We are required to report to you if, in our opinion: — adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or — the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or — certain disclosures of Directors' remuneration specified by law are not made; or — we have not received all the information and explanations we require for our audit.	We have no exceptions to report.
Listing Rules review	We are required to review: — the Directors' statement in relation to going concern, set out on page 39, and longer-term viability, set out on page 39; and — the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

Statement on the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: — the Directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; — the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated; — the Directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; and — the Directors' explanation in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Nigel Jones
(Senior statutory auditor)
for and on behalf of Ernst & Young LLP,
Statutory Auditor London
3 May 2016

Notes:

1. The maintenance and integrity of the J Sainsbury plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group income statement

for the 52 weeks to 12 March 2016

	Note	2016 £m	2015 £m
Revenue	4	**23,506**	23,775
Cost of sales		**(22,050)**	(22,567)
Gross profit		**1,456**	1,208
Administrative expenses		**(850)**	(1,132)
Other income		**101**	5
Operating profit	5	**707**	81
Finance income	6	**19**	19
Finance costs	6	**(167)**	(180)
Share of post-tax (loss)/profit from joint ventures and associates	14	**(11)**	8
Profit/(loss) before tax		**548**	(72)
Analysed as:			
Underlying profit before tax		**587**	681
Profit on disposal of properties	3	**101**	7
Investment property fair value movements	3	**(18)**	7
Retail financing fair value movements	3	**(22)**	(30)
IAS 19 pension financing charge and scheme expenses	3	**(28)**	(37)
Perpetual securities coupons	3	**15**	–
Acquisition adjustments	3	**3**	13
One-off items	3	**(90)**	(713)
		548	(72)
Income tax expense	8	**(77)**	(94)
Profit/(loss) for the financial year		**471**	(166)
Earnings/(loss) per share	9	**pence**	pence
Basic		**23.9**	(8.7)
Diluted		**22.5**	(8.7)
Underlying basic		**24.2**	26.4
Underlying diluted		**22.8**	25.7

The notes on pages 95 to 150 form an integral part of these financial statements.

Group statement of comprehensive income

for the 52 weeks to 12 March 2016

	Note	2016 £m	2015 £m
Profit/(loss) for the financial year		**471**	(166)
Items that will not be reclassified subsequently to the income statement			
Remeasurement on defined benefit pension schemes	31b	**121**	(19)
Current tax relating to items not reclassified	8	**–**	6
Deferred tax relating to items not reclassified	8	**(36)**	(1)
		85	(14)
Items that may be reclassified subsequently to the income statement			
Currency translation differences	24	**2**	3
Available-for-sale financial assets fair value movements			
Attributable to Group		**(1)**	(39)
Items reclassified from available-for-sale assets reserve	24	**–**	1
Cash flow hedges effective portion of fair value movements			
Attributable to Group	24	**4**	(13)
Attributable to joint ventures and associates	24	**1**	3
Items reclassified from cash flow hedge reserve	24	**7**	21
Current tax relating to items that may be reclassified	8	**–**	–
Deferred tax relating to items that may be reclassified	8	**3**	9
		16	(15)
Total other comprehensive income/(expense) for the financial year (net of tax)		**101**	(29)
Total comprehensive income/(expense) for the financial year		**572**	(195)

The notes on pages 95 to 150 form an integral part of these financial statements.

Balance sheets

At 12 March 2016 and 14 March 2015

	Note	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Non-current assets					
Property, plant and equipment	11	**9,764**	9,648	**–**	1
Intangible assets	12	**329**	325	**–**	–
Investments in subsidiaries	13	**–**	–	**4,500**	7,630
Investments in joint ventures and associates	14	**327**	359	**33**	18
Available-for-sale financial assets	15	**340**	184	**35**	37
Other receivables	17a	**103**	83	**1,531**	1,363
Amounts due from Sainsbury's Bank customers	17b	**1,649**	1,412	**–**	–
Derivative financial instruments	30	**17**	21	**22**	33
		12,529	12,032	**6,121**	9,082
Current assets					
Inventories	16	**968**	997	**–**	–
Trade and other receivables	17a	**508**	471	**1,195**	1,399
Amounts due from Sainsbury's Bank customers	17b	**1,695**	1,599	**–**	–
Available-for-sale financial assets	15	**48**	–	**–**	–
Derivative financial instruments	30	**51**	69	**32**	44
Cash and bank balances	27b	**1,143**	1,285	**338**	92
		4,413	4,421	**1,565**	1,535
Assets held for sale	18	**31**	84	**1**	15
		4,444	4,505	**1,566**	1,550
Total assets		**16,973**	16,537	**7,687**	10,632
Current liabilities					
Trade and other payables	19a	**(3,077)**	(2,961)	**(157)**	(4,422)
Amounts due to Sainsbury's Bank customers and banks	19b	**(3,173)**	(3,395)	**–**	–
Borrowings	20	**(223)**	(260)	**(40)**	(87)
Derivative financial instruments	30	**(43)**	(75)	**(35)**	(57)
Taxes payable		**(158)**	(188)	**(21)**	(21)
Provisions	22	**(46)**	(44)	**–**	(2)
		(6,720)	(6,923)	**(253)**	(4,589)
Liabilities held for sale	18	**(4)**	–	**–**	–
		(6,724)	(6,923)	**(253)**	(4,589)
Net current (liabilities)/assets		**(2,280)**	(2,418)	**1,313**	(3,039)
Non-current liabilities					
Other payables	19a	**(269)**	(265)	**(692)**	(798)
Amounts due to Sainsbury's Bank customers and other deposits	19b	**(582)**	(266)	**–**	–
Borrowings	20	**(2,190)**	(2,506)	**(616)**	(764)
Derivative financial instruments	30	**(69)**	(38)	**(13)**	(18)
Deferred income tax liability	21	**(237)**	(215)	**–**	–
Provisions	22	**(129)**	(77)	**(2)**	(2)
Retirement benefit obligations	31	**(408)**	(708)	**–**	–
		(3,884)	(4,075)	**(1,323)**	(1,582)
Net assets		**6,365**	5,539	**6,111**	4,461
Equity					
Called up share capital	23	**550**	548	**550**	548
Share premium account	23	**1,114**	1,108	**1,114**	1,108
Capital redemption reserve	24	**680**	680	**680**	680
Other reserves	24	**155**	146	**31**	40
Retained earnings	26	**3,370**	3,057	**3,240**	2,085
Total equity before perpetual securities		**5,869**	5,539	**5,615**	4,461
Perpetual capital securities	25	**248**	–	**248**	–
Perpetual convertible bonds	25	**248**	–	**248**	–
Total equity		**6,365**	5,539	**6,111**	4,461

The notes on pages 95 to 150 form an integral part of these financial statements.

The financial statements on pages 88 to 150 were approved by the Board of Directors on 3 May 2016, and are signed on its behalf by:

Mike Coupe Chief Executive

John Rogers Chief Financial Officer

Cash flow statements

for the 52 weeks to 12 March 2016

	Note	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Cash flows from operating activities					
Cash generated from/(used in) operations	27a	**624**	1,136	**93**	(492)
Interest paid		**(108)**	(134)	**(71)**	(74)
Corporation tax paid		**(124)**	(91)	**–**	–
Net cash generated from/(used in) operating activities		**392**	911	**22**	(566)
Cash flows from investing activities					
Purchase of property, plant and equipment		**(646)**	(951)	**–**	–
Purchase of intangible assets		**(34)**	(78)	**–**	–
Proceeds from disposal of property, plant and equipment		**109**	40	**15**	–
Receipt of advance disposal proceeds	18,19	**125**	–	**–**	–
Acquisition of subsidiaries net of cash acquired		**–**	(6)	**(137)**	–
Investment in joint ventures	14	**(18)**	(12)	**(15)**	(12)
Investment in subsidiaries		**–**	–	**–**	(59)
Disposal of subsidiaries		**(1)**	–	**–**	450
Proceeds from repayment of loan to joint venture		**–**	17	**–**	–
Interest received		**19**	20	**62**	44
Dividends and distributions received	14	**46**	70	**250**	252
Net cash (used in)/generated from investing activities		**(400)**	(900)	**175**	675
Cash flows from financing activities					
Proceeds from issuance of ordinary shares		**8**	19	**8**	19
Repayment of short-term borrowings		**(95)**	(381)	**(95)**	(336)
Proceeds from long-term borrowings		**–**	674	**–**	644
Repayment of long-term borrowings		**(238)**	(240)	**(120)**	(143)
Proceeds from issue of perpetual capital securities	25	**247**	–	**247**	–
Proceeds from issue of perpetual convertible bonds	25	**247**	–	**247**	–
Purchase of own shares		**(20)**	(18)	**–**	–
Repayment of capital element of obligations under finance lease payments		**(30)**	(29)	**–**	–
Interest elements of obligations under finance lease payments		**(9)**	(9)	**–**	–
Dividends paid on ordinary shares	10	**(234)**	(330)	**(234)**	(330)
Dividends paid on perpetual securities	25	**(4)**	–	**(4)**	–
Net cash (used in)/generated from financing activities		**(128)**	(314)	**49**	(146)
Net (decrease)/increase in cash and cash equivalents		**(136)**	(303)	**246**	(37)
Net opening cash and cash equivalents		**1,276**	1,579	**92**	129
Closing cash and cash equivalents	27b	**1,140**	1,276	**338**	92

The notes on pages 95 to 150 form an integral part of these financial statements.

Group statement of changes in equity

for the 52 weeks to 12 March 2016

	Note	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Retained earnings £m	Total equity before perpetual securities £m	Perpetual capital securities £m	Perpetual convertible bonds £m	Total equity £m
At 15 March 2015		**548**	**1,108**	**826**	**3,057**	**5,539**	**–**	**–**	**5,539**
Profit for the year	25,26	–	–	–	**452**	**452**	**13**	**6**	**471**
Other comprehensive income/ (expense):									
Currency translation differences	24	–	–	**2**	–	**2**	–	–	**2**
Remeasurements on defined benefit pension schemes (net of tax)	26	–	–	–	**85**	**85**	–	–	**85**
Available-for-sale financial assets fair value movements (net of tax):									
Attributable to Group	24	–	–	**2**	–	**2**	–	–	**2**
Cash flow hedges effective portion of changes in fair value (net of tax):									
Attributable to Group	24	–	–	**4**	–	**4**	–	–	**4**
Attributable to joint ventures	24	–	–	**1**	–	**1**	–	–	**1**
Items reclassified from cash flow hedge reserve	24	–	–	**7**	–	**7**	–	–	**7**
Total comprehensive income for the year ended 12 March 2016		**–**	**–**	**16**	**537**	**553**	**13**	**6**	**572**
Transactions with owners:									
Dividends paid	10,26	–	–	–	**(234)**	**(234)**	–	–	**(234)**
Issue of perpetual subordinated capital securities and perpetual subordinated convertible bonds	25	–	–	–	–	–	**248**	**248**	**496**
Distributions to holders of perpetual subordinated convertible bonds (net of tax)	25	–	–	–	–	–	**(13)**	**(6)**	**(19)**
Amortisation of convertible bond equity component	24,26	–	–	**(7)**	**7**	–	–	–	–
Share-based payment (net of tax)	26	–	–	–	**23**	**23**	–	–	**23**
Purchase of own shares	26	–	–	–	**(20)**	**(20)**	–	–	**(20)**
Allotted in respect of share option schemes	23,26	**2**	**6**	–	–	**8**	–	–	**8**
At 12 March 2016		**550**	**1,114**	**835**	**3,370**	**5,869**	**248**	**248**	**6,365**

Group statement of changes in equity continued

for the 52 weeks to 12 March 2016

	Note	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 16 March 2014		545	1,091	807	3,560	6,003	2	6,005
Loss for the year	26	–	–	–	(166)	(166)	–	(166)
Other comprehensive income/(expense):								
Currency translation differences	24	–	–	3	–	3	–	3
Remeasurements on defined benefit pension schemes (net of tax)	26	–	–	–	(14)	(14)	–	(14)
Available-for-sale financial assets fair value movements (net of tax):								
Attributable to Group	24	–	–	(30)	–	(30)	–	(30)
Items reclassified from available-for-sale financial asset reserve	24	–	–	1	–	1	–	1
Cash flow hedges effective portion of changes in fair value (net of tax):								
Attributable to Group	24	–	–	(13)	–	(13)	–	(13)
Attributable to joint ventures	24	–	–	3	–	3	–	3
Items reclassified from cash flow hedge reserve	24	–	–	21	–	21	–	21
Total comprehensive expense for the year ended 14 March 2015		–	–	(15)	(180)	(195)	–	(195)
Transactions with owners:								
Dividends paid	10,26	–	–	–	(330)	(330)	–	(330)
Convertible bond equity component	24	–	–	39	–	39	–	39
Amortisation of convertible bond – equity component	24,26	–	–	(5)	5	–	–	–
Share-based payment (net of tax)	26	–	–	–	21	21	–	21
Purchase of own shares	26	–	–	–	(18)	(18)	–	(18)
Allotted in respect of share option schemes	23,26	3	17	–	(3)	17	–	17
Purchase of non-controlling interest	26	–	–	–	2	2	(2)	–
At 14 March 2015		548	1,108	826	3,057	5,539	–	5,539

The notes on pages 95 to 150 form an integral part of these financial statements.

Company statement of changes in equity

for the 52 weeks to 12 March 2016

	Note	Called up share capital £m	Share premium account £m	Capital redemption and other reserves £m	Retained earnings £m	Total equity before perpetual securities £m	Perpetual capital securities £m	Perpetual convertible bonds £m	Total equity £m
At 15 March 2015		**548**	**1,108**	**720**	**2,085**	**4,461**	**–**	**–**	**4,461**
Profit for the year	25,26	**–**	**–**	**–**	**1,360**	**1,360**	**13**	**6**	**1,379**
Other comprehensive (expense)/income:									
Available-for-sale financial assets fair value movements (net of tax)	24	**–**	**–**	**(2)**	**–**	**(2)**	**–**	**–**	**(2)**
Cash flow hedges effective portion of changes in fair value (net of tax)	24	**–**	**–**	**(2)**	**–**	**(2)**	**–**	**–**	**(2)**
Items reclassified to cash flow hedge reserve	24	**–**	**–**	**2**	**–**	**2**	**–**	**–**	**2**
Total comprehensive (expense)/income for the year ended 12 March 2016		**–**	**–**	**(2)**	**1,360**	**1,358**	**13**	**6**	**1,377**
Transactions with owners:									
Dividends paid	10,26	**–**	**–**	**–**	**(234)**	**(234)**	**–**	**–**	**(234)**
Issue of perpetual subordinated capital securities and perpetual subordinated convertible bonds	25	**–**	**–**	**–**	**–**	**–**	**248**	**248**	**496**
Distributions to holders of perpetual subordinated convertible bonds (net of tax)	25	**–**	**–**	**–**	**–**	**–**	**(13)**	**(6)**	**(19)**
Amortisation of convertible bond equity component	24,26	**–**	**–**	**(7)**	**7**	**–**	**–**	**–**	**–**
Allotted in respect of share option schemes	23,26	**2**	**6**	**–**	**22**	**30**	**–**	**–**	**30**
At 12 March 2016		**550**	**1,114**	**711**	**3,240**	**5,615**	**248**	**248**	**6,111**
At 16 March 2014		545	1,091	687	2,046	4,369	–	–	4,369
Profit for the year	26	–	–	–	344	344	–	–	344
Other comprehensive income/(expense):									
Available-for-sale financial assets fair value movements (net of tax)	24	–	–	2	–	2	–	–	2
Cash flow hedges effective portion of changes in fair value (net of tax)	24	–	–	(5)	–	(5)	–	–	(5)
Items reclassified to cash flow hedge reserve		–	–	2	–	2	–	–	2
Total comprehensive (expense)/income for the year ended 14 March 2015		–	–	(1)	344	343	–	–	343
Transactions with owners:									
Dividends paid	10,26	–	–	–	(330)	(330)	–	–	(330)
Convertible bond equity component	24	–	–	39	–	39	–	–	39
Amortisation of convertible bond equity component	24,26	–	–	(5)	5	–	–	–	–
Allotted in respect of share option schemes	23,26	3	17	–	21	41	–	–	41
Utilised in respect of share option schemes	26	–	–	–	(1)	(1)	–	–	(1)
At 14 March 2015		548	1,108	720	2,085	4,461	–	–	4,461

The notes on pages 95 to 150 form an integral part of these financial statements.

Notes to the financial statements

1 Accounting policies

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 financial year represents the 52 weeks to 12 March 2016 (prior financial year 52 weeks to 14 March 2015). The consolidated financial statements for the 52 weeks to 12 March 2016 comprise the financial statements of the Company and its subsidiaries (the 'Group') and the Group's share of the post-tax results of its joint ventures and associates.

The Group's principal activities are grocery related retailing and retail banking.

Basis of preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and International Financial Reporting Interpretations Committee ('IFRIC') and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs. The Company's financial statements have been prepared on the same basis and, as permitted by Section 408(3) of the Companies Act 2006, no income statement or statement of comprehensive income is presented for the Company.

The financial statements are presented in sterling, rounded to the nearest million ('£m') unless otherwise stated. They have been prepared on a going concern basis under the historical cost convention, except for derivative financial instruments, defined benefit scheme assets, investment properties and available-for-sale financial assets that have been measured at fair value.

Basis of consolidation

The consolidated financial statements of the Group consist of the financial statements of the ultimate parent company J Sainsbury plc, all entities controlled by the Company and the Group's share of its interests in joint ventures and associates.

a) Subsidiaries
Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of subsidiaries are included in the income statement from the date of acquisition or, in the case of disposals, up to the effective date of disposal. Intercompany transactions and balances between Group companies are eliminated upon consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are carried at cost less any impairment loss in the financial statements of the Company.

b) Joint ventures and associates
The Group applies IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. The Group's share of the post-tax results of its joint ventures and associates is included in the income statement using the equity method of accounting. Where the Group transacts with a joint venture or associate, profits and losses are eliminated to the extent of the Group's interest in the joint venture or associate.

Investments in joint ventures and associates are carried in the Group balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the entity, less any provision for impairment.

Investments in joint ventures and associates are carried in the Company balance sheet at cost less any provision for impairment.

Associates are entities over which the Group has significant influence but not control.

Investment properties held by the Group are those contained within its joint ventures with Land Securities Group PLC and The British Land Company PLC. These are properties held for capital appreciation and/or to earn rental income. They are initially measured at cost, including related transaction costs. After initial recognition at cost, they are carried at their fair values based on market value determined by professional valuers at each reporting date. The difference between the fair value of an investment property at the reporting date and its carrying amount prior to re-measurement is included within the income statement but is excluded from underlying profit in order to provide a clear and consistent presentation of the underlying performance of the Group's ongoing business for shareholders.

Amendments to published standards

Effective for the Group and Company in these financial statements:
The Group has considered the following amendments to published standards that are effective for the Group for the financial year beginning 15 March 2015 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. These standards and interpretations have been endorsed by the European Union.

- Amendments to IFRS 2, 'Share-based payments' on the definition of vesting conditions
- Amendments to IFRS 3, 'Business combinations' on scope exclusions for joint ventures and the subsequent measurement of contingent considerations
- Amendments to IFRS 8, 'Operating segments' on aggregation of operating segments and reconciliations of assets
- Amendments to IFRS 13, 'Fair value measurements' on application of the portfolio exception
- Amendments to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' on the proportionate restatement of accumulated depreciation/amortisation
- Amendments to IAS 19, 'Employee benefits' on the recognition of employee contributions to defined benefit plans
- Amendments to IAS 24, 'Related party disclosures' on entities providing key management personnel services
- Amendments to IAS 40, 'Investment property' on the interrelationship between IFRS 3 and IAS 40

1 Accounting policies continued

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

- Amendments to IFRS 11, 'Joint arrangements' on the accounting for acquisitions of interests in joint operations
- Amendments to IAS 1, 'Presentation of financial statements' which clarifies existing IAS 1 requirements
- Amendments to IAS 16, 'Plant, property and equipment' and IAS 38, 'Intangible assets' which clarifies acceptable methods of depreciation and amortisation
- Amendments to IAS 27, ''Consolidated and separate financial statements' which allow an entity to use the equity method as described in IAS 28 to account for its investments in subsidiaries
- IFRS 9, 'Financial instruments'
- IFRS 15, 'Revenue from contracts with customers'
- IFRS 16, 'Leases'
- Amendments to IFRS 10, 'Consolidated financial statements', IFRS 12, 'Disclosure of interests in other entities' and IAS 28, 'Investments in associates and joint ventures' on applying the consolidation exception
- Amendments to IAS 7, 'Statement of cashflows' on the disclosures in financial statements
- Amendments to IAS 12, 'Income taxes' on the recognition of deferred tax assets for unrealised losses
- Annual Improvements 2012
- Annual Improvements 2013
- Annual improvements 2014

IFRS 9 will supersede IAS 39 in its entirety, and is effective for accounting periods commencing on or after 1 January 2018. The new standard is broadly split into three areas:

- Classification and measurement. New classification and measurement criteria require financial instruments to be classified into one of three categories being amortised cost, fair value through other comprehensive income or fair value. Classification will be determined by the business model and contractual cash flow characteristics of the instruments.
- Expected credit losses (ECL). The requirement to recognise impairment losses based on ECL methodology is a change to the current requirements whereby losses are only recognised once an impairment event has happened.
- Hedge accounting. The general hedge accounting mechanisms of IAS 39 have been retained, however greater flexibility has been introduced over the instruments eligible for hedge accounting and effectiveness testing has been more closely aligned with the underlying risk management practices of the entity.

The Group is currently implementing a project to assess the impact of IFRS 9 and implement systems to ensure ongoing compliance with its requirements.

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes a number of existing standards and interpretations from its effective date for accounting periods beginning on or after 1 January 2018. IFRS 15 introduces principles to recognise revenue by allocation of the transaction price to performance obligations. IFRS 15 will apply to the Group's revenue and other operating income, superseding IAS 18. Income from financial instruments will continue to be recognised under IAS 39/IFRS 9.

IFRS 16 specifies how an entity will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. IFRS 16 supersedes IAS 17 and applies to accounting periods beginning on or after 1 January 2019.

The Group is reviewing the requirements of IFRS 15 and 16 to determine their impact.

The Group and Company have considered the impact of the remaining above standards and revisions and have concluded that they will not have a significant impact on the Group and Company's financial statements, apart from additional disclosures.

The accounting policies set out below have been applied consistently to all periods presented in the financial statements by the Group and the Company.

Revenue

Revenue consists of sales through retail outlets and, in the case of Sainsbury's Bank, interest receivable, fees and commissions and excludes Value Added Tax.

a) Retail – sale of goods
Sales through retail outlets are shown net of returns, the cost of Nectar reward points issued and redeemed, colleague discounts, vouchers and sales made on an agency basis. Commission income is recognised in revenue based on the terms of the contract.

Revenue is recognised when the significant risks and rewards of goods and services have been passed to the buyer and it can be measured reliably.

The cost of Nectar points is treated as a deduction from sales and a corresponding liability recognised on the balance sheet. Revenue is then recognised as each point is redeemed in store.

b) Sainsbury's Bank interest receivable
Interest income is recognised in the income statement for all instruments measured at amortised cost using the effective interest method. This calculation takes into account all amounts that are integral to the yield as well as incremental transaction costs. The effective interest rate is the rate that discounts the expected future cash flows over the expected life of the financial instrument to the net carrying amount of the financial asset or liability at initial recognition.

c) Sainsbury's Bank fees and commissions
Fees and commissions that are not integral to the effective interest rate calculation primarily relate to credit card and ATM interchange fees and insurance introduction commission receivable from insurance partners. These are recognised in the income statement on an accruals basis as services are provided. Where in the case of insurance commissions the income comprises an initial commission and profit share, both are recognised on completion of the service to the extent reliably measurable. Where there is a risk of potential claw back, an appropriate element of the commission receivable is deferred and amortised over the claw back period. Where the relevant contract requires the Bank to perform future services in respect of the income receivable, initial commission is recognised on completion of the service provided, with an element deferred to reflect services yet to be performed in future periods.

d) Sainsbury's Bank other operating income
Margin from the sale of travel money, representing the difference between the cost price and the selling price, is recognised when the sale to the customer takes place within other operating income.

Cost of sales

Cost of sales consists of all costs to the point of sale including warehouse and transportation costs and all the costs of operating retail outlets and, in the case of Sainsbury's Bank, interest expense on operating activities, calculated using the effective interest method.

Supplier arrangements
Supplier incentives, rebates and discounts, collectively known as 'supplier arrangements', are recognised within cost of sales on an accruals basis as they are earned for each relevant supplier contract. The accrued value at the reporting date is included in trade receivables or trade payables, depending on the right of offset.

1 Accounting policies continued

The most common types of supplier arrangement, in order of magnitude, which Sainsbury's receives are:

- Discounts and supplier incentives – these represent the majority of all supplier arrangements and are linked to individual unit sales. The incentive is typically based on an agreed sum per item sold on promotion for a period and therefore is considered part of the purchase price for that product.
- 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, with the rebate amount linked to pre-agreed targets such as sales volumes.

Finance income and costs

For Sainsbury's Bank, finance income and finance costs are recognised in revenue and cost of sales, as discussed above.

Finance income and costs, excluding those arising from Sainsbury's Bank, are recognised in the income statement for financial assets and liabilities measured at amortised cost using the effective interest method.

Interest paid and interest received for the purpose of the cash flow statement relates to retail only, with Sainsbury's Bank's interest paid and interest received included in the net operating cash flow.

Business combinations

The Group applies the acquisition method of accounting for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets and liabilities acquired and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of the acquiree identifiable net assets. Acquisition-related costs are expensed as incurred. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through the income statement.

Intangible assets

a) Goodwill

Goodwill represents the excess of the fair value of the consideration of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is recognised as an asset on the Group's balance sheet in the year in which it arises, and is considered to have an indefinite useful life. Goodwill is tested for impairment annually and again whenever indicators of impairment are detected and is carried at cost less any provision for impairment.

b) Computer software

Computer software is carried at cost less accumulated amortisation and any provision for impairment. Externally acquired computer software and software licences are capitalised and amortised on a straight-line basis over their useful economic lives of five to ten years. Costs relating to development of computer software for internal use are capitalised once the recognition criteria of IAS 38, 'Intangible assets' are met. Other development expenditures that do not meet these criteria are expensed as incurred. When the software is available for its intended use, these costs are amortised on a straight-line basis over their useful economic lives of five to seven years within administrative expenses.

c) Acquired intangible assets

Intangible assets acquired in a business combination are recognised at fair value at the acquisition date. Intangible assets with finite useful economic lives are carried at cost less accumulated amortisation and any provision for impairment and are amortised on a straight-line basis over their estimated useful economic lives, ranging from three to six years, within administrative expenses.

d) Other intangible assets

Pharmacy licences are carried at cost less accumulated amortisation and any recognised provision for impairment and amortised on a straight-line basis over the licence period of up to 15 years within cost of sales.

Other intangible assets are carried at cost less accumulated amortisation and any provision for impairment. They are amortised on a straight-line basis over their contractual useful economic lives within cost of sales.

Property, plant and equipment

a) Land and buildings

Land and buildings are stated at cost less accumulated depreciation and any recognised provision for impairment. Capital work in progress is held at cost less any recognised provision for impairment. Cost includes the original purchase price of the asset and the costs incurred attributable to bringing the asset to its working condition for its intended use. This includes capitalised borrowing costs.

b) Fixtures and equipment

Fixtures, equipment and vehicles are held at cost less accumulated depreciation and any recognised provision for impairment. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use.

c) Depreciation

Depreciation is calculated to write down the cost of the assets to their residual values, on a straight-line basis, using the following rates:

- Freehold buildings and leasehold properties – 50 years, or the lease term if shorter
- Fixtures, equipment and vehicles – three to 15 years
- Freehold land is not depreciated

Capital work in progress is not depreciated.

Gains and losses on disposal are determined by comparing proceeds less any associated costs of disposal with the asset's carrying amount and are recognised within operating profit. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of its fair value less costs to dispose and its value in use, is estimated in order to determine the extent of the impairment loss.

Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit ('CGU') to which the asset belongs. For retail property, plant and equipment and intangible assets excluding goodwill, the CGU is deemed to be each trading store or store pipeline development site. For retail goodwill, the CGU is deemed to be each retail chain of stores acquired. Non-store assets, including depots and IT assets, are reviewed separately, whilst Sainsbury's Bank is deemed a separate CGU.

Any impairment loss is recognised in the income statement in the year in which it occurs. Where an impairment loss, other than an impairment loss on goodwill, subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, or its original carrying value less notional accumulated depreciation if lower.

Capitalisation of interest

Borrowing costs that are directly attributable to the acquisition or construction of qualifying assets are capitalised to the cost of the asset, gross of tax relief. See note 11 for further information.

1 Accounting policies continued

Assets and liabilities held for sale

Assets held for sale are stated at the lower of the carrying amount and fair value less costs to dispose. Assets held for sale are not depreciated.

Assets and liabilities are classified as held for sale if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets and liabilities are available for sale in their present condition. A sale should be expected to complete within one year from the date of classification.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the Group. All other leases are classified as operating leases. For property leases, the land and building elements are treated separately to determine the appropriate lease classification.

a) Finance leases
Assets funded through finance leases are capitalised as property, plant and equipment and depreciated over their estimated useful lives or the lease term, whichever is shorter. The amount capitalised is the lower of the fair value of the asset or the present value of the minimum lease payments during the lease term at the inception of the lease. The resulting lease obligations are included in liabilities net of finance charges. Finance costs on finance leases are charged directly to the income statement.

b) Operating leases
Assets leased under operating leases are not recorded on the balance sheet. Rental payments are charged directly to the income statement on a straight-line basis over the lease term.

c) Sale and leaseback
A sale and leaseback transaction is one where a vendor sells an asset and immediately reacquires the use of that asset by entering into a lease with the buyer. The accounting treatment of the sale and leaseback depends upon the substance of the transaction and whether or not the sale was made at the asset's fair value.

For sale and finance leasebacks, any apparent profit or loss from the sale is deferred and amortised over the lease term. For sale and operating leasebacks, generally the assets are sold at fair value, and the profit or loss from the sale is recognised immediately in the income statement.

Following initial recognition, the lease treatment is consistent with those principles described above.

d) Lease incentives
Lease incentives primarily include up-front cash payments or rent-free periods. Lease incentives are capitalised and spread over the period of the lease term.

e) Leases with predetermined fixed rental increases
The Group has a number of leases with predetermined fixed rental increases. These rental increases are accounted for on a straight-line basis over the term of the lease.

f) Operating lease income
Operating lease income consists of rentals from sub-tenant agreements and is recognised as earned on a straight-line basis over the lease term.

Inventories

Inventories comprise goods held for resale and properties held for, or in the course of, development and are valued on a weighted average cost basis and carried at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Cost includes all direct expenditure and other appropriate attributable costs incurred in bringing inventories to their present location and condition.

Cash and cash equivalents

Cash and bank balances in the Group balance sheet comprise cash in hand and at bank, deposits at central banks, investments in money market funds and deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purposes of the cash flow statement.

Current tax

Current tax is accounted for on the basis of tax laws enacted or substantively enacted at the balance sheet date. Current tax is charged or credited to the income statement, except when it relates to items charged to equity or other comprehensive income, in which case the current tax is also dealt with in equity or other comprehensive income respectively.

Deferred tax

Deferred tax is accounted for on the basis of temporary differences arising from differences between the tax base and accounting base of assets and liabilities.

Deferred tax is recognised for all temporary differences, except to the extent where it arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of transaction, affects neither accounting profit nor taxable profit. It is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity or other comprehensive income, in which case the deferred tax is also dealt with in equity or other comprehensive income respectively.

Deferred tax is provided on temporary differences associated with investments in subsidiaries, branches and joint ventures except where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of a past event, for which it is probable that an outflow of economic benefit will be required to settle the obligation, and where the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

a) Onerous leases
The need for provisions for onerous leases, measured net of expected rental income, is assessed when the leased property becomes vacant and is no longer used in the operations of the business or when the leased property relates to an unprofitable trading store. Onerous lease provisions are recognised after any impairment of assets. Provisions for dilapidation costs are recognised on a lease-by-lease basis.

b) Onerous contracts
Provisions for onerous contracts are recognised where expected cash outflows exceed the anticipated future benefits. The amounts provided are based on the Group's best estimate of the likely committed outflow net of anticipated future benefits and after any impairment of pipeline development site assets where applicable.

1 Accounting policies continued

c) Restructuring
A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

Employee benefits

a) Pensions
The Group operates various defined benefit and defined contribution pension schemes for its employees. A defined benefit scheme is a pension plan that defines an amount of pension benefit that an employee will receive on retirement. A defined contribution scheme is a pension plan under which the Group pays fixed contributions into a separate entity. The defined benefit pension scheme is now closed to new employees and future accrual.

In respect of the defined benefit pension scheme, the pension scheme surplus or deficit recognised in the balance sheet represents the difference between the fair value of the plan assets and the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is actuarially calculated on an annual basis using the projected unit credit method. Plan assets are recorded at fair value.

The income statement charge consists of a financing charge, which is the net of interest cost on pension scheme liabilities and interest income on plan assets and defined benefit pension scheme expenses. The financing charge is determined by applying the discount rate used to measure the defined benefit obligation to the pension scheme liabilities and plan assets at the beginning of the financial year.

Payments to defined contribution pension schemes are charged as an expense as they fall due. Any contributions unpaid at the balance sheet date are included as an accrual as at that date. The Group has no further payment obligations once the contributions have been paid.

b) Long service awards
The costs of long service awards are accrued over the period the service is provided by the employee when it is probable that settlement will be required and they are capable of being measured reliably. Liabilities recognised in respect of long-term employee benefits are measured at the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to the reporting date.

Share-based payments

The Group provides benefits to employees (including Directors) of the Group in the form of equity-settled and cash-settled share-based payment transactions, whereby employees render services in exchange for shares, rights over shares or the value of those shares in cash terms.

For equity-settled share-based payments, the fair value of the employee services rendered is determined by reference to the fair value of the shares awarded or options granted, excluding the impact of any non-market vesting conditions. All share options are valued using an option-pricing model (Black-Scholes or Monte Carlo). This fair value is charged to the income statement over the vesting period of the share-based payment scheme.

For cash-settled share-based payments, the fair value of the employee services rendered is determined at each balance sheet date and the charge recognised through the income statement over the vesting period of the share-based payment scheme, with the corresponding increase in accruals.

The value of the charge is adjusted in the income statement over the remainder of the vesting period to reflect expected and actual levels of options vesting, with the corresponding adjustments made in equity and accruals.

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Perpetual securities

Perpetual securities (perpetual capital securities and perpetual convertible bonds) are issued securities that qualify for recognition as equity. Accordingly any periodic returns are accounted for as dividends and recognised directly in equity and as a liability at the time the Company becomes obligated to pay the periodic return. Any associated tax impacts are recognised directly in equity.

Foreign currencies

a) Foreign operations
On consolidation, assets and liabilities of foreign operations are translated into sterling at year-end exchange rates. The results of foreign operations are translated into sterling at average rates of exchange for the year. The functional currency of the Company is sterling.

b) Foreign currency transactions
Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

Financial instruments

a) Financial assets
The Group classifies its financial assets in the following categories: at fair value through profit or loss ('FVTPL'), loans and receivables, and available-for-sale ('AFS'). AFS investments are initially measured at fair value including transaction costs. Financial assets held at FVTPL are initially recognised at fair value and transaction costs are expensed.

Financial assets at FVTPL include financial assets held for trading and those designated at FVTPL at inception. Derivatives are classified as held for trading unless they are accounted for as an effective hedging instrument. Financial assets at FVTPL are recorded at fair value, with any fair value gains or losses recognised in the income statement in the period in which they arise.

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Subsequent to initial recognition at fair value plus transaction costs, these assets are recorded at fair value with the movements in fair value recognised in other comprehensive income until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement. Dividends on AFS equity instruments are recognised in the income statement when the entity's right to receive payment is established. Interest on AFS debt instruments is recognised using the effective interest method.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group has no intention of trading these loans and receivables. They include amounts due from Sainsbury's Bank customers and amounts due from other banks. Subsequent to initial recognition at fair value plus transaction costs, these assets are carried at amortised cost less impairment using the effective interest method. Income from these financial assets is calculated on an effective yield basis and is recognised in the income statement.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

1 Accounting policies continued

b) Impairment of financial assets

An assessment of whether there is objective evidence of impairment is carried out for all financial assets or groups of financial assets at the balance sheet date. This assessment may be of individual assets ('individual impairment') or of a portfolio of assets ('collective impairment'). A financial asset or a group of financial assets is considered to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For individual impairment, the principal loss event is one or more missed payments, although other loss events can also be taken into account, including arrangements in place to pay less than the contractual payments, fraud and bankruptcy or other financial difficulty indicators. An assessment of collective impairment will be made of financial assets with similar risk characteristics. For these assets, portfolio loss experience is used to provide objective evidence of impairment.

Where there is objective evidence that an impairment loss exists on loans and receivables, impairment provisions are made to reduce the carrying value of financial assets to the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at amortised cost, the charge to the income statement reflects the movement in the level of provisions made, together with amounts written off net of recoveries in the year.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the asset below its cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss is removed from equity and recognised in the income statement. The cumulative loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Interest will continue to accrue on all financial assets, based on the written down balance. Interest is calculated using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. To the extent that a provision may be increased or decreased in subsequent periods, the recognition of interest will be based on the latest balance net of provision.

c) Sainsbury's Bank loans and advances including impairment

For Sainsbury's Bank's portfolios of loans, such as credit card lending and personal loans, impairment provisions are calculated for groups of assets, otherwise impairment is identified at a counterparty specific level following objective evidence that a financial asset is impaired. Such evidence may include a missed interest or principal payment or the breach of a banking covenant. Provisioning on unsecured balances identified as being in arrears is calculated based on past experience, with regularly updated assumptions. The present value of estimated cash flows recoverable is determined after taking into account any security held. The amount of impairment is calculated by comparing the present value of the cash flows discounted at the loan's original effective interest rate with the balance sheet carrying value. If impaired, the carrying value is adjusted and the difference charged to the income statement and a provision recognised in the balance sheet.

The written down value of the impaired loan is compounded back to its net realisable balance over time using an effective interest rate. This is reported through interest receivable within the income statement and represents the unwinding of the discount.

A write-off is made when all or part of a claim is deemed uncollectable or forgiven. Write-offs are charged against previously established provisions for impairment or directly to the income statement. Subsequent recoveries of amounts written off decrease the charge for loan impairment in the income statement.

An allowance for impairment losses is also maintained in respect of assets which are impaired at the balance sheet date but which have not been identified as such, based on historical loss experience and other relevant factors. This includes analysis of the likelihood of a particular balance to move into an arrears status within a defined period of time and application of an appropriate loss rate. The emergence period into an arrears state represents the average time elapsed between the loss trigger event and default. The methodology and assumptions used are regularly reviewed to reduce any differences between estimates and actual results.

Interest-bearing bank loans, overdrafts, other deposits and amounts due to Sainsbury's Bank customers are recorded initially at fair value, which is generally the proceeds received, net of direct issue costs. Subsequently, these liabilities are held at amortised cost using the effective interest method.

d) Financial liabilities

Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

The fair value of the liability component of a convertible bond is determined using the market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds are allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects and is not subsequently re-measured.

Issue costs are apportioned between the liability and the equity components of the convertible bonds based on their carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

e) Fair value estimation

The methods and assumptions applied in determining the fair values of financial assets and financial liabilities are disclosed in note 30.

f) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to hedge its exposure to foreign exchange, interest rate and commodity risks. All derivative financial instruments are initially measured at fair value on the contract date and are also measured at fair value at subsequent reporting dates. Where derivatives do not qualify for hedge accounting, any changes in the fair value of the derivative financial instrument are recognised in the income statement as finance income or costs as they arise.

To qualify for hedge accounting, the Group documents, at the inception of the hedge, the hedging risk management strategy, the relationship between the hedging instrument and the hedged item or transaction and the nature of the risks being hedged. The Group also documents the assessment of the effectiveness of the hedging relationship, to show that the hedge has been and will be highly effective on an ongoing basis.

Where a derivative does qualify for hedge accounting, any changes in fair value are recognised depending on the nature of the hedge relationship and the item being hedged as follows:

1 Accounting policies continued

a) Cash flow hedges
Hedge relationships are classified as cash flow hedges where the derivative financial instruments hedge the Group's exposure to variability in cash flows resulting from a highly probable forecasted transaction. These include the exchange rate risk of inventory purchases denominated in foreign currency, as well as the commodity risk on purchases of power and fuel. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in other comprehensive income and the ineffective portion is recognised immediately in the income statement. If the cash flow hedge of a firm commitment or forecast transaction results in the recognition of a non-financial asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in other comprehensive income are included in the initial measurement of the asset or liability. For more information on the cash flow hedges within the Group, see note 30.

b) Fair value hedges
Hedge relationships are classified as fair value hedges where the derivative financial instruments hedge the change in the fair value of a financial asset or liability due to movements in interest rates. The changes in fair value of the hedging instrument are recognised in the income statement. The hedged item is also adjusted for changes in fair value attributable to the hedged risk, with the corresponding adjustment made in the income statement. For more information on the fair value hedges within the Group, see note 30.

c) Portfolio fair value hedging
During the period the Bank used portfolio fair value hedging as a risk management tool for hedging interest rate risk on the personal loans portfolio. Portfolio fair value hedging allows the designation of the whole or part of a portfolio of assets or liabilities with similar risk exposures. The hedged item can be designated based on expected maturities to match the hedging derivative maturity.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in other comprehensive income is retained in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other comprehensive income is transferred to the income statement for the period.

2 Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRSs requires the use of judgements, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Those which are significant to the Group are discussed separately below:

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

a) Assets and liabilities held for sale
At each balance sheet date management assesses whether any assets and liabilities, whose carrying amount will be recovered through a sale transaction rather than continued use, meet the definition of held for sale. Where there is an active plan in place to locate a buyer, management consider such assets and liabilities to meet the criteria to be classified as held for sale if they are available for immediate sale and the sale is highly probable.

For more information on the assets and liabilities held for sale, refer to note 18.

b) Operating lease commitments
The Group is party to commercial property leases on a number of its stores. At inception of each lease, the terms and conditions of the arrangements are evaluated to assess whether the lease terms constitute a major part of the economic life of the assets and whether the present value of the minimum lease payments amount to substantially all of the fair value of the commercial property. Where there is no evidence of this, management concludes that all the significant risks and rewards of ownership do not transfer to the Group and these leases are accounted for as operating leases.

c) Consolidation of structured entities
A structured entity is one in which Sainsbury's does not hold the majority interest but for which management has concluded that voting rights are not the dominant factor in deciding who controls the entity. In making such an assessment, management considers the terms of the arrangement to assess who has responsibility for the management of the entity and its assets. Where Sainsbury's has this responsibility, it is deemed that the Group controls the entity and it is fully consolidated into the Group accounts.

Estimates and assumptions

The areas where assumptions and estimates are significant to the financial statements are as described below. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

a) Goodwill impairment
The Group is required to assess whether goodwill has suffered any impairment loss, based on the recoverable amount of the CGU or group of CGUs to which it is allocated. The recoverable amounts of the CGUs have been determined based on value in use calculations and these calculations require the use of estimates in relation to future cash flows and suitable discount rates as disclosed in note 12. Actual outcomes could vary from these estimates.

b) Impairment of assets other than goodwill
Financial and non-financial assets are subject to impairment reviews based on whether current or future events and circumstances suggest that their recoverable amount may be less than their carrying value. Recoverable amount is based on the higher of the value in use and fair value less costs to dispose. Value in use is calculated from expected future cash flows using suitable discount rates and includes management assumptions and estimates of future performance as disclosed in note 11.

Impairment loss calculations on loans and advances within Sainsbury's Bank (note 17(b)) involve the estimation of future cash flows of financial assets, based on observable data at the balance sheet date and historical loss experience for assets with similar credit risk characteristics. This will typically take into account the level of arrears, security, past loss experience and default levels. These calculations are undertaken on a portfolio basis using various statistical modelling techniques.

Impairment models are continually reviewed to ensure data and assumptions are appropriate, with the most material assumption being around expected loss rates. The accuracy of any such impairment calculation will be affected by unexpected changes to the economic situation, and assumptions which differ from actual outcomes. As such, judgement is applied when determining the levels of provisioning.

2 Significant accounting judgements, estimates and assumptions continued

c) Post-employment benefits

The Group operates a defined benefit scheme for its employees. The present value of the scheme's liabilities recognised at the balance sheet date and the net financing charge recognised in the income statement are dependent on interest rates of high quality corporate bonds. Other key assumptions within this calculation are based on market conditions or estimates of future events, including mortality rates, as set out in note 31. Any changes to assumptions used will impact the carrying value of the retirement benefit obligation. As detailed in note 31, the retirement benefit obligations are most sensitive to changes in the discount rate.

d) Provisions

Provisions have been made for onerous leases, onerous contracts, dilapidations, restructuring, long service awards and self-insured claims. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events and market conditions. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. The carrying amount of provisions will be impacted by changes in the discount rate. Details of provisions are set out in note 22.

e) Income taxes

The Group recognises expected liabilities for tax based on an estimation of the likely taxes due, which requires significant judgement as to the ultimate tax determination of certain items. Where the actual liability arising from these items differs from these estimates, such differences will have an impact on income tax and deferred tax provisions in the period when such determination is made. Details of the tax charge and deferred tax are set out in notes 8 and 21 respectively.

f) Determining fair values

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.

g) 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 three key types are explained in the cost of sales accounting policy on pages 96 and 97. The areas requiring a level of judgement and estimation involved are considered below:

- Fixed amounts – these involve a degree of judgement and estimation in ensuring the appropriate cut-off of arrangements for fixed amounts which span period-end. These require judgement to determine when the terms of the arrangement are satisfied and that amounts are recognised in the correct period.
- Supplier rebates – these are agreed with a supplier on an annual basis and require estimates of the amount earned up to the balance sheet date, for each relevant supplier contract. Where agreements span a financial period-end, estimations are required of projected turnover and judgement may also need to be applied to determine the rebate level earned as agreements may involve multiple tiers. In order to minimise any risk arising from estimation, supplier confirmations are obtained to agree the value to be recognised at year-end, prior to it being invoiced. Rebates represent the smallest element of Sainsbury's supplier arrangements and by aligning the agreements to Sainsbury's financial year, where possible, the judgements required are minimised.

Supplier arrangement amounts recognised in the income statement for the above two categories in the financial year are as follows:

	2016 £m	2015 £m
Supplier arrangements recognised in cost of sales		
Supplier rebates	**69**	88
Fixed amounts	**302**	551
Total supplier arrangements	**371**	639

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

	2016 £m	2015 £m
Within current trade receivables		
Supplier arrangements due	**6**	13
Within current trade payables		
Supplier arrangements due	**39**	94
Accrued supplier arrangements	**25**	47

3 Non-GAAP performance measures

Certain items recognised in reported profit or loss before tax can vary significantly from year to year and therefore create volatility in reported earnings which does not reflect the Group's underlying performance. Similarly, whilst defined benefit pension scheme expenses may not vary significantly, they no longer relate to the Group's ongoing activities given the closure of the defined benefit pension scheme to future accrual. In addition the coupons on the perpetual securities, whilst accounted for as equity in line with IAS 32 'Financial instruments: Presentation', are accrued on a straight-line basis and included as an expense within underlying profit.

The Directors believe that the 'underlying revenue', 'underlying profit before tax' ('UPBT') and 'underlying diluted and basic earnings per share' measures presented provide a clear and consistent presentation of the underlying performance of Sainsbury's ongoing business for shareholders. Underlying profit is not defined by IFRS and therefore may not be directly comparable with the 'adjusted' profit measures of other companies.

The adjusted items are:

- Profit on disposal of properties;
- Investment property fair value movements – these reflect the difference between the fair value of an investment property at the reporting date and its carrying amount at the previous reporting date;
- Retail financing fair value movements – these are fair value gains and losses on non-derivative financial assets and liabilities carried at amortised cost, on derivatives relating to financing activities and on hedged items in fair value hedges;
- The financing element of IAS 19 and defined benefit pension scheme expenses;
- Coupons on perpetual securities – these 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 (see note 25);
- Acquisition adjustments – these reflect the adjustments arising from the Sainsbury's Bank acquisition including the fair value unwind and amortisation of acquired intangibles; and
- One-off items – these are items which are material and infrequent in nature and do not relate to the Group's underlying performance.

3 Non-GAAP performance measures continued

The adjustments made to reported profit/(loss) before tax to arrive at underlying profit before tax are:

	2016 £m	2015 £m
Underlying profit before tax	**587**	681
Profit on disposal of properties[1]	**101**	7
Investment property fair value movements	**(18)**	7
Retail financing fair value movements[2]	**(22)**	(30)
IAS 19 pension financing charge and scheme expenses[3]	**(28)**	(37)
Perpetual securities coupons[4]	**15**	–
Acquisition adjustments[5]	**3**	13
One-off items	**(90)**	(713)
Total adjustments	**(39)**	(753)
Profit/(loss) before tax	**548**	(72)

1. Profit on disposal of properties for the financial year comprised £100 million for the Group (2015: £5 million) and £1 million for the property joint ventures (2015: £2 million).
2. Retail financing fair value movements for the financial year comprised £(20) million for the Group (2015: £(23) million) and £(2) million for the joint ventures (2015: £(7) million).
3. Comprises pension financing charge of £(22) million (2015: £(31) million) and defined benefit scheme expenses of £(6) million (2015: £(6) million).
4. 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.
5. Acquisition adjustments include £11 million (2015: £23 million) fair value unwind included in revenue, £2 million (2015: £8 million) fair value unwind included in cost of sales offset by £(10) million (2015: £(18) million) acquired intangible amortisation included in administrative expenses.

The tax impact of adjusted items is included within note 8.

One-off items

One-off items of £(90) million (2015: £(713) million) include:

	2016 £m	2015 £m
Net impairment and onerous contract charge	**(1)**	(628)
Sainsbury's Bank transition	**(59)**	(53)
Pension compensation payments	**–**	(17)
Internal restructuring	**(15)**	(15)
Transaction costs[1]	**(15)**	–
	(90)	(713)

1. Transaction costs in 2016 are those incurred as part of the approach to Home Retail Group plc and the sale of the pharmacy business.

4 Segment reporting

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

- Retailing (supermarkets and convenience);
- Financial services (Sainsbury's Bank); and
- Property investments (joint ventures with the British Land Company PLC and Land Securities Group PLC).

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

Revenue from operating segments is measured on a basis consistent with the revenue number in the income statement. Revenue is generated by the sale of goods and services, as set out in note 1.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

The Operating Board assesses the performance of all segments on the basis of underlying profit before tax. The reconciliation provided below reconciles underlying operating profit from each of the segments disclosed to profit/(loss) before tax.

4 Segment reporting continued

52 weeks to 12 March 2016	Retailing £m	Financial services £m	Property investments £m	Group £m
Segment revenue				
Retail sales to external customers	**23,168**	**–**	**–**	**23,168**
Financial services to external customers	**–**	**327**	**–**	**327**
Underlying revenue	**23,168**	**327**	**–**	**23,495**
Acquisition adjustment fair value unwind[1]	**–**	**11**	**–**	**11**
Revenue	**23,168**	**338**	**–**	**23,506**
Underlying operating profit	**635**	**65**	**–**	**700**
Underlying finance income	**19**	**–**	**–**	**19**
Underlying finance costs[2]	**(140)**	**–**	**–**	**(140)**
Underlying share of post-tax (loss)/profit from joint ventures and associates	**(7)**	**–**	**15**	**8**
Underlying profit before tax	**507**	**65**	**15**	**587**
Profit on disposal of properties	**100**	**–**	**1**	**101**
Investment property fair value movements	**–**	**–**	**(18)**	**(18)**
Retail financing fair value movements	**(20)**	**–**	**(2)**	**(22)**
IAS 19 pension financing charge and scheme expenses	**(28)**	**–**	**–**	**(28)**
Perpetual securities coupons[2]	**15**	**–**	**–**	**15**
Acquisition adjustments	**–**	**3**	**–**	**3**
One-off items:				
Net impairment and onerous contract charge	**(1)**	**–**	**–**	**(1)**
Sainsbury's Bank transition	**–**	**(59)**	**–**	**(59)**
Internal restructuring	**(15)**	**–**	**–**	**(15)**
Transaction costs	**(15)**	**–**	**–**	**(15)**
Profit/(loss) before tax	**543**	**9**	**(4)**	**548**
Income tax expense				**(77)**
Profit for the financial year				**471**
Assets	**12,115**	**4,531**	**–**	**16,646**
Investment in joint ventures and associates	**16**	**–**	**311**	**327**
Segment assets	**12,131**	**4,531**	**311**	**16,973**
Segment liabilities	**(6,727)**	**(3,881)**	**–**	**(10,608)**
Other segment items				
Capital expenditure[3]	**654**	**35**	**–**	**689**
Depreciation expense	**552**	**7**	**–**	**559**
Amortisation expense[4]	**14**	**11**	**–**	**25**
Net impairment and onerous contract charge[5]	**(1)**	**–**	**–**	**(1)**
Share-based payments	**22**	**1**	**–**	**23**

1. Represents fair value unwind on loans and advances to customers resulting from the Sainsbury's Bank acquisition.
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.
3. Retail capital expenditure consists of property, plant and equipment additions of £635 million and intangible asset additions of £19 million. Financial services capital expenditure consists of property, plant and equipment additions of £20 million and intangible asset additions of £15 million.
4. Amortisation expense within the financial services segment includes £10 million of intangible asset amortisation arising from Sainsbury's Bank acquisition fair value adjustments.
5. Net impairment and onerous contract charge includes a £9 million impairment reversal recognised against property, plant and equipment as detailed in note 11.

4 Segment reporting continued

52 weeks to 14 March 2015	Retailing £m	Financial services £m	Property investments £m	Group £m
Segment revenue				
Retail sales to external customers	23,443	–	–	23,443
Financial services to external customers	–	309	–	309
Underlying revenue	23,443	309	–	23,752
Acquisition adjustment fair value unwind[1]	–	23	–	23
Revenue	23,443	332	–	23,775
Underlying operating profit	720	62	–	782
Underlying finance income	19	–	–	19
Underlying finance costs	(126)	–	–	(126)
Underlying share of post-tax (loss)/profit from joint ventures and associates	(9)	–	15	6
Underlying profit before tax	604	62	15	681
Profit on disposal of properties	5	–	2	7
Investment property fair value movements	–	–	7	7
Retail financing fair value movements	(23)	–	(7)	(30)
IAS 19 pension financing charge and scheme expenses	(37)	–	–	(37)
Acquisition adjustments	–	13	–	13
One-off items:				
Impairment and onerous contract charge	(628)	–	–	(628)
Sainsbury's Bank transition	–	(53)	–	(53)
Internal restructuring costs	(17)	–	–	(17)
Pension compensation payments	(15)	–	–	(15)
(Loss)/profit before tax	(111)	22	17	(72)
Income tax expense				(94)
Loss for the financial year				(166)
Assets	11,908	4,270	–	16,178
Investment in joint ventures and associates	8	–	351	359
Segment assets	11,916	4,270	351	16,537
Segment liabilities	(7,232)	(3,766)	–	(10,998)
Other segment items				
Capital expenditure[2]	968	82	–	1,050
Depreciation expense	540	5	–	545
Amortisation expense[3]	14	20	–	34
Impairment[4]	548	–	–	548
Share-based payments	21	–	–	21

1. Represents fair value unwind on loans and advances to customers resulting from the Sainsbury's Bank acquisition.
2. Retail capital expenditure consists of property, plant and equipment additions of £951 million and intangible asset additions of £17 million. Financial services capital expenditure consists of property, plant and equipment additions of £14 million and intangible asset additions of £68 million.
3. Amortisation expense within the financial services segment includes £18 million of intangible asset amortisation arising from Sainsbury's Bank acquisition fair value adjustments.
4. Impairment charge includes £540 million recognised against property, plant and equipment and £8 million against intangible assets, as detailed in note 11 and note 12.

5 Operating profit

	2016 £m	2015 £m
Operating profit is stated after charging/(crediting) the following items:		
Employee costs (note 7)	**2,541**	2,445
Depreciation expense (note 11)	**559**	545
Amortisation expense (note 12)[1]	**25**	34
Profit on disposal of properties (note 3)	**(100)**	(5)
Operating lease rentals:		
Land and buildings	**532**	516
Other leases	**73**	72
Sublease payments receivable	**(49)**	(41)
Foreign exchange losses/(gains)	**24**	(12)
Impairment losses on loans and advances	**15**	21
Acquisition adjustments (note 3)	**(3)**	(13)
One-off items (note 3)[2,3]	**90**	713

1. Amortisation expense includes £10 million (2015: £18 million) amortisation on acquired intangibles resulting from the Sainsbury's Bank acquisition fair value adjustments also included in acquisition adjustments in this note.
2. One-off items includes £8 million (2015: £17 million) employee restructuring costs also included in employee costs in this note.
3. One-off items includes an impairment reversal of £9 million (2015: £540 million charge) recognised against property, plant and equipment and a charge of £nil (2015: £8 million) against intangible assets, as detailed in note 11 and note 12.

Group	2016 £m	2015 £m
Auditors' remuneration[1]		
Fees payable to the Company's auditors for the audit of the parent company and consolidated financial statements	**0.3**	0.3
Fees payable to the Company's auditors for other services:		
— The audit of the Company's subsidiaries	**0.4**	0.7
— Audit related assurance services	**0.1**	0.1
— Tax advisory, tax compliance, and other non-audit fees	**–**	0.1
Total fees	**0.8**	1.2

1. The prior year also included £0.3 million of audit fees relating to Sainsbury's Bank by PricewaterhouseCoopers LLP.

6 Finance income and finance costs[1,2]

	2016 £m	2015 £m
Interest on bank deposits and other financial assets	**19**	19
Finance income	**19**	19
Interest costs:		
Secured borrowings	**(88)**	(84)
Unsecured borrowings	**(30)**	(47)
Obligations under finance leases	**(9)**	(9)
Provisions – amortisation of discount (note 22)	**(5)**	(3)
	(132)	(143)
Other finance costs:		
Interest capitalised – qualifying assets (note 11)	**7**	17
Retail financing fair value movements[3]	**(20)**	(23)
IAS 19 pension financing charge (note 31)	**(22)**	(31)
	(35)	(37)
Finance costs	**(167)**	(180)

1. Sainsbury's Bank's interest income is reported in revenue and interest cost is reported in cost of sales, and therefore not included in this note.
2. The coupons on the perpetual capital securities and the perpetual convertible bonds (included within underlying profit – see note 3) are accounted for as dividends in accordance with IAS 32 'Financial instruments: Presentation' and hence are not a finance cost.
3. Retail financing fair value movements include net fair value movements on derivative financial instruments not designated in a hedging relationship of £(20) million (2015: £(18) million) and fair value movements on early repayment of bank loans carried at amortised cost of £nil (2015: £(5) million).

7 Employee costs

	2016 £m	2015 £m
Employee costs for the Group during the year amounted to:		
Wages and salaries, including bonus and termination benefits	**2,272**	2,180
Social security costs	**148**	144
Pension costs – defined contribution schemes	**98**	100
Share-based payments expense (note 32)	**23**	21
	2,541	2,445

	Number 000s	Number 000s
The average number of employees, including Directors, during the year was:		
Full-time	**48.0**	48.9
Part-time	**114.7**	112.2
	162.7	161.1
Full-time equivalent	**108.3**	107.4

Details of key management compensation can be found in note 37 and within the Directors' Remuneration Report on pages 66 to 79.

8 Income tax expense

	2016 £m	2015 £m
Current tax expense:		
Current year UK tax	**105**	123
Current year overseas tax	**–**	1
Over-provision in prior years	**(17)**	(26)
Total current tax expense	**88**	98
Deferred tax credit:		
Origination and reversal of temporary differences	**17**	(25)
Under-provision in prior years	**7**	20
Revaluation of deferred tax balances	**(35)**	1
Total deferred tax credit (note 21)	**(11)**	(4)
Total income tax expense in income statement	**77**	94
Underlying tax rate	**20.8%**	25.8%
Effective tax rate	**14.1%**	(130.6)%

The effective tax rate of 14.1 per cent (2015: (130.6) per cent) is lower than (2015: lower than) the standard rate of corporation tax in the UK. The differences are explained below:

	2016 £m	2015 £m
Profit/(loss) before tax	**548**	(72)
Income tax at UK corporation tax rate of 20.05% (2015: 21.09%)	**110**	(15)
Effects of underlying items:		
Disallowed depreciation on UK properties	**26**	30
Over-provision in prior years	**(1)**	(5)
Revaluation of deferred tax balances	**(20)**	1
Other	**(1)**	6
Effects of non-underlying items:		
Profit on disposal of properties	**(21)**	(6)
Investment property fair value movements	**4**	(1)
Revaluation of deferred tax balances	**(15)**	–
Over-provision in prior years	**(9)**	(1)
Impairment	**–**	84
Other one-off items	**4**	1
Total income tax expense in income statement	**77**	94

8 Income tax expense continued

The tax impact of items excluded from underlying profit is shown below:

	2016 £m	2015 £m
Income tax expense on underlying profit	**122**	176
Tax on items excluded from underlying profit:		
Profit on disposal of properties	**(2)**	(10)
Retail financing fair value movements	**(4)**	(5)
IAS 19 pension financing charge and scheme expenses	**(6)**	(8)
Perpetual securities coupon	**3**	–
Acquisition adjustments	**(1)**	4
One-off items	**(20)**	(63)
Revaluation of deferred tax balances	**(15)**	–
Total income tax expense in income statement	**77**	94

Reductions in the UK corporation tax rate were substantively enacted in the year. The main rate of corporation tax was reduced from 20 per cent to 19 per cent effective from 1 April 2017 and to 18 per cent from 1 April 2020. Deferred tax on temporary differences and tax losses as at the balance sheet date is calculated at the substantively enacted rates at which the temporary differences and tax losses are expected to reverse. A further reduction in the corporation tax rate to 17 per cent, rather than 18 per cent, from 1 April 2020 was announced in the 2016 Budget. However, this further rate change was not substantively enacted at the balance sheet date, so its effect is not reflected in these financial statements.

The effect of a one per cent reduction in the corporation tax rate on the deferred tax balances at the balance sheet date would reduce the deferred tax liability by £13 million which is primarily recognised in the income statement.

Income tax charged or (credited) to equity and/or other comprehensive income during the year is as follows:

	Retirement benefit obligations £m	Fair value movements £m	Perpetual security coupons £m	Total £m
52 weeks to 12 March 2016				
Current tax recognised in equity or other comprehensive income	**–**	**–**	**(6)**	**(6)**
Deferred tax recognised in equity or other comprehensive income	**36**	**(3)**	**–**	**33**
Income tax charged/(credited)	**36**	**(3)**	**(6)**	**27**
52 weeks to 14 March 2015				
Current tax recognised in equity or other comprehensive income	(6)	–	–	(6)
Deferred tax recognised in equity or other comprehensive income	1	(9)	–	(8)
Income tax credited	(5)	(9)	–	(14)

The current and deferred tax in relation to the Group's defined benefit pension scheme's remeasurements, available-for-sale fair value movements and perpetual securities coupons have been charged or credited through other comprehensive income where appropriate.

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 (note 26), 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.

Underlying earnings per share is provided by excluding the effect of any profit or loss on disposal of properties, investment property fair value movements, retail financing fair value movements, impairment of goodwill, IAS 19 pension financing and defined benefit pension scheme expenses, acquisition adjustments and one-off items that are material and infrequent in nature (see 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.

9 Earnings per share continued

	2016 million	2015 million
Weighted average number of shares in issue	**1,920.8**	1,911.0
Weighted average number of dilutive share options	**14.6**	17.3
Weighted average number of dilutive senior convertible bonds	**131.4**	62.3
Weighted average number of dilutive subordinated perpetual convertible bonds	**41.4**	–
Total number of shares for calculating diluted earnings per share	**2,108.2**	1,990.6

	£m	£m
Profit/(loss) for the financial year (net of tax)	**471**	(166)
Less profit attributable to:		
Holders of perpetual capital securities	**(8)**	–
Holders of perpetual convertible bonds	**(4)**	–
Profit/(loss) for the year attributable to ordinary shareholders[1]	**459**	(166)

	£m	£m
Profit/(loss) for the financial year attributable to ordinary shareholders	**459**	(166)
Add interest on senior convertible bonds, net of tax[2]	**11**	–
Add coupon on subordinated perpetual convertible bonds, net of tax	**4**	–
Diluted earnings/(loss) for calculating diluted earnings per share	**474**	(166)

	£m	£m
Profit/(loss) for the financial year attributable to ordinary shareholders of the parent	**459**	(166)
Adjusted for (net of tax):		
Profit on disposal of properties	**(103)**	(17)
Investment property fair value movements	**18**	(7)
Retail financing fair value movements	**18**	25
IAS 19 pension financing charge and scheme expenses	**22**	29
Acquisition adjustments	**(4)**	(9)
One-off items	**70**	650
Revaluation of deferred tax balances	**(15)**	–
Underlying profit after tax attributable to ordinary shareholders of the parent[3]	**465**	505
Add interest on convertible bonds, net of tax	**11**	7
Add coupon on subordinated perpetual convertible bonds, net of tax	**4**	–
Diluted underlying profit after tax attributable to ordinary shareholders of the parent	**480**	512

	Pence per share	Pence per share
Basic earnings/(loss)	**23.9**	(8.7)
Diluted earnings/(loss)	**22.5**	(8.7)
Underlying basic earnings	**24.2**	26.4
Underlying diluted earnings	**22.8**	25.7

1. Profit attributable to ordinary shareholders of the parent is calculated in accordance with IAS 33, 'Earnings per share'.
2. Dilutive share options and convertible bonds have been excluded from the calculation in 2015, as in accordance with IAS 33, 'Earnings per share', they are only included where the impact is dilutive.
3. Underlying earnings per share calculation is based on underlying profit after tax attributable to ordinary shareholders. Therefore the coupons on the perpetual securities (note 25) are not added back.

10 Dividend

	2016 Pence per share	2015 Pence per share	2016 £m	2015 £m
Amounts recognised as distributions to ordinary shareholders in the year:				
Final dividend of prior financial year	**8.2**	12.3	**157**	234
Interim dividend of current financial year	**4.0**	5.0	**77**	96
	12.2	17.3	**234**	330

After the balance sheet date, a final dividend of 8.1 pence per share (2015: 8.2 pence per share) was proposed by the Directors in respect of the 52 weeks to 12 March 2016, resulting in a total final proposed dividend of £155 million (2015: £157 million). The proposed final dividend has not been included as a liability at 12 March 2016.

The dividend was approved by the Board on 3 May 2016.

11 Property, plant and equipment

	Group Land and buildings £m	Group Fixtures and equipment £m	Group Total £m	Company Land and buildings £m
Cost				
At 15 March 2015	**9,932**	**4,922**	**14,854**	**2**
Additions	**259**	**396**	**655**	**–**
Disposals	**(152)**	**(173)**	**(325)**	**–**
Transfer from/(to) assets held for sale[1]	**75**	**–**	**75**	**(2)**
At 12 March 2016	**10,114**	**5,145**	**15,259**	**–**
Accumulated depreciation and impairment				
At 15 March 2015	**2,249**	**2,957**	**5,206**	**1**
Depreciation expense for the year	**166**	**393**	**559**	**–**
Impairment reversal[2]	**(9)**	**–**	**(9)**	**–**
Disposals	**(97)**	**(168)**	**(265)**	**–**
Transfer from/(to) assets held for sale	**4**	**–**	**4**	**(1)**
At 12 March 2016	**2,313**	**3,182**	**5,495**	**–**
Net book value at 12 March 2016	**7,801**	**1,963**	**9,764**	**–**
Capital work-in-progress included above	**259**	**83**	**342**	**–**
Cost				
At 16 March 2014	9,652	5,049	14,701	19
Acquisition of subsidiaries	5	–	5	–
Additions	475	485	960	–
Disposals	(110)	(608)	(718)	–
Transfer to assets held for sale	(90)	(4)	(94)	(17)
At 14 March 2015	9,932	4,922	14,854	2
Accumulated depreciation and impairment				
At 16 March 2014	1,774	3,047	4,821	3
Depreciation expense for the year	158	387	545	–
Impairment	412	128	540	–
Disposals	(86)	(604)	(690)	–
Transfer to assets held for sale	(9)	(1)	(10)	(2)
At 14 March 2015	2,249	2,957	5,206	1
Net book value at 14 March 2015	7,683	1,965	9,648	1
Capital work-in-progress included above	322	90	412	–

1. Transfers from assets held for sale include land and buildings with a net book value of £83 million transferred to, and land and buildings with a net book value of £12 million which were transferred from, property, plant and equipment during the year.
2. An impairment reversal of £9 million was recognised on land where there has been an increase in the market value during the year.

Impairment of property, plant and equipment

In accordance with IAS 36, 'Impairment of assets', property, plant and equipment is only tested for impairment in the event that a triggering event is identified. No such trigger was identified this year. In the prior year, an impairment of £540 million was recognised, as detailed in note 4.

The Group has determined that for the purposes of impairment testing, following a triggering event, each store is a cash-generating unit ('CGU').

The recoverable amounts for the CGUs are based on value in use which is calculated on the cash flows expected to be generated by the stores using the latest budget and forecast data, the results of which are reviewed by the Board. Budget and forecast data reflect both past experience and future expectation of market conditions. The key assumptions in the value in use calculation are the discount rate, sales growth rates and expected changes in operating margins. Changes in income and expenditure are based on past experience and expectations of future changes in the market. Board approved cash flow projections for five years are used and then extrapolated out assuming flat cash flows and discounted at a pre-tax rate of nine per cent (2015: nine per cent) over the earlier of a 25-year period, being the estimated average remaining useful life of a freehold store, or lease length for leasehold stores. The discount rate is based on the Group's pre-tax weighted average cost of capital.

Non-store assets, including depots, store pipeline development sites and IT assets, and the property, plant and equipment of Sainsbury's Bank are reviewed separately for impairment in the event that a triggering event is identified. When an impairment review is required, the carrying value of the asset is compared with its value in use using a methodology consistent with that described above or with its fair value less costs to dispose to determine the recoverable amount. The key assumptions in the fair value less costs to dispose include expected future rental yields, estimated costs to completion, where applicable, and consideration of alternative use values.

11 Property, plant and equipment continued

Interest capitalised

Interest capitalised included in additions amounted to £7 million (2015: £17 million) for the Group and £nil (2015: £nil) for the Company. Accumulated interest capitalised included in the cost of property, plant and equipment net of disposals amounted to £348 million (2015: £360 million) for the Group and £nil (2015: £nil) for the Company. The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation is 4.0 per cent (2015: 4.3 per cent).

Security

Property, plant and equipment of 195 (2015: 125) supermarket properties, with a net book value of £3.6bn (2015: £2.1bn), has been pledged as security for long-term financing (note 20).

In addition, property, plant and equipment of a further six supermarket properties, with a net book value of £64 million (2015: £65 million), has been pledged as security to underpin the residual value guarantee given by the Group with regards to 16 supermarket properties sold in March 2000 and ten supermarket properties sold in July 2000.

On 17 June 2010, property, plant and equipment comprising eight supermarket properties, with a net book value of £167 million, were transferred to the Sainsbury's Property Scottish Partnership ('the partnership') and a further 13 properties with a net book value of £345 million on 25 March 2011.

On 26 February 2016, one property with a net book value of £17 million was substituted out of the partnership for a further four properties with a net book value of £52 million (see note 31).

Analysis of assets held under finance leases

Group	2016 Land and buildings £m	2016 Fixtures and equipment £m	2016 Total £m	2015 Land and buildings £m	2015 Fixtures and equipment £m	2015 Total £m
Cost	**82**	**–**	**82**	75	–	75
Accumulated depreciation and impairment	**(30)**	**–**	**(30)**	(29)	–	(29)
Net book value	**52**	**–**	**52**	46	–	46

12 Intangible assets

Group	Goodwill £m	Computer software £m	Acquired intangibles £m	Other £m	Total £m
Cost					
At 15 March 2015	**143**	**197**	**39**	**49**	**428**
Additions	**–**	**34**	**–**	**–**	**34**
Disposals	**(1)**	**–**	**–**	**–**	**(1)**
Transfer to assets held for resale	**–**	**–**	**–**	**(39)**	**(39)**
At 12 March 2016	**142**	**231**	**39**	**10**	**422**
Accumulated amortisation and impairment					
At 15 March 2015	**4**	**44**	**19**	**36**	**103**
Amortisation expense for the year	**–**	**15**	**10**	**–**	**25**
Transfer to assets held for sale	**–**	**–**	**–**	**(35)**	**(35)**
At 12 March 2016	**4**	**59**	**29**	**1**	**93**
Net book value at 12 March 2016	**138**	**172**	**10**	**9**	**329**
Cost					
At 16 March 2014	145	186	39	48	418
Additions	–	84	–	1	85
Disposals	(2)	(73)	–	–	(75)
At 14 March 2015	143	197	39	49	428
Accumulated amortisation and impairment					
At 16 March 2014	1	96	1	34	132
Amortisation expense for the year	–	15	18	1	34
Impairment	3	4	–	1	8
Disposals	–	(71)	–	–	(71)
At 14 March 2015	4	44	19	36	103
Net book value at 14 March 2015	139	153	20	13	325

12 Intangible assets continued

Goodwill comprises the following:

	2016 £m	2015 £m
Jacksons Stores Limited	**53**	53
Sainsbury's Bank plc	**45**	45
Bells Stores Limited	**17**	17
Other	**23**	24
	138	139

The goodwill balances above are allocated to the respective cash-generating units ('CGUs') or group of CGUs within the retailing or financial services segment. The CGUs to which goodwill has been allocated and the level at which it is monitored in the retailing segment are deemed to be the respective acquired retail chains of stores, whilst within financial services Sainsbury's Bank is a separate CGU.

The value of the goodwill was tested for impairment during the current financial year by means of comparing the recoverable amount of each CGU or group of CGUs with the carrying value of its goodwill. The calculation of the retail CGU's value in use is detailed in note 11. The Sainsbury's Bank CGU's value in use is calculated using Board approved cash flows discounted at a pre-tax rate of nine per cent over a five-year period with a terminal value.

Based on the operating performance of the CGUs, an impairment of retail goodwill of £nil was identified in the current financial year (2015: £3 million). The valuations indicate sufficient headroom such that a reasonably possible change to key assumptions would not result in any impairment of goodwill.

Acquired intangibles relating to customer relationships, purchased credit card relationships and the value of core deposits were recognised as part of the fair value accounting on the acquisition of Sainsbury's Bank. Other intangibles primarily comprised pharmacy licences.

The transfers in the year relate to pharmacy licences being transferred to assets held for resale. Further detail about the sale of the pharmacy business can be found in note 18.

13 Investment in subsidiaries

	2016 £m	2015 £m
Shares in subsidiaries – Company		
Beginning of the year	**7,630**	7,562
Additions	**160**	530
Disposals	**(3,294)**	(450)
Provision for diminution in value of investment	**–**	(23)
Release of provision for diminution in value of investment	**4**	11
End of the year	**4,500**	7,630

A full list of the Company's subsidiaries is included in note 38. All principal operating subsidiaries operate in the countries of their registration or incorporation. Sainsbury's Bank plc has been consolidated for the 12 months to 29 February 2016, the Bank's nearest month-end to the Group's year-end, as it is impractical to close the Bank mid-month. Adjustments have been made for the effects of significant transactions or events that occurred between this date and the Group's balance sheet date.

A provision of £nil (2015: £23 million) was made against investments in subsidiaries where the carrying value exceeded the recoverable amount.

During the year a number of subsidiaries were liquidated as part of a corporate simplification project. This resulted in dividends received of £5,307 million and a subsequent disposal of subsidiaries of £3,294 million.

Sainsbury's Property Scottish Partnership and Sainsbury's Property Scottish Limited Partnership are two partnerships the Group has an interest in, which are fully consolidated into these Group accounts. The Group has taken advantage of the exemption conferred by Regulation 7 of the Partnerships ('Accounts') Regulations 2008 and has therefore not appended the accounts of these qualifying partnerships to these accounts. Separate accounts for these partnerships are not required to be, and have not been, filed at Companies House.

14 Investments in joint ventures and associates

	Group shares at cost £m	Group share of post-acquisition reserves £m	Group total £m	Company shares at cost £m
At 15 March 2015	**296**	**63**	**359**	**18**
Additions	**18**	**–**	**18**	**15**
Dividends and distributions received[1]	**(13)**	**(33)**	**(46)**	**–**
Share of retained profit:[2]				
Underlying profit after tax	**–**	**10**	**10**	**–**
Investment property fair value movements	**–**	**(18)**	**(18)**	**–**
Retail financing fair value movements	**–**	**(2)**	**(2)**	**–**
Share of profit on disposal of properties	**–**	**1**	**1**	**–**
Unrealised profit on disposal of properties	**4**	**–**	**4**	**–**
	305	**21**	**326**	**33**
Movements in other comprehensive income (note 24)	**–**	**1**	**1**	**–**
At 12 March 2016	**305**	**22**	**327**	**33**
At 16 March 2014	318	86	404	6
Additions	12	–	12	12
Disposals	(4)	–	(4)	–
Dividends and distributions received[1]	(30)	(40)	(70)	–
Share of retained profit:				
Underlying profit after tax	–	12	12	–
Investment property fair value movements	–	7	7	–
Retail financing fair value movements	–	(7)	(7)	–
Share of profit on disposal of properties	–	2	2	–
	296	60	356	18
Movements in other comprehensive income (note 24)	–	3	3	–
At 14 March 2015	296	63	359	18

1. The dividends and distributions received include £13 million (2015: £30 million) return of partner capital.
2. In addition to the above, £2 million share of joint venture losses (2015: £6 million) was recognised in relation to joint ventures with a carrying value of £nil.

The Group's principal joint venture is:

	Statutory year-end	Share of ordinary allotted capital	Country of registration or incorporation
BL Sainsbury Superstores Limited (property investment)	31 March	50%	England

A full list of the Group's joint ventures is included in note 38. Joint ventures with a different year-end date to the Group are reported to include the results up to 29 February 2016, the nearest month-end to the Group's year-end. BL Sainsbury Superstores Limited joint venture continues to be reported to the Group's year-end 12 March 2016. Management accounts for the joint ventures are used where relevant and adjustments have been made for the effects of significant transactions or events that occurred between 29 February and the Group's balance sheet date.

The Group's share of the assets, liabilities, income and expenses of its joint ventures are detailed below:

	2016 £m	2015 £m
Non-current assets	**499**	558
Current assets	**83**	53
Current liabilities	**(58)**	(45)
Non-current liabilities	**(210)**	(218)
Net assets	**314**	348
Provision for share of joint venture losses	**8**	6
Goodwill	**5**	5
Investments in joint ventures and associates	**327**	359
Income	**80**	73
Expenses	**(73)**	(72)
Investment property fair value movements	**(18)**	7
Share of joint venture (loss)/profit after tax	**(11)**	8

14 Investments in joint ventures and associates continued

The total assets, liabilities, income and expenses of the Group's principal joint venture BL Sainsbury Superstores Limited are detailed below:

	2016 £m	2015 £m
Non-current assets	**946**	1,038
Current assets (excluding cash and cash equivalents)	**2**	3
Cash and cash equivalents	**65**	8
Current liabilities	**(28)**	(21)
Non-current liabilities	**(417)**	(435)
Joint venture net assets	**568**	593
Revenue	**55**	60
Other expenses	**(41)**	(19)
Other income	**3**	14
Interest expense	**(24)**	(28)
Joint venture (loss)/profit	**(7)**	27
Analysed as:		
Underlying joint venture profit before tax	**30**	31
Profit/(loss) on disposal of properties	**3**	(4)
Retail financing fair value movements	**(4)**	(14)
Investment property fair value movements	**(36)**	14
	(7)	27
Income tax expense	**(3)**	(6)
Joint venture (loss)/profit after tax	**(10)**	21
Other comprehensive income (net of tax)	**1**	3
Total comprehensive (loss)/income	**(9)**	24

The joint venture had no other capital commitments nor contingent liabilities other than those disclosed in notes 34 and 36.

15 Available-for-sale financial assets

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Non-current				
Unlisted equity investments	**3**	2	**–**	–
Investment securities	**156**	–	**–**	–
Interest bearing financial assets	**35**	37	**35**	37
Other financial assets	**146**	145	**–**	–
	340	184	**35**	37
Current				
Investment securities	**48**	–	**–**	–
	388	184	**35**	37

The other financial asset represents the Group's beneficial interest in a commercial property investment pool. The fair value of the other financial asset is based on discounted cash flows assuming a property rental growth rate of 0.6 per cent (2015: 0.8 per cent) and a weighted average cost of capital of nine per cent (2015: nine per cent). There were no disposals or impairment provisions on available-for-sale financial assets in either the current or the previous financial year (see note 30 for sensitivity analysis).

16 Inventories

	2016 £m	2015 £m
Goods held for resale	**967**	994
Development properties	**1**	3
	968	997

The amount of inventories recognised as an expense and charged to cost of sales for the 52 weeks to 12 March 2016 was £17,210 million (2015: £17,501 million).

17 Receivables

(a) Trade and other receivables

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Non-current				
Amounts owed by Group entities	**–**	–	**1,531**	1,363
Other receivables	**92**	73	**–**	–
	92	73	**1,531**	1,363
Prepayments and accrued income	**11**	10	**–**	–
	103	83	**1,531**	1,363
Current				
Trade receivables	**96**	101	**–**	–
Amounts owed by Group entities	**–**	–	**1,189**	1,395
Other receivables	**305**	271	**–**	–
	401	372	**1,189**	1,395
Prepayments and accrued income	**107**	99	**6**	4
	508	471	**1,195**	1,399

Trade receivables are non-interest bearing and are on commercial terms. Current other receivables of £305 million (2015: £271 million), which include £170 million (2015: £121 million) of bank funds in the course of settlement, are generally non-interest bearing. The carrying amounts of trade and other receivables are denominated in sterling.

The Group's exposure to credit risk arising from its retail operations is minimal given that the customer base is large and unrelated and that the overwhelming majority of customer transactions are settled through cash or secure electronic means. New parties wishing to obtain credit terms with the Group are credit checked prior to invoices being raised and credit limits are determined on an individual basis.

(b) Amounts due from Sainsbury's Bank customers

	2016 £m	2015 £m
Non-current		
Loans and advances to customers	**1,680**	1,444
Impairment of loans and advances	**(31)**	(32)
	1,649	1,412
Current		
Loans and advances to customers	**1,743**	1,654
Impairment of loans and advances	**(48)**	(55)
	1,695	1,599

Loans and advances to customers accrue interest at the effective interest rate. Sainsbury's Bank has pledged the rights to £468 million (2015: £487 million) of its personal loans book with the Bank of England for £240 million (2015: £240 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. As at 12 March 2016, there was £nil (2015: £nil) borrowings drawn down.

Sainsbury's Bank has assigned the beneficial interest in £379 million (2015: £191 million) of its personal loans book to a Special Purpose Entity for use as collateral in securitisation transactions, facilitating £300 million (2015: £150 million) of drawings.

Refer to note 29 for details on Sainsbury's Bank credit risk.

(c) Provision for impairment of loans and advances

	2016 £m	2015 £m
Opening provision	**(87)**	(83)
Additional provisions	**(15)**	(21)
Utilisation of provision	**22**	16
Amortisation of discount	**1**	1
Closing provision	**(79)**	(87)

17 Receivables continued

(d) Major counterparties

Major counterparties are identified as follows:

	2016 Number of counterparties	2016 Balance £m	2015 Number of counterparties	2015 Balance £m
Other receivables	**2**	**43**	2	35
Related parties	**–**	**–**	1	13

The related party receivable in 2015 is from the Group's joint venture, The Harvest Limited Partnership. This was repaid in the current financial year. Loans are approved by the Investment Committee.

No major counterparty balances are considered overdue or impaired.

18 Assets and liabilities held for sale

	Group		Company	
	2016 £m	2015 £m	2016 £m	2015 £m
Retail segment properties	**9**	84	**1**	15
Assets relating to pharmacy business:				
Fixed assets	**3**	–	**–**	–
Intangible assets	**4**	–	**–**	–
Inventory	**15**	–	**–**	–
	31	84	**1**	15
Liabilities relating to pharmacy business:				
Creditors	**4**	–	**–**	–
	4	–	**–**	–

On 29 July 2015 Sainsbury's signed a Business Sale Agreement ('BSA') to sell its pharmacy business to Celesio, the owner of LloydsPharmacy for a headline price of £125 million. The transaction is expected to complete during the year ending 11 March 2017 and therefore the assets and liabilities relating to the pharmacy business are classed as held for sale at the current financial year-end. Management considers the assets and liabilities to meet the criteria to be classified as held for sale as the business is available for immediate sale and the sale is highly probable.

The cash consideration of £125 million was received on 29 February 2016 as an advance payment. This income has been deferred at year-end and presented as a liability within current creditors. See note 19.

For the Group, of the assets held for sale at 14 March 2015, £1 million worth was sold during the financial year ended 12 March 2016, with the remainder being re-classified from held for sale to plant, property and equipment due to a management decision to no longer sell these assets. All of the Company's assets held for sale at 14 March 2015 were sold during the current financial year.

19 Payables

(a) Trade and other payables

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Current				
Trade payables	**2,082**	2,089	**–**	–
Amounts owed to Group entities	**–**	–	**125**	4,403
Other payables	**590**	580	**32**	19
Accruals and deferred income/gains	**405**	292	**–**	–
	3,077	2,961	**157**	4,422
Non-current				
Amounts owed to Group entities	**–**	–	**692**	798
Other payables	**6**	9	**–**	–
Accruals and deferred income/gains	**263**	256	**–**	–
	269	265	**692**	798

The Group's policy on payment of creditors is to agree terms of payment prior to commencing trade with a supplier and to abide by those terms on the timely submission of satisfactory invoices.

Accruals and deferred income/gains includes accounting for leases with fixed rental increases and lease incentives on a straight-line basis over the term of the lease. Also included within current accruals and deferred income/gains is the £125 million advance payment received as consideration for the sale of the pharmacy business.

The decrease in Company intercompany payables is as a result of the corporate simplification project referred to in note 13.

Foreign currency risk
The Group has net Euro denominated trade payables of £11 million (2015: £16 million) and US dollar denominated trade payables of £49 million (2015: £46 million).

(b) Amounts due to Sainsbury's Bank customers and banks

	2016 £m	2015 £m
Current		
Customer accounts	**3,026**	3,305
Other deposits	**29**	20
Senior secured loan notes	**118**	70
	3,173	3,395
Non-current		
Customer accounts	**182**	185
Other deposits	**219**	3
Senior secured loan notes	**181**	78
	582	266

With the exception of fixed rate bonds, amounts due to Sainsbury's Bank customers are generally repayable on demand and accrue interest at retail deposit rates.

Sainsbury's Bank, via its subsidiary undertakings, has entered a £400 million asset backed commercial paper securitisation of consumer loans. Of this facility, £300 million had been drawn as at 12 March 2016 (14 March 2015: £150 million). Interest on the notes is repayable at a floating rate linked to three-month LIBOR and their contractual repayment is determined by cash flows on the relevant personal loans included in the collateral pool.

Other deposits include £248 million (2015: £23 million) of UK non-financial wholesale counterparties.

20 Borrowings

Group	2016 Current £m	2016 Non-current £m	2016 Total £m	2015 Current £m	2015 Non-current £m	2015 Total £m
Loan due 2018	**101**	**679**	**780**	95	778	873
Loan due 2031	**41**	**758**	**799**	39	795	834
Bank overdrafts	**3**	**–**	**3**	9	–	9
Revolving credit facility due 2017	**–**	**–**	**–**	–	120	120
Revolving credit facility due 2018	**–**	**–**	**–**	–	–	–
Bank loans due 2015	**–**	**–**	**–**	86	–	86
Bank loans due 2016	**39**	**–**	**39**	–	35	35
Bank loans due 2019	**–**	**199**	**199**	–	200	200
Convertible bond due 2019	**1**	**417**	**418**	1	409	410
Finance lease obligations	**38**	**137**	**175**	30	169	199
Total borrowings	**223**	**2,190**	**2,413**	260	2,506	2,766

Company	2016 Current £m	2016 Non-current £m	2016 Total £m	2015 Current £m	2015 Non-current £m	2015 Total £m
Bank overdrafts	**–**	**–**	**–**	–	–	–
Revolving credit facility due 2017	**–**	**–**	**–**	–	120	120
Revolving credit facility due 2018	**–**	**–**	**–**	–	–	–
Bank loans due 2015	**–**	**–**	**–**	86	–	86
Bank loans due 2016	**39**	**–**	**39**	–	35	35
Bank loans due 2019	**–**	**199**	**199**	–	200	200
Convertible bond due 2019	**1**	**417**	**418**	1	409	410
Total borrowings	**40**	**616**	**656**	87	764	851

a) Loan due 2018 and Loan due 2031

Secured loans are secured on 125 (2015: 125) supermarket properties (note 11) and comprise loans from two finance companies, Eddystone Finance plc and Longstone Finance plc:

— a fixed rate amortising loan from Eddystone Finance plc with an outstanding principal value of £764 million (2015: £850 million) at a weighted average rate of 4.89 per cent and carrying amount of £780 million (2015: £873 million) with a final repayment date of April 2018; and

— an inflation linked amortising loan from Longstone Finance plc with an outstanding principal value of £779 million (2015: £811 million) at a fixed real rate of 2.36 per cent where principal and interest are uplifted annually by RPI subject to a cap at five per cent and floor at nil per cent with a carrying amount of £799 million (2015: £834 million) with a final repayment date of April 2031.

The Group has entered into interest rate swaps to convert £206 million (2015: £211 million) of the £764 million (2015: £850 million) loan due 2018 from fixed to floating rates of interest. These transactions have been accounted for as fair value hedges (note 30). In previous years, £572 million of fixed to floating rate swaps accounted for as fair value hedges were de-designated from their fair value hedging relationship. The fair value adjustment of the debt previously hedged by these swaps will be amortised over the remaining life of the loans, resulting in an amortisation charge to the income statement in the current financial year of £1 million (2015: £1 million).

The Group has entered into inflation swaps to convert £400 million (2015: £400 million) of the £779 million (2015: £811 million) loan due 2031 from RPI linked interest to fixed rate interest for periods maturing April 2017 to April 2019. These transactions have been designated as cash flow hedges (note 30).

The principal activity of Eddystone Finance plc and Longstone Finance plc is the issuing of commercial mortgage backed securities and applying the proceeds towards the Secured loans due 2018 and 2031 with the Group as summarised above.

SFM Corporate Services Limited holds all the issued share capital of Eddystone Finance Holdings Limited and Longstone Finance Holdings Limited on trust for charitable purposes. Eddystone Finance Holdings Limited beneficially owns all the issued share capital of Eddystone Finance plc and Longstone Finance Holdings Limited beneficially owns all the issued share capital of Longstone Finance plc. As the Group has no interest, power or bears any risk over these entities they are not included in the Group consolidation.

b) Bank overdrafts

Bank overdrafts are repayable on demand and bear interest at a spread above bank base rate.

c) Revolving credit facility

On 5 May 2015, the Group refinanced its unsecured £1,150 million syndicated revolving credit facility due 2019 with a new secured corporate £1,150 million syndicated revolving credit facility due 2020. The new facility is structured on a dual tranche basis with a £500 million Facility (A) due May 2018 and a £650 million Facility (B) due May 2020. As at 12 March 2016, £nil had been drawn under the new facility (2015: £120 million drawn under the previous Revolving Credit Facility (A) due 2017).

The revolving credit facility incurs commitment fees at market rates and drawdowns bear interest at a spread above LIBOR.

20 Borrowings continued

d) Bank loans due 2015

During March 2015, the Group repaid upon maturity a €50 million loan due March 2015 at floating rates of interest swapped into a £45 million floating rate loan.

During June 2015, the Group repaid upon maturity a £50 million loan due June 2015 at floating rates of interest swapped into a fixed rate loan. The £50 million loan and associated interest rate swap had been designated as a cash flow hedge.

e) Bank loans due 2016

On 5 May 2015, the Group amended its €50 million unsecured bank loan due September 2016 into a secured corporate €50 million bank loan due September 2016. This €50 million floating rate loan has been swapped into a £44 million floating rate loan.

f) Bank loans due 2019

On 5 May 2015, the Group amended its £200 million unsecured bank loan due August 2019 into a secured corporate £200 million bank loan due August 2019 at floating rates of interest. £100 million of this has been swapped into fixed rate liabilities. The £100 million portion of the loan and associated interest rate swap has been designated as a cash flow hedge.

g) Convertible bond due 2019

In November 2014, the Group issued £450 million of unsecured convertible bonds due November 2019. The bonds pay a coupon of 1.25 per cent payable semi-annually. Each bond is convertible into ordinary shares of J Sainsbury plc at any time up to 21 November 2019 at a conversion price of 337 pence.

The net proceeds of the convertible bond have been split as at 12 March 2016 into a liability component of £418 million and an equity component of £32 million. The equity component represents the fair value of the embedded option to convert the bond into ordinary shares of the Company.

	2016 £m	2015 £m
Liability component brought forward	**410**	411
Interest expense	**13**	5
Interest paid	**(6)**	–
Other[1]	**1**	(6)
Liability component as at the end of the year	**418**	410

1. Other relates to fees.

h) Finance lease obligations

	Minimum lease payments 2016 £m	Minimum lease payments 2015 £m	Present value of minimum lease payments 2016 £m	Present value of minimum lease payments 2015 £m
Amounts payable under finance leases:				
Within one year	**46**	38	**38**	30
In the second to fifth years inclusive	**87**	124	**63**	100
After five years	**209**	207	**74**	69
	342	369	**175**	199
Less: future finance charges	**(167)**	(170)		
Present value of lease obligations	**175**	199		
Disclosed as:				
Current	**38**	30		
Non-current	**137**	169		
	175	199		

Finance leases have effective interest rates ranging from 4.3 per cent to 8.5 per cent (2015: 2.4 per cent to 9.0 per cent). The average remaining lease term is 66 years (2015: 67 years).

21 Deferred tax

The movements in deferred income tax assets and liabilities during the financial year, prior to the offsetting of the balances within the same tax jurisdiction, are shown below.

Group	Accelerated capital allowances £m	Capital losses £m	Fair value movements £m	Rolled over capital gains £m	Retirement benefit obligations £m	Share-based payments £m	Other £m	**Total £m**
At 15 March 2015	**(162)**	**52**	**(29)**	**(97)**	**57**	**6**	**(42)**	**(215)**
(Charge)/credit to income statement	**(15)**	**5**	**1**	**(8)**	**(12)**	**2**	**3**	**(24)**
Charge to equity or other comprehensive income	**–**	**–**	**–**	**–**	**(24)**	**–**	**–**	**(24)**
Rate change adjustment to income statement	**18**	**(6)**	**–**	**10**	**10**	**(1)**	**4**	**35**
Rate change adjustment to equity	**–**	**–**	**3**	**–**	**(12)**	**–**	**–**	**(9)**
At 12 March 2016	**(159)**	**51**	**(25)**	**(95)**	**19**	**7**	**(35)**	**(237)**
At 16 March 2014	(176)	48	(34)	(96)	58	12	(39)	(227)
Credit/(charge) to income statement	16	4	(4)	(1)	–	(6)	(4)	5
Credit/(charge) to equity or other comprehensive income	–	–	9	–	(1)	–	–	8
Rate change adjustment to income statement	(2)	–	–	–	–	–	1	(1)
At 14 March 2015	(162)	52	(29)	(97)	57	6	(42)	(215)

Group	**2016 £m**	2015 £m
Total deferred income tax liabilities	**(314)**	(330)
Total deferred income tax assets	**77**	115
Net deferred income tax liability	**(237)**	(215)

Company	Capital losses £m	Rolled over capital gains £m	Total £m
At 15 March 2015	**25**	**(25)**	**–**
Rate change adjustment to income statement	**(3)**	**3**	**–**
At 12 March 2016	**22**	**(22)**	**–**
At 16 March 2014	25	(25)	–
Rate change adjustment to income statement	–	–	–
At 14 March 2015	25	(25)	–

Company	**2016 £m**	2015 £m
Total deferred income tax liabilities	**(22)**	(25)
Total deferred income tax assets	**22**	25
Net deferred income tax asset	**–**	–

Deferred income tax assets have been recognised in respect of all temporary differences and tax losses giving rise to deferred income tax assets because it is probable that these assets will be recovered. Deferred income tax assets and liabilities are only offset where there is a legally enforceable right of offset and the deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority.

22 Provisions

	Group onerous leases and onerous contracts £m	Group long service awards £m	Other provisions[1] £m	**Group total £m**	Company onerous leases £m	Company disposal provision £m	**Company total £m**
At 15 March 2015	**88**	**7**	**26**	**121**	**3**	**1**	**4**
Reclassification from accruals	**–**	**–**	**68**	**68**	**–**	**–**	**–**
Additional provisions	**23**	**–**	**25**	**48**	**–**	**–**	**–**
Unused amounts reversed	**(2)**	**(2)**	**(4)**	**(8)**	**–**	**–**	**–**
Utilisation of provision	**(18)**	**(1)**	**(40)**	**(59)**	**(2)**	**–**	**(2)**
Amortisation of discount	**5**	**–**	**–**	**5**	**–**	**–**	**–**
At 12 March 2016	**96**	**4**	**75**	**175**	**1**	**1**	**2**
At 16 March 2014	29	7	33	69	3	1	4
Additional provisions	88	1	21	110	–	–	–
Unused amounts reversed	(3)	–	(2)	(5)	–	–	–
Utilisation of provision	(29)	(1)	(26)	(56)	(1)	–	(1)
Amortisation of discount	3	–	–	3	1	–	1
At 14 March 2015	88	7	26	121	3	1	4

	Group 2016 £m	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Disclosed as:				
Current	**46**	44	**–**	2
Non-current	**129**	77	**2**	2
	175	121	**2**	4

The onerous lease provision covers residual lease commitments of up to an average of 28 years (2015: 23 years), after allowance for existing or anticipated sublet rental income. The prior year additional provisions of £88 million includes £50 million onerous lease charge and £30 million onerous contract charge recognised as part of the prior year impairment review (see note 3).

Long service awards are accrued over the period the service is provided by the employee.

Additional provisions of £25 million (2015: £21 million) within other provisions include an £11 million provision for restructuring costs (2015: £14 million).

23 Called up share capital and share premium account

Group and Company	**2016 million**	2015 million	**2016 £m**	2015 £m
Called up share capital				
Allotted and fully paid ordinary shares – 28 $^{4}/_{7}$p	**1,924**	1,919	**550**	548
Share premium account				
Share premium			**1,114**	1,108

The movements in the called up share capital and share premium accounts are set out below:

Group and Company	Ordinary shares million	Ordinary shares £m	Share premium account £m
At 15 March 2015	**1,919**	**548**	**1,108**
Allotted in respect of share option schemes	**5**	**2**	**6**
At 12 March 2016	**1,924**	**550**	**1,114**
At 16 March 2014	1,907	545	1,091
Allotted in respect of share option schemes	12	3	17
At 14 March 2015	1,919	548	1,108

24 Capital redemption and other reserves

Group	Currency translation reserve £m	Available-for-sale assets £m	Cash flow hedge reserve £m	Convertible bond reserve £m	**Total other reserves £m**	Capital redemption reserve £m
At 15 March 2015	**1**	**124**	**(15)**	**36**	**146**	**680**
Currency translation differences	**2**	**–**	**–**	**–**	**2**	**–**
Available-for-sale financial assets fair value movements (net of tax):						
Attributable to Group	**–**	**2**	**–**	**–**	**2**	**–**
Cash flow hedges effective portion of fair value movements (net of tax):						
Attributable to Group	**–**	**–**	**4**	**–**	**4**	**–**
Attributable to joint ventures (note 14)	**–**	**–**	**1**	**–**	**1**	**–**
Items reclassified from cash flow hedge reserve	**–**	**–**	**7**	**–**	**7**	**–**
Amortisation of convertible bond – equity component	**–**	**–**	**–**	**(7)**	**(7)**	**–**
At 12 March 2016	**3**	**126**	**(3)**	**29**	**155**	**680**
At 16 March 2014	(2)	153	(26)	2	127	680
Currency translation differences	3	–	–	–	3	–
Available-for-sale financial assets fair value movements (net of tax):						
Attributable to Group	–	(30)	–	–	(30)	–
Items reclassified from available-for-sale financial assets reserve	–	1	–	–	1	–
Cash flow hedges effective portion of fair value movements (net of tax):						
Attributable to Group	–	–	(13)	–	(13)	–
Attributable to joint ventures (note 14)	–	–	3	–	3	–
Items reclassified from cash flow hedge reserve	–	–	21	–	21	–
Convertible bond – equity component	–	–	–	39	39	–
Amortisation of convertible bond – equity component	–	–	–	(5)	(5)	–
At 14 March 2015	1	124	(15)	36	146	680

Company	Available-for-sale assets £m	Convertible bond reserve £m	Cash flow hedge reserve £m	**Total other reserves £m**	Capital redemption reserve £m
At 15 March 2015	**8**	**36**	**(4)**	**40**	**680**
Available-for-sale financial assets fair value movements (net of tax)	**(2)**	**–**	**–**	**(2)**	**–**
Cash flow hedges effective portion of fair value movements (net of tax)	**–**	**–**	**(2)**	**(2)**	**–**
Items reclassified from cash flow hedge reserve	**–**	**–**	**2**	**2**	**–**
Amortisation of convertible bond – equity component	**–**	**(7)**	**–**	**(7)**	**–**
At 12 March 2016	**6**	**29**	**(4)**	**31**	**680**
At 16 March 2014	6	2	(1)	7	680
Available-for-sale financial assets fair value movements (net of tax)	2	–	–	2	–
Cash flow hedges effective portion of fair value movements (net of tax)	–	–	(5)	(5)	–
Items reclassified from cash flow hedge reserve	–	–	2	2	–
Convertible bond – equity component	–	39	–	39	–
Amortisation of convertible bond – equity component	–	(5)	–	(5)	–
At 14 March 2015	8	36	(4)	40	680

The currency translation reserve represents the cumulative foreign exchange differences on the translation of the net assets of the Group's foreign operations from their functional currency to the presentation currency of the parent.

The available-for-sale assets reserve represents the fair value gains and losses on the available-for-sale financial assets held by the Group. The cash flow hedge reserve represents the cumulative effective fair value gains and losses on cash flow hedges in the Group.

The convertible bond reserve represents the equity component of the £450 million convertible bond issued in November 2014.

The capital redemption reserve arose on the redemption of B shares. Shareholders approved a £680 million return of share capital, by way of a B share scheme, at the Company's Extraordinary General Meeting on 12 July 2004. The final redemption date for B shares was 18 July 2007 and all transactions relating to the B shares have now been completed.

25 Perpetual securities

Group and Company	Perpetual capital securities £m	Perpetual convertible bonds £m
At 14 March 2015	–	–
Issue of £250 million 6.5% perpetual subordinated capital securities (net of issue costs)	**247**	–
Issue of £250 million 2.875% perpetual subordinated convertible bonds (net of issue costs)	–	**247**
Current tax relief on issue costs	**1**	**1**
Distributions to holders of perpetual securities	**(16)**	**(7)**
Current tax relief on distributions to holders of perpetual securities	**3**	**1**
Profit for the year attributable to holders of perpetual securities	**13**	**6**
At 12 March 2016	**248**	**248**

On 30 July 2015 the Group issued £250 million of perpetual subordinated capital securities and £250 million of perpetual subordinated convertible bonds, collectively known as perpetual securities. Costs directly associated with the issue of £6 million have been offset against the value of the proceeds. The securities are perpetual with no fixed redemption date. Holders of the perpetual securities do not benefit from any put option rights, however the Group does have the right to call the perpetual subordinated capital securities at their principal amount on 30 July 2020, and the perpetual subordinated convertible bonds on 30 July 2021. The perpetual subordinated convertible bonds may be converted into ordinary shares of the Company at the option of the holders at any time up to 23 July 2021 at a conversion price of 342.9737 pence.

The Group has the right to defer coupons on the perpetual securities on any coupon payment date where the Company has not either paid a dividend on its ordinary shares or bought back ordinary shares (excluding shares bought to satisfy employee share schemes) within the previous 12 month period. The coupon rate on the perpetual subordinated capital securities increases after the fifth anniversary and for the perpetual subordinated convertible bonds after the sixth anniversary.

The next coupon date on the perpetual securities is 30 July 2016. As the Company paid a dividend to ordinary shareholders in the 12 months prior to this date (in January 2016), the periodic distributions of £16 million for the perpetual subordinated capital securities and £7 million for the perpetual subordinated convertible bonds have been recognised in the financial year.

26 Retained earnings

	Group Own shares £m	Group Profit and loss account £m	Group Total retained earnings £m	Company Retained earnings £m
At 15 March 2015	**(18)**	**3,075**	**3,057**	**2,085**
Profit for the year	–	**452**	**452**	**1,360**
Remeasurements on defined benefit pension schemes (net of tax)	–	**85**	**85**	–
Dividends paid	–	**(234)**	**(234)**	**(234)**
Share-based payment (net of tax)	–	**23**	**23**	–
Purchase of own shares	**(20)**	–	**(20)**	–
Allotted in respect of share option schemes	**17**	**(17)**	–	**22**
Amortisation of convertible bond – equity component	–	**7**	**7**	**7**
At 12 March 2016	**(21)**	**3,391**	**3,370**	**3,240**
At 16 March 2014	(9)	3,569	3,560	2,046
(Loss)/profit for the year	–	(166)	(166)	344
Remeasurements on defined benefit pension schemes (net of tax)	–	(14)	(14)	–
Dividends paid	–	(330)	(330)	(330)
Share-based payment (net of tax)	–	21	21	–
Shares vested	9	–	9	–
Purchase of own shares	(18)	–	(18)	–
Allotted in respect of share option schemes	–	(12)	(12)	21
Utilised in respect of share option schemes	–	–	–	(1)
Amortisation of convertible bond – equity component	–	5	5	5
Purchase of non-controlling interest	–	2	2	–
At 14 March 2015	(18)	3,075	3,057	2,085

Own shares held by Employee Share Ownership Plan ('ESOP') trusts

The Group owns 7,857,148 (2015: 5,960,476) of its ordinary shares of $28\frac{4}{7}$ pence nominal value each. At 12 March 2016, the total nominal value of the own shares was £2 million (2015: £2 million).

All shares (2015: all shares) are held by an ESOP trust for the Executive Share Plans. The ESOP trusts waive the rights to the dividends receivable in respect of the shareholder under the above schemes.

The cost of the own shares is deducted from equity in the Group financial statements. The market value of the own shares at 12 March 2016 was £21 million (2015: £15 million).

27 Notes to the cash flow statements

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

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Profit/(loss) before tax	**548**	(72)	**1,395**	373
Net finance costs	**148**	161	**(149)**	(123)
Share of post-tax profits/(losses) of joint ventures (note 14)	**11**	(8)	**–**	–
Dividend income from subsidiaries	**–**	–	**(5,556)**	(252)
Operating profit/(loss)	**707**	81	**(4,310)**	(2)
Adjustments for:				
Depreciation expense	**559**	545	**–**	–
Amortisation expense	**25**	34	**–**	–
Non-cash acquisition adjustments[1]	**(13)**	(31)	**–**	–
Impairment of subsidiaries	**–**	–	**4,290**	–
Sainsbury's Bank impairment losses on loans and advances	**15**	21	**–**	–
Profit on disposal of properties	**(100)**	(5)	**–**	–
(Release)/impairment of property, plant and equipment	**(9)**	540	**–**	–
Impairment of intangible assets	**–**	8	**–**	–
Foreign exchange differences	**24**	(12)	**–**	–
Share-based payments expense	**23**	21	**–**	–
Retirement benefit obligations[2]	**(201)**	(79)	**–**	–
Provision for diminution in value of investment	**–**	–	**–**	23
Release of provision for diminution in value of investment	**–**	–	**–**	(11)
Write down of advances to Group companies	**–**	–	**–**	(28)
Operating cash flows before changes in working capital	**1,030**	1,123	**(20)**	(18)
Changes in working capital:				
Decrease in inventories	**12**	6	**–**	–
(Increase)/decrease in investment securities	**(202)**	32	**–**	–
(Increase)/decrease in trade and other receivables	**(25)**	(57)	**122**	45
Increase in amounts due from Sainsbury's Bank customers and other deposits	**(318)**	(426)	**–**	–
(Decrease)/increase in trade and other payables	**(16)**	294	**(9)**	(519)
Increase in amounts due to Sainsbury's Bank customers and other deposits	**95**	114	**–**	–
Increase in provisions and other liabilities	**48**	50	**–**	–
Cash generated from/(used in) operations	**624**	1,136	**93**	(492)

1. Refer to note 3 for details of acquisition adjustments. This excludes £10 million (2015: £18 million) amortisation on acquired intangibles included within amortisation in this note.
2. The adjustment for retirement benefit obligations reflects the difference between the defined benefit pension scheme expenses of £6 million (2015: £6 million), and the cash contributions of £207 million made by the Group to the defined benefit scheme (2015: £85 million).

(b) Cash and cash equivalents

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

	Group 2016 £m	Group 2015 £m	Company 2016 £m	Company 2015 £m
Cash in hand and bank balances	**374**	485	**1**	1
Money market funds and deposits	**480**	262	**337**	91
Treasury bills	**20**	53	**–**	–
Deposits at central banks	**269**	485	**–**	–
Cash and bank balances	**1,143**	1,285	**338**	92
Bank overdrafts (note 20)	**(3)**	(9)	**–**	–
Net cash and cash equivalents	**1,140**	1,276	**338**	92

28 Analysis of net debt

	Group 2016 £m	Sainsbury's Bank 2016 £m	Adjusted Group 2016[1,2] £m	Group 2015 £m	Sainsbury's Bank 2015 £m	Adjusted Group 2015[1] £m
Non-current assets						
Interest bearing available-for-sale financial assets	**35**	**–**	**35**	37	–	37
Available-for-sale investment securities	**156**	**(156)**	**–**	–	–	–
Derivative financial instruments	**17**	**(4)**	**13**	21	(1)	20
	208	**(160)**	**48**	58	(1)	57
Current assets						
Cash and cash equivalents	**1,143**	**(566)**	**577**	1,285	(882)	403
Interest bearing available-for-sale financial assets	**48**	**(48)**	**–**	–	–	–
Derivative financial instruments	**51**	**–**	**51**	69	–	69
	1,242	**(614)**	**628**	1,354	(882)	472
Current liabilities						
Bank overdrafts	**(3)**	**–**	**(3)**	(9)	–	(9)
Borrowings	**(182)**	**–**	**(182)**	(221)	–	(221)
Finance leases	**(38)**	**–**	**(38)**	(30)	–	(30)
Derivative financial instruments	**(43)**	**2**	**(41)**	(75)	1	(74)
	(266)	**2**	**(264)**	(335)	1	(334)
Non-current liabilities						
Borrowings	**(2,053)**	**–**	**(2,053)**	(2,337)	–	(2,337)
Finance leases	**(137)**	**–**	**(137)**	(169)	–	(169)
Derivative financial instruments	**(69)**	**21**	**(48)**	(38)	6	(32)
	(2,259)	**21**	**(2,238)**	(2,544)	6	(2,538)
Total net debt	**(1,075)**	**(751)**	**(1,826)**	(1,467)	(876)	(2,343)

1. The Group's definition of net debt excludes Sainsbury's Bank's own net debt balances.
2. The perpetual capital securities and perpetual convertible bonds are accounted for as equity in accordance with IAS 32 'Financial instruments: Presentation' and therefore are not included within net debt.

Reconciliation of net cash flow to movement in net debt

	2016 £m	2015 £m
Net debt as at the beginning of the year	**(2,343)**	(2,384)
Net decrease in cash and cash equivalents	**(136)**	(303)
Elimination of net decrease in Sainsbury's Bank cash and cash equivalents	**316**	343
Net decrease/(increase) in borrowings[1]	**329**	(20)
Net decrease/(increase) of obligations under finance leases	**24**	(11)
Fair value movements	**(16)**	(7)
Equity component of convertible bond	**–**	39
Net debt as at the end of the year	**(1,826)**	(2,343)

1. Excluding fair value and Sainsbury's Bank derivative movements.

29 Financial risk management

The principal financial risks faced by the Group relate to liquidity risk, counterparty credit risk, foreign currency risk, interest rate risk, commodity risk and capital risk.

Financial risk management is managed by a central treasury department in accordance with policies and guidelines approved by the Board of Directors. The risk management policies are designed to minimise potential adverse effects on the Group's financial performance by identifying financial exposures and setting appropriate risk limits and controls.

Financial risk management with respect to Sainsbury's Bank is separately managed by the Bank's Asset and Liability Committee ('ALCO') with significant matters reported to the Sainsbury's Bank Board Risk Committee. The risks are more fully described in the Sainsbury's Bank section below.

The Group uses forward contracts to hedge foreign exchange and commodity exposures, and cross currency swap contracts and interest rate swap contracts to hedge interest rate exposures. The use of financial derivatives is governed by the Group's treasury policy which prohibits the use of derivative financial instruments for speculative purposes.

Liquidity risk

Liquidity risk is the risk that the Group could be unable to meet its financial obligations as they fall due.

The principal operational cash flow of the Group is largely stable and predictable reflecting the low business risk profile of the food retail sector. Cash flow forecasts are produced regularly to assist management in identifying future liquidity requirements. The Group's liquidity policy sets a minimum funding headroom of £300 million in excess of forecast net debt over a rolling 12 month time horizon. The Group manages its liquidity risk by maintaining a core of long-dated borrowings, pre-funding future cash flow commitments and holding adequate standby credit facilities.

Short-term and seasonal funding is sourced from the Group's revolving credit facility and the wholesale inter-bank money market where interest is charged at various spreads above LIBOR. The Group maintains a syndicated committed revolving credit facility for £1,150 million. The £1,150 million facility is split into two tranches, a £500 million Facility (A) maturing in May 2018 and a £650 million Facility (B) maturing in May 2020. As at 12 March 2016, £nil had been drawn (2015: £120 million).

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows or an estimate of cash flows in respect of floating interest rate liabilities.

Group	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 12 March 2016				
Non-derivative financial liabilities				
Secured loans:				
Loan due 2018	**(134)**	**(137)**	**(575)**	**–**
Loan due 2031[1]	**(64)**	**(66)**	**(210)**	**(817)**
Unsecured loans:				
Bank overdraft	**(3)**	**–**	**–**	**–**
Bank loans due 2016[2,3]	**(39)**	**–**	**–**	**–**
Bank loans due 2019[2]	**(4)**	**(4)**	**(207)**	**–**
Convertible bond due 2019	**(6)**	**(6)**	**(458)**	**–**
Finance lease obligations[2]	**(46)**	**(30)**	**(56)**	**(209)**
Trade and other payables	**(2,939)**	**(6)**	**–**	**–**
Amounts due to Sainsbury's Bank customers and banks[5]	**(3,223)**	**(232)**	**(375)**	**–**
Derivative contracts – net settled				
Commodity contracts	**(5)**	**–**	**–**	**–**
Interest rate swaps in hedging relationships[1,4]	**(8)**	**(10)**	**(5)**	**–**
Other interest rate swaps[4]	**(1)**	**(1)**	**–**	**–**
Derivative contracts – gross settled				
Foreign exchange forwards – outflow[3]	**(562)**	**(74)**	**–**	**–**
Foreign exchange forwards – inflow[3]	**585**	**74**	**–**	**–**
Commodity contracts – outflow	**(15)**	**(15)**	**(43)**	**(37)**
Commodity contracts – inflow	**9**	**9**	**26**	**29**
Cross currency swaps – outflow[3,4]	**45**	**–**	**–**	**–**
Cross currency swaps – inflow[3,4]	**(40)**	**–**	**–**	**–**

29 Financial risk management continued

Group	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 14 March 2015				
Non-derivative financial liabilities				
Secured loans:				
Loan due 2018	(130)	(134)	(712)	–
Loan due 2031[1]	(64)	(65)	(204)	(863)
Unsecured loans:				
Bank overdraft	(9)	–	–	–
Revolving credit facility due 2017[2]	(1)	(1)	(120)	–
Bank loans due 2015[2,3]	(86)	–	–	–
Bank loans due 2016[2,3]	(1)	(36)	–	–
Bank loans due 2019[2]	(4)	(4)	(211)	–
Convertible bond due 2019	(6)	(6)	(467)	–
Finance lease obligations[2]	(39)	(46)	(88)	(207)
Trade and other payables	(2,926)	(9)	–	–
Amounts due to Sainsbury's Bank customers and banks[5]	(3,763)	(171)	(101)	–
Derivative contracts – net settled				
Commodity contracts	(8)	–	–	–
Interest rate swaps in hedging relationships[1,4]	(4)	(3)	1	–
Other interest rate swaps[4]	1	1	–	–
Derivative contracts – gross settled				
Foreign exchange forwards – outflow[3]	(367)	(21)	–	–
Foreign exchange forwards – inflow[3]	382	21	–	–
Commodity contracts – outflow	(15)	(15)	(46)	(61)
Commodity contracts – inflow	12	13	38	60
Cross currency swaps – outflow[3,4]	(47)	(45)	–	–
Cross currency swaps – inflow[3,4]	37	36	–	–

Company	Less than one year £m	One to two years £m	Two to five years £m	More than five years £m
At 12 March 2016				
Bank loans due 2016[2,3]	**(39)**	**–**	**–**	**–**
Bank loans due 2019[2]	**(4)**	**(4)**	**(207)**	**–**
Convertible bond due 2019	**(6)**	**(6)**	**(458)**	**–**
Amounts owed to Group entities[2]	**(126)**	**(99)**	**(592)**	**–**
Other payables	**(32)**	**–**	**–**	**–**
Derivative contracts – net settled				
Interest rate swaps in hedging relationships[1,4]	**2**	**(2)**	**1**	**–**
Other interest rate swaps[4]	**(1)**	**(1)**	**–**	**–**
Derivative contracts – gross settled				
Foreign exchange forwards – outflow[3]	**(27)**	**–**	**–**	**–**
Foreign exchange forwards – inflow[3]	**27**	**–**	**–**	**–**
Cross currency swaps – outflow[3,4]	**45**	**–**	**–**	**–**
Cross currency swaps – inflow[3,4]	**(40)**	**–**	**–**	**–**
At 14 March 2015				
Revolving credit facility due 2017[2]	(1)	(1)	(120)	–
Bank loan due 2015[2,3]	(86)	–	–	–
Bank loans due 2016[2,3]	(1)	(36)	–	–
Bank loans due 2019[2]	(4)	(4)	(211)	–
Convertible bond due 2019	(6)	(6)	(467)	–
Amounts owed to Group entities[2]	(4,438)	(131)	(724)	–
Other payables	(19)	–	–	–
Derivative contracts – net settled				
Interest rate swaps in hedging relationships[1,4]	–	(1)	2	–
Other interest rate swaps[4]	1	1	–	–
Derivative contracts – gross settled				
Foreign exchange forwards – outflow[3]	(17)	–	–	–
Foreign exchange forwards – inflow[3]	19	–	–	–
Cross currency swaps – outflow[3,4]	(47)	(45)	–	–
Cross currency swaps – inflow[3,4]	37	36	–	–

Assumptions:
1. Cash flows relating to debt and swaps linked to inflation rates have been calculated using a RPI of 1.1 per cent for the year ended 12 March 2016, 1.3 per cent for the year ended 11 March 2017 and 3.0 per cent for future years (2015: RPI of 1.1 per cent for the year ended 14 March 2015, 1.8 per cent for the year ended 12 March 2016, and 2.6 per cent for future years).
2. Cash flows relating to debt bearing a floating interest rate have been calculated using prevailing interest rates as at 12 March 2016 and 14 March 2015.
3. Cash flows in foreign currencies have been translated using spot rates as at 12 March 2016 and 14 March 2015.
4. The swap rate that matches the remaining term of the interest rate swap as at 12 March 2016 has been used to calculate the floating rate cash flows over the life of the interest rate swaps shown above (2015: 14 March 2015).
5. Cash flows relating to amounts due to Sainsbury's Bank customers and banks are calculated using contractual terms and interest rates for fixed rate instruments. Where balances are contractually repayable on demand, behavioural assumptions are applied to estimate the interest payable on those balances. These are shown as due within one year.

29 Financial risk management continued

Further information relating to liquidity risk in Sainsbury's Bank is more fully described in the separate section on Sainsbury's Bank financial risk factors below.

Counterparty credit risk

Counterparty credit risk is the risk of a financial loss arising from counterparty default or non-performance in respect of the Group holdings of cash and cash equivalents, derivative financial assets, deposits with banks, investments in marketable securities, trade and other receivables and loans and advances to customers. The Group considers its maximum credit risk to be £5,554 million (2015: £5,124 million), equivalent to the Group's total financial assets, and of this amount £4,326 million relates to Sainsbury's Bank (2015: £4,074 million).

The Group (excluding Sainsbury's Bank) sets counterparty limits for each of its banking and investment counterparties based on their credit ratings but with minimum senior unsecured long-term credit ratings of BBB+ from Standard & Poor's and Fitch or Baa1 from Moody's or, in the case of sterling liquidity funds, AAAm from Standard & Poor's and Fitch or Aaa/MR1+ from Moody's.

Sainsbury's Bank sets counterparty limits to ensure that the investments of the Bank's treasury assets are made with counterparties with a minimum investment grade of BBB-/Baa 3 from Moody's.

The table below analyses the Group's cash and cash equivalents by credit exposure excluding bank balances, store cash, cash in transit and cash at ATMs:

Counterparty	Long-term rating	**Group 2016 £m**	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Financial institutions – money market funds	AAAm/Aaa	**330**	114	**290**	65
Financial institutions – money market deposits	AAAm/Aaa	**50**	–	**–**	–
Financial institutions – money market deposits	AA+/Aa1 to A/A2	**100**	148	**47**	25
UK Government Treasury Bills	AA+/Aa1 to A/A2	**20**	53	**–**	–
Deposits at central banks	AA+/Aa1	**269**	485	**–**	–

Management does not expect any losses arising from non-performance of deposit counterparties.

Interest rate swaps, cross currency swaps, forward contracts and commodity contracts are used by the Group to hedge interest rate, foreign currency and fuel exposures. The table below analyses the fair value of the Group's derivative financial assets by credit exposure, excluding any collateral held.

Counterparty	Long-term rating	**Group 2016 £m**	Group 2015 £m	**Company 2016 £m**	Company 2015 £m
Interest rate swaps	AA+/Aa1 to A/A2	**48**	43	**44**	43
Interest rate swaps	A/A3- to BBB+/Baa1	**–**	21	**–**	21
FX forward contracts	AA+/Aa1 to A/A2	**17**	24	**–**	–
FX forward contracts	A/A3- to BBB+/Baa1	**3**	2	**–**	–

Further information relating to counterparty credit risk in Sainsbury's Bank is more fully described in the section on Sainsbury's Bank financial risk factors below.

Offsetting of financial assets and liabilities

The following table sets out the Group's financial assets and financial liabilities that are subject to counterparty offsetting or a master netting agreement. The master netting agreements regulate settlement amounts in the event either party defaults on their obligations.

				Amounts not offset in balance sheet		
Group	Gross amounts of recognised financial assets and liabilities £m	Amounts offset in the balance sheet £m	**Net amounts recognised in the balance sheet £m**	Balances subject to a contractual right of offset £m	Cash collateral pledged £m	Net amounts £m
At 12 March 2016						
Derivative financial assets	**68**	**–**	**68**	**(7)**	**–**	**61**
Derivative financial liabilities	**(112)**	**–**	**(112)**	**7**	**13**	**(92)**
Cash and cash equivalents	**1,143**	**–**	**1,143**	**–**	**–**	**1,143**
Bank overdrafts	**(3)**	**–**	**(3)**	**–**	**–**	**(3)**
Trade and other payables	**(1,785)**	**114**	**(1,671)**	**–**	**–**	**(1,671)**
	(689)	**114**	**(575)**	**–**	**13**	**(562)**
At 14 March 2015						
Derivative financial assets	90	–	90	(16)	(10)	64
Derivative financial liabilities	(113)	–	(113)	16	5	(92)
Cash and cash equivalents	1,285	–	1,285	(8)	–	1,277
Bank overdrafts	(9)	–	(9)	8	–	(1)
Trade and other payables	(1,939)	247	(1,692)	–	–	(1,692)
	(686)	247	(439)	–	(5)	(444)

29 Financial risk management continued

Company	Gross amounts of recognised financial assets and liabilities £m	Amounts offset in the balance sheet £m	**Net amounts recognised in the balance sheet £m**	Amounts not offset in balance sheet: Balances subject to a contractual right of offset £m	Amounts not offset in balance sheet: Cash collateral pledged £m	Net amounts £m
At 12 March 2016						
Derivative financial assets	**54**	**–**	**54**	**–**	**–**	**54**
Derivative financial liabilities	**(48)**	**–**	**(48)**	**–**	**–**	**(48)**
Cash and cash equivalents	**338**	**–**	**338**	**–**	**–**	**338**
	344	**–**	**344**	**–**	**–**	**344**
At 14 March 2015						
Derivative financial assets	77	–	77	–	(10)	67
Derivative financial liabilities	(75)	–	(75)	–	–	(75)
Cash and cash equivalents	92	–	92	–	–	92
	94	–	94	–	(10)	84

The Group holds certain financial derivatives which are subject to credit support agreements. Under these agreements cash collateral is posted by one party to the other party should the fair value of the financial derivative exceed a pre-agreed level. As at 12 March 2016, the Group held no collateral against financial derivative assets (2015: £10 million).

Sainsbury's Bank has derivatives that are governed by the International Swaps and Derivatives Association and their associated credit support annex bilateral agreements whereby if the fair value exceeds a pre-agreed level, cash collateral is exchanged. As at 12 March 2016, the Bank and its subsidiary undertakings had provided collateral of £13 million (14 March 2015: £5 million) against the derivatives.

The Group also operates a cash pooling arrangement and collective net overdraft facility with its main clearing bank. As at 12 March 2016, the Group had no overdraft (2015: £8 million) under this facility.

Market risk

(a) Currency risk

Currency risk is the risk of increased costs arising from unexpected movements in exchange rates impacting the Group's foreign currency denominated supply contracts.

The Group's currency risk policy seeks to limit the impact of fluctuating exchange rates on the Group's income statement by requiring anticipated foreign currency cash flows to be hedged. The future cash flows, which may be either contracted or un-contracted, are hedged on a layered basis from 20 per cent to 80 per cent using forward contracts and options.

The Group has exposure to currency risk on balances held in foreign currency denominated bank accounts, which may arise due to short-term timing differences on maturing hedges and underlying supplier payments.

The Group considers that a ten per cent movement in exchange rates against sterling is a reasonable measure of volatility. The impact of a ten per cent movement in the exchange rate of US dollar and euro versus sterling as at the balance sheet date, with all other variables held constant, is summarised in the table below:

Group	**2016 Change in exchange rate impact on post-tax loss +/-10% £m**	**2016 Change in exchange rate impact on cash flow hedge reserve +/-10% £m**	2015 Change in exchange rate impact on post-tax profit +/-10% £m	2015 Change in exchange rate impact on cash flow hedge reserve +/-10% £m
USD/GBP	**(3)/4**	**(48)/59**	(3)/4	(25)/31
EUR/GBP	**(3)/4**	**(9)/11**	(1)/1	(10)/12

(b) Interest rate risk

Interest rate risk is the risk of increased costs or lower income arising from unexpected movements in interest rates and inflation rates impacting on the Group's borrowing and investment portfolios. The Group's interest rate policy seeks to limit the impact of fluctuating interest and inflation rates by maintaining a diversified mix of fixed rate, floating rate and variable capped rate liabilities.

Interest on financial instruments is classified as fixed rate if interest re-sets on the borrowings are less frequent than once every 12 months. Interest on financial instruments is classified as floating rate if interest re-sets on the borrowings are more frequent than once every 12 months. Interest on financial instruments is classified as variable capped rate if interest re-sets on the borrowings are more frequent than once every 12 months and the nominal interest rate is subject to a cap.

29 Financial risk management continued

The mix of the Group's financial assets and liabilities as at the balance sheet date was as follows:

Group	Fixed £m	Floating £m	Variable capped £m	Total £m
At 12 March 2016				
Interest bearing available-for-sale financial assets	**–**	**35**	**–**	**35**
Amounts due from Sainsbury's Bank customers	**2,507**	**837**	**–**	**3,344**
Cash and cash equivalents	**475**	**668**	**–**	**1,143**
Borrowings	**(1,202)**	**(238)**	**(798)**	**(2,238)**
Finance lease obligations	**(114)**	**(61)**	**–**	**(175)**
Amounts due to Sainsbury's Bank customers and banks	**(410)**	**(3,345)**	**–**	**(3,755)**
Derivative effect:				
Interest rate swaps	**(2,160)**	**2,160**	**–**	**–**
Inflation linked swaps	**(400)**	**–**	**400**	**–**
Total	**(1,304)**	**56**	**(398)**	**(1,646)**
At 14 March 2015				
Interest bearing available-for-sale financial assets	–	37	–	37
Amounts due from Sainsbury's Bank customers	2,163	848	–	3,011
Cash and cash equivalents	656	629	–	1,285
Borrowings	(1,291)	(442)	(834)	(2,567)
Finance lease obligations	(133)	(66)	–	(199)
Amounts due to Sainsbury's Bank customers and banks	(509)	(3,152)	–	(3,661)
Derivative effect:				
Interest rate swaps	(1,602)	1,602	–	–
Inflation linked swaps	(350)	–	350	–
Total	(1,066)	(544)	(484)	(2,094)

Further information relating to interest rate risk in Sainsbury's Bank is more fully described in the section on Sainsbury's Bank financial risk factors below.

(i) Cash flow sensitivity for floating rate instruments

The Group considers that a 100 basis point movement in interest rates is a reasonable measure of volatility. The sensitivity of floating rate balances to a change of 100 basis points in the interest rate (or such lesser amount as would result in a zero rate of interest) at the balance sheet date is shown below:

	2016 Impact on post-tax loss £m	2016 Impact on cash flow hedge reserve £m	2015 Impact on post-tax profit £m	2015 Impact on cash flow hedge reserve £m
Change in floating rate +/-100bps	**(7)/5**	**3/(3)**	(10)/11	5/(4)

(ii) Cash flow sensitivity for variable capped rate liabilities

The Group holds £799 million of capped inflation-linked borrowings (2015: £834 million) of which £400 million (2015: £350 million) have been swapped into fixed rate borrowings using inflation rate swaps maturing April 2017 to April 2018.

The Group considers that a 100 basis point movement in the RPI rate is a reasonable measure of volatility. The sensitivity of variable capped balances to a change of 100 basis points in the RPI rate at the balance sheet date is shown below:

	2016 Impact on post-tax loss £m	2016 Impact on cash flow hedge reserve £m	2015 Impact on post-tax profit £m	2015 Impact on cash flow hedge reserve £m
Change in floating rate +/-100bps	**(3)/3**	**6/(6)**	(4)/4	10/(10)

29 Financial risk management continued

Commodity risk

Commodity risk is the risk of increased costs arising from unexpected movements in commodity prices impacting the Group's own use consumption of electricity, gas and fuel. The Group's Energy Price Risk Committee seeks to limit the impact by requiring forecast purchases of power and fuel to be hedged.

The Group hedges own use consumption of electricity and gas with forward purchases under flexible purchasing arrangements with its suppliers. The Group uses financial derivatives to hedge fuel exposures on a layered basis using contracts for difference.

The Group considers a ten per cent movement in commodity prices a reasonable measure of volatility.

	2016 Impact on cash flow hedge reserve £m	2015 Impact on cash flow hedge reserve £m
Change in the fair value of the power, diesel and gasoil price +/-10%	**1/(1)**	2/(2)

Capital risk management

The Group defines capital as total equity plus net debt.

The Board's capital objective is to maintain a strong and efficient capital base to support the Group's strategic objectives, provide optimal returns for shareholders and safeguard the Group's status as a going concern. There has been no change to capital risk management policies during the year.

The Board monitors a broad range of financial metrics including return on capital employed, balance sheet gearing and fixed charge cover.

The Board can manage the Group's capital structure by diversifying the debt portfolio, adjusting the size and timing of dividends paid to shareholders, recycling capital through sale and leaseback transactions, issuing new shares or repurchasing shares in the open market and flexing capital expenditure.

From time to time the Company purchases its own shares in the market for the purpose of issuing shares under the Group's share option programmes; however the Group does not operate a defined share buy-back plan.

The Board maintains an affordable dividend policy under which dividend cover is fixed at two times underlying earnings for 2015/16.

Part of the Group's capital risk management is to ensure compliance with the general covenants included in the Group's various borrowing facilities. There have been no breaches of general covenants in the financial year ended 12 March 2016. There are currently no financial covenants.

Information relating to Sainsbury's Bank capital risk management is detailed below.

Sainsbury's Bank

The principal financial risks faced by Sainsbury's Bank relate to liquidity and funding risk, counterparty credit risk (retail and wholesale) and market risk, including interest rate risk.

Liquidity and funding risk

Liquidity and funding risk is the risk that the Bank is unable to meet its financial commitments as they are expected to fall due without an adverse impact on funding costs or profitability. The Bank's liquidity risk management framework complies with the standards set out by the Prudential Regulation Authority ('PRA'). The Bank has completed an Individual Liquidity Adequacy Assessment Process ('ILAAP') that demonstrates that the Bank understands the liquidity risks it is running and has appropriate controls in place to mitigate them, including establishment of minimum levels of liquidity to be held. Limits are informed by a number of stress scenarios that assess the survival period of the Bank. In meeting internal limits as well as PRA requirements, the Bank maintains a portfolio of highly liquid assets that can be readily sold or form part of a sale or repurchase agreement to meet the Bank's obligations to depositors and other creditors. The portfolio is managed on a daily basis and within the framework as outlined in the ILAAP and by the PRA.

In addition, the Bank prepares both long-term and short-term forecasts to assess liquidity requirements. Short-term forecasting covers a 12 month period and takes into account factors such as ATM cash management, investment maturities and customer deposit patterns and balances. A detailed funding plan is also prepared and this provides a robust and stable funding base for the medium to long term, ensuring sufficient liquidity is in place to support the Bank's business plans. The funding plan details the Bank's access to a range of funding sources, including contingent funding.

29 Financial risk management continued

Counterparty credit risk

Counterparty credit risk is the risk of a financial loss arising from a retail customer or wholesale counterparty default or non-performance in respect of the Bank's holdings of cash and cash equivalents, derivative financial assets, deposits with banks, investments in marketable securities, trade and other receivables and loans and advances to customers.

Credit risk in respect of retail lending customers is managed through automated credit decision techniques using both scorecards and policy rules for new applications. In addition, behavioural scoring is used to assess the conduct of customers' accounts on an ongoing basis. Underwriting is undertaken by specialist teams in operational areas to complement these processes. The Retail Credit Risk Committee ensures that appropriate policies are established and adhered to and this is subject to further oversight from the Board Risk Committee. Internal Audit teams carry out regular reviews of credit risk processes, and policies are reviewed and re-approved on an annual basis.

The credit exposure relating to off balance sheet items was £317 million (2015: £319 million), being £77 million (2015: £79 million) of undrawn loan commitments and £240 million (2015: £240 million) of Treasury Bills obtained under the Bank of England Funding for Lending Scheme ('FLS'). Sainsbury's Bank had pledged the rights to a pool of Bank issued loans and advances to customers in exchange for FLS Treasury Bills which are accounted for off balance sheet but are available as a source of liquidity to the Bank.

Credit quality per class of financial asset

Loans and advances to customers

Loans and advances to customers are summarised as follows:

	2016 £m	2015 £m
Impaired	**106**	107
Past due but not impaired	**13**	16
Neither past due nor impaired	**3,291**	2,970
Gross	**3,410**	3,093
Less: allowance for impairment	**(79)**	(87)
Less: hedging fair value adjustment	**13**	5
Net book value	**3,344**	3,011

	Unsecured lending £m	Secured lending £m	Total £m
12 March 2016			
Past due and impaired			
Less than three months, but impaired	**2**	**–**	**2**
Past due three to six months	**8**	**–**	**8**
Past due six to 12 months	**–**	**1**	**1**
Past due over 12 months	**–**	**–**	**–**
Recoveries	**95**	**–**	**95**
Possession	**–**	**–**	**–**
Total gross impaired loans	**105**	**1**	**106**
Past due but not impaired			
Past due less than three months but not impaired	**12**	**1**	**13**
Total gross past due but not impaired	**12**	**1**	**13**
Neither past due nor impaired			
Not impaired	**3,251**	**40**	**3,291**
Total gross neither past due nor impaired	**3,251**	**40**	**3,291**
Total gross amount due	**3,368**	**42**	**3,410**
14 March 2015			
Past due and impaired			
Less than three months, but impaired	2	–	2
Past due three to six months	6	–	6
Past due six to 12 months	–	–	–
Past due over 12 months	–	1	1
Recoveries	98	–	98
Possession	–	–	–
Total gross impaired loans	106	1	107
Past due but not impaired			
Past due less than three months but not impaired	14	2	16
Total gross past due but not impaired	14	2	16
Neither past due nor impaired			
Not impaired	2,923	47	2,970
Total gross neither past due nor impaired	2,923	47	2,970
Total gross amount due	3,043	50	3,093

29 Financial risk management continued

Mortgages held over residential properties represent the only collateral held by the Bank for retail lending exposures. The fair value of collateral held for impaired secured loans and secured loans past due but not impaired was £7 million (2015: £8 million).

Market risk

Market risk is the risk that the value of the Bank's assets, liabilities, income or costs will fluctuate due to changes in market rates. The Bank's market risk framework includes Interest Rate Risk in the Banking Book (IRRBB) and Foreign Exchange Risk. The Bank does not have a trading book. Non-trading book positions are measured and monitored using risk measures including stress tests and sensitivity analysis, taking into account current and expected future business flows. Foreign exchange rate risk is not material.

Interest rate risk

The Bank predominantly offers lending and savings products with varying interest rate features and maturities. Unless managed appropriately, adverse changes to interest rates could negatively impact the Bank's economic value and net interest income and represent the main source of market risk in the Bank.

The main types of interest rate risk faced by the Bank are:

- Re-pricing risk: the risk arising from timing differences in the repricing and maturity of bank assets and liabilities (e.g. fixed rate personal loans funded by instant access savings accounts).
- Yield curve risk: the risk arising from changes in the slope and shape of the yield curve.
- Basis risk: risk arising from imperfect correlation between key market rates (e.g. administered rate on savings products and treasury assets linked to LIBOR).
- Prepayment risk: the risk arising from the timing of customer prepayments which differ from planning and hedging assumptions.
- Pipeline risk: the risk of a customer drawing down, or not, a product at a rate which is unfavourable for the Bank.
- Volatility of earnings arising from non interest sensitive liabilities and capital.

Overall risk appetite for interest rate risk is set by the Board Risk Committee. Lower level limits are monitored by the Asset and Liability Committee ('ALCO') to ensure that risk is maintained within the overall interest rate risk appetite of the Bank. Hedging strategies are implemented to ensure the Bank remains within risk limits. Where possible, the Bank matches offsetting interest rate positions on the balance sheet to manage interest rate risk. The Bank manages the interest rate risk net exposure by transacting interest rate swaps. The Bank uses market recognised software (QRM) through a third party vendor to assist in the measurement and monitoring of interest rate risk.

Hedges are primarily transacted to manage the interest rate risk of the personal loan portfolio. The interest rate swaps pay a fixed rate of interest to manage the re-pricing risk of the fixed rate personal loan portfolio.

The primary measures used by the Bank to capture interest rate risk include analysis of the impact of changes in interest rates on the market value of the Bank's assets and liabilities and on the Bank's earnings.

Sainsbury's Bank capital resources

The following table analyses the regulatory capital resources of Sainsbury's Bank (before any Group adjustments), being the regulated entity, under both transitional and end point measures of CRD IV for which there is no difference. CRD IV regulations are being phased in over a five-year period from 2013 to 2018:

	2016 £m	2015 £m
Common Equity Tier 1 (CET 1) capital:		
Ordinary share capital	**436**	299
Allowable reserves	**167**	159
Regulatory adjustments	**(118)**	(104)
Total Common Equity Tier 1 (CET 1) capital	**485**	354
Tier 1 capital	**485**	354

Regulatory capital is calculated under the Capital Requirements Regulations and Capital Requirements Directive (collectively known as CRD IV) as enacted in the UK. Common Equity Tier 1 (CET 1) capital includes ordinary share capital, other reserves, losses and regulatory deductions. The Bank does not currently hold any Tier 2 capital.

The movement of CET 1 capital during the financial year is analysed as follows:

	2016 £m	2015 £m
At 1 March 2015/1 March 2014	**354**	343
Share capital issued	**137**	59
Verified profit attributable to shareholders[1]	**6**	45
Other reserve movements	**2**	–
Losses recognised	**–**	(25)
Increase in intangible assets	**(14)**	(68)
At 29 February 2016/28 February 2015	**485**	354

1. It is now standard industry practice to include annual profits in reserves for the period to which they relate, providing these have been verified prior to the date the financial statements are signed. Losses are recognised as a deduction from CET 1 capital as they arise. £45 million included in the period to 28 February 2015 relates to Bank audited profits to December 2013 which were not recognised in regulatory reserves for the financial statements in respect of that financial year, as was standard industry practice at that time.

29 Financial risk management continued

Leverage ratio (unaudited)

The leverage ratio is defined as the ratio of Tier 1 capital to adjusted assets. The denominator represents the total non-risk weighted assets adjusted for certain off balance sheet exposures, assets and regulatory deductions and provides a no-risk-weighted 'backstop' capital measure. The leverage ratio is planned to become a Pillar 1 measure from 1 January 2018. The leverage ratio is calculated below as at 29 February 2016 – this represents both transitional and end point CRD IV measures. The Bank's leverage ratio of 9.8 per cent exceeds the minimum Basel leverage ratio of three per cent.

	2016 £m	2015 £m
Components of the leverage ratio		
Total assets as per published financial statements	**4,499**	4,237
Removal of accounting value of derivatives and securities financing transactions	**–**	(1)
Exposure value for derivatives and securities financing transactions	**6**	5
Off balance sheet exposures: unconditionally cancellable (10%)	**336**	313
Off balance sheet: other (100%)	**260**	318
Other adjustments	**(136)**	(104)
	4,965	4,768
Tier 1 capital	**485**	354
Leverage ratio	**9.8%**	7.4%

Capital management

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. During the period to 29 February 2016, the Bank has received planned injections of £137 million of ordinary share capital to support the forecast costs and deductible intangible assets generated through the development of flexible banking platforms. Capital adequacy is monitored on an ongoing basis by senior management, the ALCO, the Executive Risk Committee and the Board Risk Committee. The Bank's submissions to the PRA in the year have shown that the Bank has complied with all externally imposed capital requirements.

The Bank will disclose Pillar 3 information as required by the Capital Requirements Regulations and PRA prudential sourcebook on the J Sainsbury plc external website in June 2016.

30 Financial instruments

The fair value of derivative financial instruments has been disclosed in the balance sheet as follows:

	Group				Company			
	2016 Asset £m	**2016 Liability £m**	2015 Asset £m	2015 Liability £m	**2016 Asset £m**	**2016 Liability £m**	2015 Asset £m	2015 Liability £m
Non-current	**17**	**(69)**	21	(38)	**22**	**(13)**	33	(18)
Current	**51**	**(43)**	69	(75)	**32**	**(35)**	44	(57)
Total	**68**	**(112)**	90	(113)	**54**	**(48)**	77	(75)

The fair value and notional amount of derivatives analysed by hedge type are as follows:

	2016				2015			
	Asset		Liability		Asset		Liability	
Group	**Fair value £m**	**Notional £m**	**Fair value £m**	**Notional £m**	Fair value £m	Notional £m	Fair value £m	Notional £m
Fair value hedges								
Interest rate swaps	**18**	**620**	**(22)**	**2,291**	21	733	(6)	1,435
Cash flow hedges								
Interest rate swaps	**–**	**–**	**(4)**	**100**	–	–	(4)	150
Inflation rate swaps	**–**	**–**	**(10)**	**400**	–	–	(14)	400
Foreign exchange forward contracts	**20**	**453**	**(2)**	**156**	26	268	(10)	118
Commodity contracts	**–**	**–**	**(6)**	**21**	–	–	(8)	24
Derivatives not in a formal hedging relationship								
Interest rate swaps	**30**	**386**	**(27)**	**327**	41	391	(38)	331
Cross currency and foreign exchange swaps	**–**	**–**	**(7)**	**71**	2	17	(19)	89
Commodity contracts	**–**	**–**	**(34)**	**15**	–	–	(14)	15
Total	**68**	**1,459**	**(112)**	**3,381**	90	1,409	(113)	2,562

	2016				2015			
	Asset		Liability		Asset		Liability	
Company	**Fair value £m**	**Notional £m**	**Fair value £m**	**Notional £m**	Fair value £m	Notional £m	Fair value £m	Notional £m
Fair value hedges								
Interest rate swaps	**14**	**206**	**–**	**–**	20	211	–	–
Cash flow hedges								
Interest rate swaps	**–**	**–**	**(4)**	**100**	–	–	(4)	150
Derivatives not in a formal hedging relationship								
Interest rate swaps	**30**	**386**	**(27)**	**327**	41	391	(38)	331
Inflation rate swaps	**10**	**400**	**(10)**	**400**	14	400	(14)	400
Cross currency and foreign exchange swaps	**–**	**–**	**(7)**	**71**	2	17	(19)	89
Total	**54**	**992**	**(48)**	**898**	77	1,019	(75)	970

Fair value hedges

Interest rate swaps

The Group holds a £206 million portfolio of interest rate swaps (2015: £211 million) to hedge a portion of fixed rate borrowings. Under the terms of the swaps, the Group receives fixed rate interest and pays floating rate interest. The notional principal amount of one of the interest rate swaps amortises to £111 million by April 2018.

Sainsbury's Bank and its subsidiaries hold a £2,705 million portfolio of interest rate swaps accounted for as fair value hedges (2015: £1,957 million). Interest rate swaps are transacted to hedge the Bank's customer assets, fixed interest treasury instruments and non-interest bearing items (including reserves) through a combination of pay and receive fixed swaps (£2,350 million and £355 million respectively (2015: £1,719 million and £238 million respectively)). All derivatives are designated into effective fair value hedge accounting relationships.

For the year to 12 March 2016, the fair value movement in the Group's interest rate swaps resulted in a charge to the income statement of £6 million (2015: £4 million). The fair value movement in the underlying fixed rate borrowings and Sainsbury's Bank loans and advances to customers resulted in a credit to the income statement of £12 million (2015: £4 million).

30 Financial instruments continued

Cash flow hedges

Interest rate swaps

The Group holds a £400 million (2015: £400 million) portfolio of inflation rate swaps to hedge a portion of the inflation linked secured loan due 2031. Under the terms of the swaps, the Group receives annual RPI inflation (subject to a cap at five per cent and floor at nil per cent) and pays fixed rate interest.

The Group holds a £100 million (2015: £150 million) portfolio of interest rate swaps to hedge £100 million of a £200 million floating rate bank loan due 2019. Under the terms of the swaps, the Group receives floating rate interest and pays fixed rate interest.

As at 12 March 2016, an unrealised loss of £13 million (2015: £18 million) is included in other comprehensive income in respect of the swaps in cash flow hedges. This loss will be transferred to the income statement over the next three years.

Foreign exchange forward contracts

The Group holds a portfolio of foreign exchange forward contracts to hedge its future foreign currency trading liabilities. As at 12 March 2016 the Group had forward purchased €127 million (2015: €153 million) and sold sterling with maturities from March 2016 to February 2017 (2015: March 2015 to January 2017) and forward purchased US$763 million (2015: US$407 million) and sold sterling with maturities from March 2016 to June 2017 (2015: March 2015 to June 2016).

At 12 March 2016, an unrealised profit of £16 million (2015: £12 million) is included in other comprehensive income in respect of the forward contracts. This profit will be transferred to the income statement over the next 15 months. During the year a credit to the income statement of £12 million was transferred from the cash flow hedge equity reserve and included in cost of sales (2015: £13 million charge).

Commodity forward contracts

The Group holds a portfolio of commodity forward contracts to hedge its own use fuel consumption over the next 24 months.

As at 12 March 2016, an unrealised loss of £5 million (2015: £7 million) is included in other comprehensive income in respect of the commodity contracts. This loss will be transferred to the income statement over the next 24 months.

Derivatives not in a hedge relationship

Some of the Group's derivative contracts do not qualify for hedge accounting and are therefore not designated in a hedging relationship. In addition, where gains or losses on a derivative contract economically offset the losses or gains on an underlying hedged item, the derivative is not designated as in a hedging relationship.

Interest rate, cross currency and foreign exchange swaps

The Group holds a £327 million (2015: £331 million) portfolio of interest rate swaps at fair value through profit or loss to convert floating rate obligations into fixed rates. Under the terms of the swaps the Group receives floating rate interest and pays fixed rate interest. Offsetting these swaps the Group holds a £386 million (2015: £391 million) portfolio of interest rate swaps at fair value through profit or loss, to convert fixed rate obligations into floating rate interest. Under the terms of the swaps the Group receives fixed rate interest and pays floating rate interest.

The Group holds a £44 million (2015: £89 million) cross currency interest rate swap at fair value through profit or loss to convert floating rate borrowings denominated in Euro into floating rate sterling borrowings. The Group holds a £27 million (2015: £17 million) foreign exchange swap to hedge a Hong Kong Dollar intercompany loan due June 2016.

Commodity forward contracts

Commodity forward contracts at fair value through profit and loss relate to the Group's long-term fixed price power purchase agreements with independent producers.

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, other receivables, overdrafts and payables are assumed to approximate to their book values.

30 Financial instruments continued

	Group Carrying amount £m	Group Fair value £m	Company Carrying amount £m	Company Fair value £m
At 12 March 2016				
Financial assets				
Amounts owed by Group entities	**–**	**–**	**2,720**	**2,892**
Amounts due from Sainsbury's Bank customers[1]	**3,344**	**3,337**	**–**	**–**
Financial liabilities				
Amounts due to Group entities	**–**	**–**	**(817)**	**(871)**
Loans due 2018[2]	**(780)**	**(824)**	**–**	**–**
Loans due 2031	**(799)**	**(896)**	**–**	**–**
Bank overdrafts	**(3)**	**(3)**	**–**	**–**
Bank loans due 2016	**(39)**	**(39)**	**(39)**	**(39)**
Bank loans due 2019	**(199)**	**(199)**	**(199)**	**(199)**
Convertible bond due 2019	**(418)**	**(473)**	**(418)**	**(473)**
Obligations under finance leases	**(175)**	**(175)**	**–**	**–**
Amounts due to Sainsbury's Bank customers and other banks	**(3,755)**	**(3,757)**	**–**	**–**
At 14 March 2015				
Financial assets				
Amounts owed by Group entities	–	–	2,758	2,950
Amounts due from Sainsbury's Bank customers[1]	3,011	3,024	–	–
Financial liabilities				
Amounts owed to Group entities	–	–	(5,201)	(5,278)
Loans due 2018[2]	(873)	(950)	–	–
Loans due 2031	(834)	(1,012)	–	–
Bank overdrafts	(9)	(9)	–	–
Revolving credit facility due 2017	(120)	(120)	(120)	(120)
Bank loans due 2015	(86)	(86)	(86)	(86)
Bank loans due 2016	(35)	(35)	(35)	(35)
Bank loans due 2019	(200)	(200)	(200)	(200)
Convertible bond due 2019	(410)	(475)	(410)	(475)
Obligations under finance leases	(199)	(199)	–	–
Amounts due to Sainsbury's Bank customers and banks	(3,661)	(3,661)	–	–

1. Included within a portfolio fair value hedging relationship with £2,705 million (2015: £1,957 million) of interest rate swaps.
2. Includes £206 million accounted for as a fair value hedge (2015: £211 million).

The fair value of financial assets as disclosed in the table above as at 12 March 2016 was £3,337 million (2015: £3,024 million). The fair value of the financial assets has been calculated by discounting cash flows at prevailing interest rates and is within Level 2 of the fair value hierarchy. The fair value of financial liabilities was £6,366 million (2015: £6,747 million). £473 million (2015: £475 million) has been determined using market values and is within Level 1 of the fair value hierarchy. The remaining £5,893 million (2015: £6,272 million) has been calculated by discounting cash flows at prevailing interest rates and is within Level 2 of the fair value hierarchy.

30 Financial instruments continued

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).

Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 12 March 2016				
Available-for-sale financial assets				
Interest bearing financial assets	**–**	**35**	**–**	**35**
Other financial assets	**–**	**–**	**146**	**146**
Investment securities	**203**	**–**	**1**	**204**
Financial assets				
Derivative financial assets	**–**	**68**	**–**	**68**
Financial liabilities				
Derivative financial liabilities	**–**	**(78)**	**(34)**	**(112)**

Group	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 14 March 2015				
Available-for-sale financial assets				
Interest bearing financial assets	–	37	–	37
Other financial assets	–	–	145	145
Financial assets				
Derivative financial assets	–	90	–	90
Financial liabilities				
Derivative financial liabilities	–	(99)	(14)	(113)

Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 12 March 2016				
Available-for-sale financial assets				
Interest bearing financial assets	**–**	**35**	**–**	**35**
Financial assets				
Derivative financial assets	**–**	**54**	**–**	**54**
Financial liabilities				
Derivative financial liabilities	**–**	**(48)**	**–**	**(48)**

Company	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
At 14 March 2015				
Available-for-sale financial assets				
Interest bearing financial assets	–	37	–	37
Financial assets				
Derivative financial assets	–	77	–	77
Financial liabilities				
Derivative financial liabilities	–	(75)	–	(75)

30 Financial instruments continued

Reconciliation of Level 3 fair value measurements of financial assets and liabilities:

52 weeks to 12 March 2016	Available-for-sale financial assets £m	Commodity derivatives £m	Investment Securities £m	Total £m
At 15 March 2015	**145**	**(14)**	**–**	**131**
In finance cost in the Group income statement	**–**	**(20)**	**–**	**(20)**
In other comprehensive income	**1**	**–**	**1**	**2**
At 12 March 2016	**146**	**(34)**	**1**	**113**

52 weeks to 14 March 2015	Available-for-sale financial assets £m	Commodity derivatives £m	Investment Securities £m	Total £m
At 16 March 2014	184	3	–	187
In finance cost in the Group income statement	–	(17)	–	(17)
In other comprehensive income	(39)	–	–	(39)
At 14 March 2015	145	(14)	–	131

The available-for-sale 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 0.6 per cent per annum (2015: 0.8 per cent) and a discount rate of nine per cent (2015: nine per cent), (see note 15). 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:

	2016 Change in growth rate +/- 1.0% £m	2016 Change in discount rate +/- 1.0% £m	2015 Change in growth rate +/- 1.0% £m	2015 Change in discount rate +/- 1.0% £m
Available-for-sale assets	**15/(14)**	**(9)/10**	16/(15)	(10)/11

The Group has entered into several long-term fixed price Power Purchase agreements with independent producers. Included within derivative financial liabilities is £34 million (2015: £14 million) relating to these agreements. 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 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:

	2016 Change in volume +/- 20.0% £m	2016 Change in electricity forward price +/ - 20.0% £m	2015 Change in volume +/- 20.0% £m	2015 Change in electricity forward price +/ - 20.0% £m
Derivative financial instruments	**(7)/7**	**13/(14)**	(3)/3	17/(18)

The Level 3 investment securities relate to the valuation of Sainsbury's Bank's share of Visa Europe Limited. The acquisition of Visa Europe Limited by Visa Inc. was announced in November 2015 and is expected to complete around the second quarter of 2016. Under the terms of the acquisition, the Bank's share of the sale proceeds will comprise upfront consideration and preferred stock in Visa Inc. The preferred stock is convertible into Class A common stock, at a future date, subject to the satisfaction of certain conditions and remains subject to potential reduction for certain litigation losses incurred by Visa Europe Limited. Sainsbury's Bank may also be entitled to additional cash consideration three years after the completion of the sale. The valuation recognised by Sainsbury's Bank is equal to its expected cash proceeds as indicated by Visa Europe Limited. No amounts have been recognised in respect of the preferred stock as a result of the uncertainties referred to above. Similarly, no amount has been recognised in respect of the additional cash consideration payable three years post completion as a result of a lack of available information to reliably measure that amount.

30 Financial instruments continued

Financial assets and liabilities by category

Set out below are the accounting classification of each class of financial assets and liabilities as at 12 March 2016 and 14 March 2015.

Group	Loans and receivables £m	Available-for-sale £m	Fair value through profit or loss £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
At 12 March 2016						
Cash and cash equivalents	**1,143**	**–**	**–**	**–**	**–**	**1,143**
Trade and other receivables	**493**	**–**	**–**	**–**	**–**	**493**
Amounts due from Sainsbury's Bank customers	**3,344**	**–**	**–**	**–**	**–**	**3,344**
Available-for-sale financial assets	**–**	**388**	**–**	**–**	**–**	**388**
Trade and other payables	**–**	**–**	**–**	**–**	**(2,945)**	**(2,945)**
Current borrowings	**–**	**–**	**–**	**–**	**(223)**	**(223)**
Non-current borrowings	**–**	**–**	**–**	**–**	**(2,190)**	**(2,190)**
Amounts due to Sainsbury's Bank customers and banks	**–**	**–**	**–**	**–**	**(3,755)**	**(3,755)**
Derivative financial instruments	**–**	**–**	**(38)**	**(6)**	**–**	**(44)**
	4,980	**388**	**(38)**	**(6)**	**(9,113)**	**(3,789)**
At 14 March 2015						
Cash and cash equivalents	1,285	–	–	–	–	1,285
Trade and other receivables	445	–	–	–	–	445
Amounts due from Sainsbury's Bank customers	3,011	–	–	–	–	3,011
Available-for-sale financial assets	–	184	–	–	–	184
Trade and other payables	–	–	–	–	(2,935)	(2,935)
Current borrowings	–	–	–	–	(260)	(260)
Non-current borrowings	–	–	–	–	(2,506)	(2,506)
Amounts due to Sainsbury's Bank customers and banks	–	–	–	–	(3,661)	(3,661)
Derivative financial instruments	–	–	(28)	5	–	(23)
	4,741	184	(28)	5	(9,362)	(4,460)

Company	Loans and receivables £m	Available-for-sale £m	Fair value through profit or loss £m	Derivatives used for hedging £m	Other financial liabilities £m	Total £m
At 12 March 2016						
Cash and cash equivalents	**338**	**–**	**–**	**–**	**–**	**338**
Trade and other receivables	**2,720**	**–**	**–**	**–**	**–**	**2,720**
Available-for-sale financial assets	**–**	**35**	**–**	**–**	**–**	**35**
Trade and other payables	**–**	**–**	**–**	**–**	**(849)**	**(849)**
Current borrowings	**–**	**–**	**–**	**–**	**(40)**	**(40)**
Non-current borrowings	**–**	**–**	**–**	**–**	**(616)**	**(616)**
Derivative financial instruments	**–**	**–**	**(4)**	**10**	**–**	**6**
	3,058	**35**	**(4)**	**10**	**(1,505)**	**1,594**
At 14 March 2015						
Cash and cash equivalents	92	–	–	–	–	92
Trade and other receivables	2,758	–	–	–	–	2,758
Available-for-sale financial assets	–	37	–	–	–	37
Trade and other payables	–	–	–	–	(5,220)	(5,220)
Current borrowings	–	–	–	–	(87)	(87)
Non-current borrowings	–	–	–	–	(764)	(764)
Derivative financial instruments	–	–	(14)	16	–	2
	2,850	37	(14)	16	(6,071)	(3,182)

31 Retirement benefit obligations

Retirement benefit obligations relate to a defined benefit scheme, the Sainsbury's Pension Scheme (the 'Scheme'), and an unfunded pension liability relating to senior employees. The Scheme is governed by a Trustee board, and the assets of the Scheme are held separately from the Group's assets. The Scheme is a Registered pension plan with HMRC, subject to UK legislation with oversight from the Pensions Regulator. The governance of the Scheme is the responsibility of the Trustee; the Trustee comprises 11 Directors – five selected from members, five appointed by the Company and one Independent Chairman. In accordance with legislation, the Trustee consults with the Company regarding the Scheme's investment strategy and agrees an appropriate funding plan with the Company.

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

The Scheme was closed to new employees on 31 January 2002 and closed to future benefit accrual on 28 September 2013. The assets of the Scheme are valued at bid price and are held separately from the Group's assets.

The Scheme was subject to a triennial actuarial valuation, carried out by Willis Towers Watson for the Trustee, as at 14 March 2015 on the projected unit basis. The results of this valuation are expected to be finalised in June 2016.

The retirement benefit obligations at the year-end have been calculated by KPMG, as actuarial advisers to the Group, using the projected unit credit method and based on adjusting the position at 17 March 2012 (being the date of the previous triennial valuation) for known events and changes in market conditions as allowed under IAS 19, 'Employee benefits'.

The unfunded pension liability is unwound when each employee reaches retirement and takes their pension from the Group payroll or is crystallised in the event of an employee leaving or retiring and choosing to take the provision as a one-off cash payment.

Sainsbury's Property Scottish Partnership

Further to the funding plan agreed with the Scheme's Trustee on 17 June 2010, Sainsbury's established the Sainsbury's Property Scottish Partnership (the 'Partnership') with the Scheme. Under this arrangement, properties to a fair value of £256 million were transferred to the Partnership. On 25 March 2011, further properties to a fair value of £501 million were transferred to the Partnership. On 26 February 2016, one property with a fair value of £13 million was transferred out of the Partnership and substituted for a further four properties with a fair value of £68 million. All transfers in were effected via a 30-year sale and leaseback arrangement.

The Scheme's interest in the Partnership entitles it to an annual distribution for 20 years to 2030. The amount of this distribution is linked to the triennial actuarial valuation and will therefore vary once every three years. The annual distribution in 2015/16 was £29 million and for 2016/17 it is expected to be £29 million before any triennial changes. These contributions will be in addition to the Group's normal cash contribution paid to the Scheme annually. The properties transferred to the Partnership will revert to Sainsbury's ownership in 2030 in return for a cash payment equal to the amount of any remaining funding deficit in the Scheme at that time, up to a maximum of £600 million.

The Partnership is a structured entity, controlled by Sainsbury's with its results consolidated by the Group. The Group's balance sheet, IAS 19 deficit and income statement are unchanged by the establishment of the Partnership. The investment held by the Scheme in the Partnership does not qualify as a plan asset for the purposes of the Group's consolidated financial statements and is therefore not included within the fair value of plan assets. The value of the properties transferred to the Partnership remains included within the Group's property, plant and equipment on the balance sheet. In addition, the Group retains full operational flexibility to extend, develop and substitute the properties within the Partnership.

The amounts recognised in the balance sheet are as follows:

	2016 £m	2015 £m
Present value of funded obligations	**(7,625)**	(7,680)
Fair value of plan assets	**7,235**	6,988
	(390)	(692)
Present value of unfunded obligations	**(18)**	(16)
Retirement benefit obligations	**(408)**	(708)
Deferred income tax asset	**19**	57
Net retirement benefit obligations	**(389)**	(651)

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

a) Income statement

The amounts recognised in the income statement are as follows:

	2016 £m	2015 £m
Excluded from underlying profit before tax:		
Interest cost on pension scheme liabilities[1]	**(266)**	(288)
Interest income on plan assets	**244**	257
Total included in finance costs (note 6)	**(22)**	(31)
Defined benefit pension scheme expenses	**(6)**	(6)
Total excluded from underlying profit before tax (note 3)	**(28)**	(37)
Total income statement expense	**(28)**	(37)

1. Includes interest of £1 million for the unfunded pension scheme (2015: £1 million).

31 Retirement benefit obligations continued

b) Other comprehensive income

Remeasurement of the retirement benefit obligations has been recognised as follows:

	2016 £m	2015 £m
(Loss)/return on plan assets, excluding amounts included in interest	**(16)**	696
Actuarial gains/(losses) arising from changes in:		
Financial assumptions[1]	**103**	(735)
Experience	**34**	20
Total actuarial gains/(losses)	**137**	(715)
Total remeasurements	**121**	(19)

1. Includes £2 million loss for the unfunded pension scheme (2015: £2 million loss).

c) Valuations

The movements in the funded retirement benefit obligations are as follows:

	2016 £m	2015 £m
As at the beginning of the year	**(7,680)**	(6,855)
Interest cost	**(266)**	(287)
Remeasurement gains/(losses)	**139**	(713)
Benefits paid	**182**	175
As at the end of the year	**(7,625)**	(7,680)

The movements in the fair value of plan assets are as follows:

	2016 £m	2015 £m
As at the beginning of the year	**6,988**	6,131
Interest income on plan assets	**244**	257
Pension scheme expenses	**(6)**	(6)
Remeasurement (losses)/gains	**(16)**	696
Contributions by employer	**207**	85
Benefits paid	**(182)**	(175)
As at the end of the year	**7,235**	6,988

The Group's expected contributions to the defined benefit scheme for the next financial year beginning 13 March 2016 are £209 million. The contributions in both the current and next financial year include an exceptional contribution of £125 million in each year following the issue of the perpetual securities in July 2015. They also include the £49 million per annum agreed Recovery Plan contributions from the 2012 actuarial valuation. IFRIC 14 and the proposed amendments have been considered and do not lead to any adjustments to the accounts on the basis that any future surplus arising can be realised upon gradual settlement of the liabilities.

The major categories of plan assets as a percentage of total plan assets are as follows:

	2016 %	2015 %
Equities	**26**	27
Government bonds	**11**	14
Corporate bonds	**33**	34
Property	**4**	4
Swap contracts	**10**	9
Other	**16**	12
	100	100

The fair value of plan assets split between those which have a quoted market price in an active market and those which are unquoted is as follows:

	2016 Quoted £m	2016 Unquoted £m	2016 Total £m	2015 Quoted £m	2015 Unquoted £m	2015 Total £m
Equities	**1,671**	**206**	**1,877**	1,704	215	1,919
Government bonds	**811**	**–**	**811**	979	–	979
Corporate bonds	**2,381**	**(38)**	**2,343**	2,422	(21)	2,401
Property	**–**	**309**	**309**	274	7	281
Swap contracts	**–**	**756**	**756**	–	614	614
Other	**955**	**184**	**1,139**	712	82	794
	5,818	**1,417**	**7,235**	6,091	897	6,988

The Pension Scheme's assets are allocated across different asset classes that include investment grade corporate bonds, government bonds, public global equities, interest and inflation swap contracts, real estate, private equity partnerships and private debt. The majority of the Scheme's assets are readily marketable.

31 Retirement benefit obligations continued

d) Assumptions

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

	2016 %	2015 %
Discount rate	**3.65**	3.50
Inflation rate – RPI	**3.15**	3.00
Inflation rate – CPI	**2.15**	2.00
Future salary increases	**n/a**	n/a
Future pension increases	**1.90 – 3.00**	1.80 – 2.85

The discount rate is based on the yield on AA-rated sterling corporate bonds appropriate to the term of the Scheme's liabilities.

The life expectancy for the Scheme operated at the balance sheet date for a pensioner at normal retirement age (now 65 years for men and women), is as follows:

	2016 years	2015 years
Male pensioner	**22.7**	22.7
Female pensioner	**25.5**	25.4

The life expectancy for the Scheme operated at the balance sheet date for a future pensioner at normal retirement age is as follows:

	2016 years	2015 years
Male pensioner	**24.6**	24.5
Female pensioner	**27.4**	27.3

The base mortality assumptions are based on the SAPS tables, with adjustments to reflect the Scheme's population, with future improvements based on the CMI 2011 projection with a long-term rate of improvement of 1.25 per cent per annum.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 21 years (2015: 21 years).

e) Sensitivities

An increase of 0.5 per cent in the discount rate would decrease the retirement benefit obligations by £741 million. A decrease of 0.5 per cent in the discount rate would increase the retirement benefit obligations by £859 million.

An increase of 0.5 per cent in the inflation rate would increase the retirement benefit obligations by £506 million. A decrease of 0.5 per cent in the inflation rate would decrease the retirement benefit obligations by £486 million. This sensitivity includes the effect of inflation on the Scheme's pension increases.

An increase of one year to the life expectancy would increase the retirement benefit obligations by £243 million.

The sensitivities are based on management's best estimate of a reasonably anticipated change. The sensitivities are calculated using the same methodology used to calculate the retirement benefit obligation, by considering the change in the retirement benefit obligation for a given change in assumption. The net retirement benefit obligation is the difference between the retirement benefit obligation and the fair value of plan assets. Changes in the assumptions may occur at the same time as changes in the fair value of plan assets. There has been no change in the calculation methodology since the prior period.

f) Other disclosures

The Scheme exposes the Group to actuarial risks (such as longevity risk, inflation risk and interest rate risk) and investment risks (such as the risk of earning insufficient returns, market risk, currency risk and counterparty risk). The Group is not exposed to any unusual, entity specific or Scheme specific risks.

The Trustee's investment strategy is designed to meet its obligations and mitigate risk through diversification by asset class, by investment manager and across counterparty banks. A framework governs the hedging of interest rate and inflation risk exposures and the hedging target for both is 60 per cent (2015: 60 per cent). Physical assets (including gilts and index linked gilts) and derivative instruments (including interest rate and inflation swaps) are the key hedging instruments used. The target hedge ratio and the hedging framework are kept under review by the Trustee and the Company is consulted when changes are proposed for either. The Trustee does not currently hedge longevity risk although prudent assumptions are made regarding anticipated longevity for the purposes of the Actuarial Valuation and Recovery Plan. Approximately 70 per cent of the Scheme's non-sterling asset exposure is hedged back to sterling using forward currency contracts.

32 Share-based payments

The Group recognised £23 million (2015: £21 million) of employee costs (note 7) related to share-based payment transactions made during the financial year. Of these, £nil (2015: £nil) were cash-settled.

National insurance contributions are payable in respect of certain share-based payments transactions and are treated as cash-settled transactions. At 12 March 2016, the carrying amount of national insurance contributions payable was £5 million (2015: £6 million) of which £nil (2015: £nil) was in respect of vested grants.

The Group operates a number of share-based payment schemes as set out below:

a) Savings-Related Share Option Scheme (Sharesave)

The Group operates a Savings-Related Share Option Scheme, which is open to all UK employees with more than three months' continuous service. This is an approved HMRC scheme and was established in 1980. Under Sharesave, participants remaining in the Group's employment at the end of the three-year or five-year savings period are entitled to use their savings to purchase shares in the Company at a stated exercise price. Employees leaving for certain reasons are able to use their savings to purchase shares within six months of their leaving.

At 12 March 2016, UK employees held 19,667 five-year savings contracts (2015: 25,016) in respect of options over 22.0 million shares (2015: 22.6 million) and 46,452 three-year savings contracts (2015: 39,675) in respect of options over 36.5 million shares (2015: 32.4 million). A reconciliation of option movements is shown below:

	2016 Number of options million	**2016 Weighted average exercise price pence**	2015 Number of options million	2015 Weighted average exercise price pence
Outstanding at the beginning of the year	**55.0**	**254**	48.3	279
Granted	**20.0**	**195**	23.5	213
Forfeited	**(13.0)**	**253**	(9.2)	288
Exercised	**(3.0)**	**244**	(7.6)	247
Expired	**–**	**218**	–	261
Outstanding at the end of the year	**59.0**	**234**	55.0	254
Exercisable at the end of the year	**7.6**	**277**	5.8	253

The weighted average share price during the period for options exercised over the year was 266 pence (2015: 290 pence). The weighted average remaining contractual life of share options outstanding at 12 March 2016 was 2.3 years (2015: 2.4 years).

Details of options at 12 March 2016 are set out below:

Date of grant	Date of expiry	Exercise price pence	**Options outstanding 2016 million**	Options outstanding 2015 million
10 December 2009 (5 year period)	31 August 2015	273	**–**	2.5
10 December 2010 (5 year period)	31 August 2016	297	**2.5**	2.8
9 December 2011 (3 year period)	31 August 2015	238	**–**	3.5
9 December 2011 (5 year period)	31 August 2017	238	**3.5**	4.1
12 December 2012 (3 year period)	31 August 2016	267	**5.2**	6.4
12 December 2012 (5 year period)	31 August 2018	267	**2.6**	3.1
11 December 2013 (3 year period)	31 August 2017	332	**5.2**	6.7
11 December 2013 (5 year period)	31 August 2019	332	**2.4**	2.9
12 December 2014 (3 year period)	31 August 2018	213	**12.1**	15.8
12 December 2014 (5 year period)	31 August 2020	213	**5.5**	7.2
17 December 2015 (3 year period)	31 August 2019	195	**14.1**	–
17 December 2015 (5 year period)	31 August 2021	195	**5.5**	–
			58.6	55.00

Options granted during the year were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted during the year and the assumptions used in the calculation are as follows:

		2016	2015
Share price at grant date (pence)		**243**	265
Exercise price (pence)		**195**	213
Expected volatility	– 3 year period (%)	**26.6**	21.9
	– 5 year period (%)	**24.1**	21.2
Option life	– 3 year period (years)	**3.2**	3.2
	– 5 year period (years)	**5.2**	5.2
Expected dividends (expressed as dividend yield %)		**5.1**	5.6
Risk-free interest rate	– 3 year period (%)	**1.6**	1.6
	– 5 year period (%)	**2.1**	2.1
Fair value per option	– 3 year period (pence)	**48**	43
	– 5 year period (pence)	**45**	41

32 Share-based payments continued

The expected volatility is based on the standard deviation of the Group's share price for the period immediately prior to the date of grant of award, over the period identical to the vesting period of the award, adjusted for management's view of future volatility of the share price.

The resulting fair value is expensed over the service period of three or five years, as appropriate, on the assumption that 25 per cent of options will be cancelled over the service period as employees leave the Sharesave Scheme.

b) Long-Term Incentive Plan 2006

Under the Long-Term Incentive Plan 2006, shares are conditionally awarded to the senior managers in the Company. The core awards are calculated as a percentage of the participants' salaries and scaled according to grades.

The award granted in 2013 is assessed against ROCE, cumulative underlying cash flow from operations and relative sales measured against the IGD Index, with an Earnings Per Share gateway. The award granted in 2014 is assessed against ROCE, cumulative underlying cash flow from operations and relative sales measured against the IGD Index. The award granted in 2015 is assessed against ROCE, cumulative underlying cash flow from operations less capital expenditure, Earnings Per Share and cost savings. The core award can grow by up to four times, dependent on the level of performance. Straight-line vesting will apply if performance falls between two points. Awards are structured as nil cost options.

Performance will be measured at the end of the three-year performance period. If the required level of performance has been reached, the awards vest and 50 per cent of the award will be released. Subject to participants remaining in employment for a further year, the balance will then be released one year after the vesting date. Options granted to acquire the award of shares will expire two years from the vesting date. Dividends will accrue on the shares that vest in the form of additional shares.

To achieve the maximum multiplier of four, the following criteria are required to be met:

	Targets to achieve maximum multiplier				
Date of conditional award	Cumulative underlying cash flow	Return on capital employed %	Relative sales	Cost savings	EPS
16 May 2013	£6,500m	12	Index+1% p.a.	–	–
15 May 2014	£6,750m	12	Index+1% p.a.	–	–
14 May 2015	£5,150m	12	–	£600m	30pence

A reconciliation of the number of shares conditionally allocated is shown below:

	2016 million	2015 million
Outstanding at the beginning of the year	**6.1**	7.0
Conditionally allocated	**2.2**	2.1
Forfeited	**(2.2)**	(0.8)
Released to participants	**(0.7)**	(2.2)
Outstanding at the end of the year	**5.4**	6.1

The weighted average remaining contractual life of share options outstanding at 12 March 2016 was 1.7 years (2015: 1.5 years).

Details of shares conditionally allocated at 12 March 2016 are set out below:

Date of conditional award	2016 million	2015 million
21 June 2010	**–**	0.2
19 May 2011	**0.2**	0.7
17 May 2012	**–**	1.6
16 May 2013	**1.4**	1.6
15 May 2014	**1.7**	2.0
14 May 2015	**2.1**	–
	5.4	6.1

Options to acquire the award of shares were valued using the Black-Scholes option-pricing model. No performance conditions were included in the fair value calculations. The fair value per option granted during the year and the assumptions used in the calculation are as follows:

	2016	2015
Share price at grant date (pence)	**276**	334
Option life (years)	**4.2**	4.2
Fair value per option (pence)	**276**	334

During the year, a total number of 1.4 million shares were exercised. The weighted average share price during the year for options exercised was 238 pence (2015: 322 pence).

32 Share-based payments continued

c) Deferred Share Award

The Deferred Share Award targets a diverse range of business critical financial and strategic scorecard measures. These are intended to reward the top 40 managers in the Company, including Executive Directors, for driving the short-term objectives that will directly lead to building the sustainable, long-term growth of the Company. Awards are structured as nil cost options.

Share-based awards will be made to participants subject to performance against a basket of measures. At least 50 per cent of the award will be based on the delivery of financial performance and returns to shareholders. The balance will be based on measures which will assess the Company's performance relative to its competitors as well as key strategic goals.

Performance against the target is measured over one financial year, but any shares awarded are deferred for a further two years to ensure that management's interests continue to be aligned with those of shareholders. The shares are subject to forfeiture if the participant resigns or is dismissed for cause prior to their release date. Dividends accrue on the shares that vest in the form of additional shares.

A reconciliation of the number of shares granted over the year is shown below:

	2016 million	2015 million
Outstanding at the beginning of the year	**2.5**	2.6
Granted	**1.2**	1.5
Lapsed	**(0.3)**	–
Exercised	**(1.2)**	(1.6)
Outstanding at the end of the year	**2.2**	2.5

The number of shares allocated at the end of the year is set out below:

	2016 million	2015 million
16 May 2013	**0.1**	1.2
15 May 2014	**1.2**	1.3
14 May 2015	**0.9**	–
	2.2	2.5

The weighted average remaining contractual life of share options outstanding at 12 March 2016 was 1.4 years (2015: 1.5 years).

d) Bonus Share Award

The bonus arrangements for our senior managers and supermarket store managers include corporate and personal performance targets. A profit gateway is in place which means that a certain level of underlying profit before tax must be achieved before any bonus related to the corporate element of the bonus is released.

60 per cent of the bonus is paid in cash and 40 per cent converted into shares, which are automatically released after three financial years. The share element of the bonus arrangement is called the Bonus Share Award. Bonus Shares are subject to forfeiture if the participant resigns or is dismissed for cause prior to their release date. Dividends accrue on these shares and are released at the end of the three-year retention period. Our top 40 managers do not receive Bonus Share Awards as they receive Deferred Share Awards.

A reconciliation of the number of shares granted over the year is shown below:

	2016 million	2015 million
Outstanding at the beginning of the year	**10.2**	7.5
Granted	**3.7**	3.9
Exercised	**(4.0)**	–
Lapsed	**(1.0)**	(1.2)
Outstanding at the end of the year	**8.9**	10.2

The number of shares allocated at the end of the year is set out below:

	2016 million	2015 million
17 May 2012	**–**	3.0
16 May 2013	**3.1**	3.7
15 May 2014	**3.0**	3.5
14 May 2015	**2.8**	–
	8.9	10.2

The weighted average remaining contractual life of share options outstanding at 12 March 2016 was 1.1 years (2015: 1.2 years).

33 Operating lease commitments

The Group leases various retail stores, offices, depots and equipment under non-cancellable operating leases. The leases have varying terms, escalation clauses and renewal rights.

	2016 £m	2015 £m
Aggregate future minimum lease payments:		
Within one year	**614**	585
In the second to fifth years inclusive	**2,245**	2,171
After five years	**7,209**	7,040
	10,068	9,796

Further analysis of the Group's future minimum lease payments after five years is as follows:

	2016 £m	2015 £m
Aggregate future minimum lease payments:		
Greater than five years but less than ten years	**1,866**	1,897
Greater than ten years but less than 15 years	**1,281**	1,319
After 15 years	**4,062**	3,824
	7,209	7,040

The commercial terms of the Group's operating leases vary, however they commonly include either a market rent review or an index linked rent review (with a cap and collar). The timing of when rent reviews take place differs for each lease. The Group has pre-emption rights over a minor number of properties, which provides the Group with the right of first refusal to purchase the property in the event the landlord chooses to sell. The option price payable for the asset in each instance is normally referenced to current market value prevailing at the point of pre-emption.

For the purposes of calculating adjusted net debt, the total value of the Group's capitalised operating lease commitments is £5,500 million (2015: £5,417 million).

The Group sublets certain leased properties:

	2016 £m	2015 £m
Aggregate future minimum lease receipts:		
Within one year	**35**	34
In the second to fifth years inclusive	**119**	120
After five years	**124**	123
	278	277

34 Capital commitments

The Group has entered into contracts totalling £173 million (2015: £164 million) for future capital expenditure in relation to property, plant and equipment and £6 million (2015: £13 million) for intangible assets not provided for in the financial statements.

The Company does not have any capital commitments (2015: £nil).

35 Financial commitments

Sainsbury's Bank has off balance sheet financial instruments committing it to extend credit to customers of £77 million (2015: £79 million).

36 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 arising 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 Company is keeping these matters under close review but considers the likelihood of payout to be remote.

The Company has no contingent liabilities and has issued no guarantees under Companies Act 2006 Section 394A or 479C.

37 Related party transactions

Group

a) Key management personnel

The key management personnel of the Group comprise members of the J Sainsbury plc Board of Directors and the Operating Board. The key management personnel compensation is as follows:

	2016 £m	2015 £m
Short-term employee benefits	**7**	10
Post-employment employee benefits	**1**	1
Share-based payments	**4**	9
	12	20

Ten key management personnel had credit card balances with Sainsbury's Bank (2015: nine). These arose in the normal course of business and were immaterial to the Group and the individuals. Five key management personnel held saving deposit accounts with Sainsbury's Bank (2015: three). These balances arose in the normal course of business and were immaterial to the Group and the individuals.

b) Joint ventures and associates

Transactions with joint ventures and associates

For the 52 weeks to 12 March 2016, the Group entered into various transactions with joint ventures and associates as set out below.

	2016 £m	2015 £m
Management services received	**(1)**	(1)
Management services provided	**4**	–
Income share received from joint ventures	**33**	17
Dividend and distributions received	**46**	70
Proceeds from repayment of loan to joint venture	**–**	17
Investment in joint ventures and associates	**(18)**	(12)
Rental expenses paid	**(65)**	(65)

Year-end balances arising from transactions with joint ventures and associates

	2016 £m	2015 £m
Receivables		
Other receivables	**28**	37
Loans due from joint ventures	**3**	2
Payables		
Other payables	**(1)**	–
Loans due to joint ventures	**(5)**	(5)

c) Retirement benefit obligations

As discussed in note 31, the Group has entered into an arrangement with the Pension Scheme Trustee as part of the funding plan for the actuarial deficit in the Scheme. Full details of this arrangement are set out in note 31 to these financial statements.

37 Related party transactions continued

Company

a) Subsidiaries

The Company enters into loans with its subsidiaries at both fixed and floating rates of interest on a commercial basis. Hence, the Company incurs interest expense and earns interest income on these loans and advances. The Company also received dividend income from its subsidiaries during the financial year. The amounts outstanding are unsecured and settled in cash.

Transactions with subsidiaries

	2016 £m	2015 £m
Repayment of floating rate subordinated dated/undated loan capital from Sainsbury's Bank[1]	**–**	60
Investment in Sainsbury's Bank	**(137)**	(59)
Loans and advances given to, and dividend income received from subsidiaries		
Loans and advances given	**17**	229
Loans and advances repaid by subsidiaries	**(122)**	(45)
Interest income received in respect of interest bearing loans and advances	**222**	201
Dividend income received	**5,556**	252
Loans and advances received from subsidiaries		
Loans and advances received	**(299)**	(275)
Loans and advances repaid	**49**	21
Loan settlement in the year attributable to liquidations	**4,306**	–
Interest expense paid in respect of interest bearing loans and advances	**(47)**	(56)

1. The £60 million dated subordinated loan capital was repaid in December 2014.

Year-end balances arising from transactions with subsidiaries

	2016 £m	2015 £m
Receivables		
Loans and advances due from subsidiaries	**2,720**	2,758
Payables		
Loans and advances due to subsidiaries	**(817)**	(5,201)

b) Joint ventures and associates

Transactions with joint ventures and associates

For the 52 weeks to 12 March 2016, the Company entered into transactions with joint ventures and associates as set out below.

	2016 £m	2015 £m
Investment in joint ventures	**(15)**	(12)

Year-end balances arising from transactions with joint ventures and associates

	2016 £m	2015 £m
Payables		
Loans due to joint ventures	**(5)**	(5)

38 Details of related undertakings

All companies listed below are owned by the Group and all interests are in the ordinary share capital, except where otherwise indicated. All subsidiaries have been consolidated.

a) Subsidiary undertakings

The Group holds a majority of the voting rights of the following undertakings:

Entity	Country of incorporation	Interest	Holding
Barleygold Limited	UK	100%	Indirect
Bells Stores Limited	UK	100%	Direct
BLSSP (PHC 7) Limited	UK	100%	Indirect
Braemar Castle Limited	UK	100%	Direct
Coolidge Investments Limited	UK	100%	Indirect
Flint Castle Limited	UK	100%	Direct
Global Media Vault Limited	UK	100%	Indirect
Holborn UK Investments Limited	UK	100%	Direct
J Sainsbury (Overseas) Limited	UK	100%	Direct
J Sainsbury Common Investment Fund Limited	UK	100%	Indirect
J Sainsbury Distribution Limited	UK	100%	Direct
J Sainsbury Employee Share Ownership Trust	UK	100%	Indirect
J Sainsbury Limited	Ireland	100%	Direct
J Sainsbury Pension Scheme Trustees Limited	UK	100%	Direct
J Sainsbury Holdings	Ireland	100%	Indirect
J Sainsbury Trustees Limited	UK	100%	Indirect
Jacksons Stores 2002 Limited	UK	100%	Indirect
Jacksons Stores Limited	UK	100%	Direct
JS Finance Corporation	Ireland	100%	Indirect
JS Information Systems Limited	UK	100%	Indirect
JS Insurance Limited	Isle of Man	100%	Direct
JSD (London) Limited	UK	100%	Indirect
L&B (No 26) Limited	UK	100%	Indirect
Lochside Asset Purchaser No.1 plc	UK	100%	Indirect
Lochside Asset Purchaser No1 Holdings Limited	UK	100%	Indirect
Nash Court (Kenton) Limited	UK	100%	Indirect
Portfolio Investments Ltd	UK	100%	Indirect
Ramheath Properties Limited	UK	100%	Direct
RECO Property Limited	UK	100%	Indirect
S.W. Dewsbury Limited	UK	100%	Direct
Sainsbury Bridgeco Holdco Limited	UK	100%	Direct
Sainsbury Holdco A Limited	UK	100%	Direct
Sainsbury Holdco B Limited	UK	100%	Direct
Sainsbury Propco A Limited	UK	100%	Indirect
Sainsbury Propco B Limited	UK	100%	Indirect
Sainsbury Propco C Limited	UK	100%	Direct
Sainsbury Propco D Limited	UK	100%	Direct
Sainsbury Property Investments Limited	UK	100%	Direct
Sainsbury's Commercial Consulting (Dongguan) Company Ltd	China	100%	Indirect
Sainsbury's Asia (Shanghai) Limited	Hong Kong	100%	Indirect
Sainsbury's Asia Limited	Hong Kong	100%	Indirect
Sainsbury's Bank plc	UK	100%	Direct
Sainsbury's Basingstoke Limited	UK	100%	Indirect
Sainsbury's Convenience Stores Limited	UK	100%	Direct
Sainsburys Corporate Director Limited	UK	100%	Indirect
Sainsbury's Entertainment Ltd	UK	100%	Indirect
Sainsbury's Holborn Property	UK	100%	Indirect
Sainsbury's Limited	UK	100%	Direct
Sainsbury's Limited	UK	100%	Direct
Sainsbury's Manor GP Limited	UK	100%	Direct
Sainsbury's Manor II Property Limited	UK	100%	Direct
Sainsbury's Manor Property Limited	UK	100%	Direct
Sainsbury's Planet Limited	UK	100%	Indirect
Sainsbury's Supermarkets Ltd	UK	100%	Direct
Savacentre Limited	UK	100%	Direct
Stamford House (Jersey) Limited	Jersey	100%	Direct
Stamford House Investments Limited	UK	100%	Direct
Stamford Properties (Dorking) Limited	UK	100%	Indirect
Stamford Properties Four Limited	UK	100%	Direct
Stamford Properties One Limited	UK	100%	Indirect
Stamford Properties Three Limited	UK	100%	Direct
Stamford Properties Two Limited	UK	100%	Direct
Stockdale Land (Bicester) Limited	UK	100%	Indirect
Tintagel Castle Limited	UK	100%	Direct
Town Centre Retail (Bicester) Limited	UK	100%	Indirect

b) Associated undertakings

The Group has a participating interest in the following undertakings.

Entity	Country of incorporation	Interest	Holding
Arcus Engineering Limited	UK	Preference shares	Indirect
Arcus FM Limited	UK	Preference shares	Indirect
BL Sainsbury Superstores Limited	UK	50%	Indirect
Harvest 2 GP Limited	UK	50%	Indirect
Harvest 2 Limited Partnership	UK	49.975%	Indirect
Harvest Development Management Limited	UK	50%	Indirect
Harvest GP Limited	UK	50%	Indirect
Hedge End Park Limited	UK	50%	Direct
Insight 2 Communication LLP	UK	50%	Indirect
Manor II Property Scottish Partnership	UK	0.01%	Indirect
Manor Property Scottish Partnership	UK	0.01%	Indirect
Manor Scottish Limited Partnership	UK	0.01%	Indirect
Mobile by Sainsbury's Limited	UK	50%	Indirect
Netto Limited	UK	50%	Direct
PXS Limited	UK	B class	Indirect
Romford Developments Limited	UK	50%	Indirect
Sainsbury's Property Scottish Limited Partnership	UK	10%	Indirect
Sainsbury's Property Scottish Partnership	UK	33%	Indirect
Tamar Energy Limited	UK	2,000,000 Investor shares	Indirect
The Harvest Limited Partnership	UK	49.975%	Indirect

c) Trusts

The Group has an interest in the following undertakings.

Entity	Country of incorporation	Interest	Holding
J Sainsbury Employee Share Ownership Trust	UK	100%	Indirect

d) Undertakings other than subsidiaries and associated undertakings

The direct or indirect holder of 100% of the voting interests in the following undertakings is an associate of the Group.

Entity	Country of incorporation	Interest	Holding
B.L.C.T. (10775) Limited	Jersey	100%	Indirect
B.L.C.T. (11546) Limited	Jersey	100%	Indirect
B.L.C.T. (20720) Limited	Jersey	100%	Indirect
B.L.C.T. (27255) Limited	Jersey	100%	Indirect
B.L.C.T. (38775) Limited	Jersey	100%	Indirect
B.L.C.T. (39150) Limited	Jersey	100%	Indirect
B.L.C.T. (39214) Limited	Jersey	100%	Indirect
B.L.C.T. (39215) Limited	Jersey	100%	Indirect
BL Crawley (Unlimited)	Jersey	100%	Indirect
BL Non Securitised 2012 1 Limited	UK	100%	Indirect
BL Superstores (Funding) Limited	UK	100%	Indirect
BL Superstores Finance PLC	UK	100%	Indirect
BLS Non-Securitised 2012 2 Limited	UK	100%	Indirect
BLSSP (Cash Management) Limited	UK	100%	Indirect
BLSSP (Lending) Limited	UK	100%	Indirect
BLSSP (PHC 1 2010) Limited	UK	100%	Indirect
BLSSP (PHC 1 2012) Limited	UK	100%	Indirect
BLSSP (PHC 1) Limited	UK	100%	Indirect
BLSSP (PHC 10) Limited	UK	100%	Indirect
BLSSP (PHC 11) Limited	UK	100%	Indirect
BLSSP (PHC 12) Limited	UK	100%	Indirect
BLSSP (PHC 14) Limited	UK	100%	Indirect
BLSSP (PHC 16) Limited	UK	100%	Indirect
BLSSP (PHC 17) Limited	UK	100%	Indirect
BLSSP (PHC 18) Limited	UK	100%	Indirect
BLSSP (PHC 2 2010) Limited	UK	100%	Indirect
BLSSP (PHC 2) Limited	UK	100%	Indirect
BLSSP (PHC 20) Limited	UK	100%	Indirect
BLSSP (PHC 21) Limited	UK	100%	Indirect
BLSSP (PHC 22) Limited	UK	100%	Indirect
BLSSP (PHC 23) Limited	UK	100%	Indirect
BLSSP (PHC 24) Limited	UK	100%	Indirect
BLSSP (PHC 25) Limited	UK	100%	Indirect
BLSSP (PHC 26) Limited	UK	100%	Indirect
BLSSP (PHC 28) Limited	UK	100%	Indirect
BLSSP (PHC 3) Limited	UK	100%	Indirect
BLSSP (PHC 32) Limited	UK	100%	Indirect
BLSSP (PHC 33) Limited	UK	100%	Indirect
BLSSP (PHC 34) Limited	UK	100%	Indirect
BLSSP (PHC 35) Limited	UK	100%	Indirect
BLSSP (PHC 4) Limited	UK	100%	Indirect
BLSSP (PHC 5) Limited	UK	100%	Indirect
BLSSP (PHC 6) Limited	UK	100%	Indirect
BLSSP (PHC 9) Limited	UK	100%	Indirect
BLSSP (PHC19) Limited	UK	100%	Indirect
BLSSP Property Holdings Limited	UK	100%	Indirect
British Land Superstores (Non-Securitised) Limited	UK	100%	Indirect
Clarendon Property Company (Unlimited)	UK	100%	Indirect
Harvest 2 Selly Oak Limited	UK	100%	Indirect
Harvest Nominee No. 1 Limited	UK	100%	Indirect
Harvest Nominee No. 2 Limited	UK	100%	Indirect
Pencilscreen Limited	UK	100%	Indirect
Selected Land and Property Company (Unlimited)	UK	100%	Indirect
Ten Fleet Place (Unlimited)	UK	100%	Indirect
Vyson (Unlimited)	UK	100%	Indirect

e) Overseas branches

The Group has the following branches overseas.

Entity	Country	Holding
Sainsbury's Asia Limited – Bangladesh Liaison Office	Bangladesh	Indirect
Sainsbury's Commercial Consulting (Dongguan) Company Ltd – Branch Office 1	China	Indirect
Sainsbury's Asia Limited – India Branch Office	India	Indirect

Five year financial record

	2016	2015	2014	2013	2012
Financial results (£m)					
Underlying sales (including VAT, including fuel, including Sainsbury's Bank)	**25,829**	26,122	26,353	25,632	24,511
Underlying operating profit					
Retailing	**635**	720	873	831	789
Financial services	**65**	62	6	–	–
	700	782	879	831	789
Underlying net finance costs[1]	**(121)**	(107)	(111)	(111)	(109)
Underlying share of post-tax profit from joint ventures	**8**	6	30	38	32
Underlying profit before tax[1,2]	**587**	681	798	758	712
(Decrease)/increase on previous year (%)	**(13.8)**	(14.7)	5.3	6.5	7.1
Retail underlying operating margin (%)[3]	**2.74**	3.07	3.65	3.57	3.54
Earnings per share					
Underlying basic (pence)[2]	**24.2**	26.4	32.8	30.8	28.1
(Decrease)/increase on previous year (%)	**(8.3)**	(19.5)	6.5	9.6	6.0
Proposed dividend per share (pence)[4]	**12.1**	13.2	17.3	16.7	16.1
Retail statistics for UK food retailing					
Number of outlets at financial year-end					
over 55,000 sq ft sales area	**107**	106	101	94	81
40,001 – 55,000 sq ft sales area	**135**	132	127	123	123
25,001 – 40,000 sq ft sales area	**142**	143	146	147	152
15,000 – 25,000 sq ft sales area	**116**	115	116	118	115
under 15,000 sq ft sales area	**874**	808	713	624	541
	1,374	1,304	1,203	1,106	1,012
Sales area (000 sq ft)	**23,202**	22,819	22,160	21,265	20,347
Net increase on previous year (%)[5]	**1.7**	3.0	4.2	4.5	6.5
New stores[5]	**75**	106	104	101	92
Sales intensity (including Value Added Tax)[5]					
Per square foot (£ per week)	**17.88**	18.24	18.93	19.27	19.47

1. Net finance costs pre-retail financing fair value movements, IAS 19 pension financing charge and one-off items that are material and infrequent in nature, but after accrued coupons on the perpetual securities.
2. Profit/(loss) before tax from continuing operations before any gain or loss on the sale of properties, investment property fair value movements, impairment of goodwill, retail financing fair value movements, IAS 19 pension financing charge, defined benefit pension scheme expenses, acquisition adjustments and one-off items that are material and infrequent in nature, but after accrued coupons on the perpetual securities.
3. Retail operating profit margin based on retail sales excluding Value Added Tax, including fuel, excluding Sainsbury's Bank.
4. Total proposed dividend to ordinary shareholders in relation to the financial year.
5. Includes all convenience stores and convenience acquisitions.

Additional shareholder information

Financial calendar 2016/17

Final dividend

Ex-dividend date	12 May 2016
Record date	13 May 2016
Last date for return of revocation of DRIP mandates	17 June 2016
Payment date and DRIP share purchase	8 July 2016

Other dates

Annual General Meeting – London	6 July 2016
Interim results announced	9 November 2016
Preliminary Results announced	3 May 2017
Annual General Meeting – London	5 July 2017

The interim dividend was paid on 4 January 2016.

Annual General Meeting ('AGM')

The AGM will be held at 11.00am on Wednesday, 6 July 2016 at QEII Centre, Broad Sanctuary, Westminster, London SW1P 3EE. The Notice of the Meeting and the proxy card for the meeting are enclosed with this report.

Registrars

For information about the AGM, shareholdings, dividends and to report changes to personal details, shareholders should contact:

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: 0370 702 0106

Please remember to tell Computershare if you move house or change bank details or if there is any other change to your account information.

You can view and manage your shareholding online at www.investorcentre.co.uk. You will require your 11 character Shareholder Reference Number ('SRN') to log in. Your SRN starts with the letter C or G and is followed by ten numbers. It can be found on share certificates and dividend confirmations (formerly dividend tax vouchers).

Dividends

Having your dividends paid directly into your bank or building society account is a more secure way than receiving your dividend by cheque. If you would prefer your dividends to be paid directly into your bank or building society account further information is available from Computershare Investor Services (address and telephone number above). You will still receive a dividend confirmation (formerly a dividend tax voucher) detailing each dividend to enable you to complete your tax return to HMRC.

Shareholder communications

Company website

J Sainsbury plc Interim and Annual Reports, and results announcements are available via the internet on our website at www.j-sainsbury.co.uk. As well as providing share price data and financial history, the site also provides background information about the Company, regulatory and news releases, and current issues.

Shareholders can receive email notification of results and press announcements as they are released by registering on the page called 'Email news service' in the Investor section of the website.

Electronic shareholder communications

The Company encourages all shareholders to receive their shareholder communications electronically in order to reduce our impact on the environment. Shareholders can register their email address at www.etreeuk.com/jsainsbury and for each new shareholder that does so we will make a donation to the Tree for All campaign run by the Woodland Trust. By registering with the eTree programme you will be giving the Company permission to send all shareholder documents to you via email with a link to a secure website.

Alternatively, the Company has set up a facility for shareholders to take advantage of electronic communications. The service allows you to:

- view the Annual Report and Financial Statements on the day it is published;
- receive electronic notification of the availability of future shareholder information (you must register your email for this service);
- check the balance and current value of your shareholding and view your dividend history; and
- submit your vote online prior to a general meeting.

For more information, to view the terms and conditions, and to register for the service, log on to www.j-sainsbury.co.uk/investor-centre, click on 'Shareholder Centre' and then follow the instructions on screen.

Alternatively, register by visiting www.investorcentre.co.uk. For all methods, you will require your 11 character Shareholder Reference Number which can be found on your share certificate or latest dividend confirmation.

Shareholder security

Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company annual reports. If you receive any unsolicited investment advice:

- make sure you get the name of the person and organisation;
- check that they are properly authorised by the FCA before getting involved by visiting www.fca.org.uk/firms/systems-reporting/register; and
- report the matter to the FCA either by calling 0800 111 6768 or by completing an online form at www.fca.org.uk/consumers/scams/report-scam

Details of any share dealing facilities that the Company endorses will be included in Company mailings.

More detailed information on this or similar activity can be found on the FCA website www.fca.org.uk/consumers/scams

Investor relations

For investor enquiries please contact: Duncan Cooper, Head of Investor Relations, J Sainsbury plc, Store Support Centre, 33 Holborn, London EC1N 2HT.

Shareholder profiles

End of year information at 12 March 2016

	2016	2015
Number of shareholders	**113,101**	116,509
Number of shares in issue	**1,924,077,194**	1,919,433,342

By size of holding

		Shareholders %		Shares %
	2016	2015	2016	2015
500 and under	**63.58**	62.23	**0.42**	0.43
501 to 1,000	**11.94**	12.22	**0.53**	0.56
1,001 to 10,000	**22.35**	23.46	**3.69**	4.00
10,001 to 100,000	**1.63**	1.63	**2.33**	2.35
100,001 to 1,000,000	**0.35**	0.32	**7.20**	6.66
Over 1,000,000	**0.15**	0.14	**85.83**	86.00
	100.00	100.00	**100.00**	100.00

By category of shareholder

		Shareholders %		Shares %
	2016	2015	2016	2015
Individuals	**92.82**	91.26	**5.67**	5.84
Insurance companies	**0.06**	0.06	**0.03**	0.03
Banks and Nominees	**6.85**	8.33	**92.10**	91.74
Investment Trusts	**0.03**	0.03	**0.04**	0.01
Pension Funds	**0.01**	0.01	**0.00**	0.01
Other Corporate Bodies	**0.23**	0.31	**2.16**	2.37
	100.00	100.00	**100.00**	100.00

Share dealing services

To buy or sell your J Sainsbury plc ordinary shares, please visit your stockbroker or a high street bank who will usually be able to assist you. Alternatively, you may consider using:

- The Share Centre Ltd who offer a postal dealing service and they can be contacted at The Share Centre, PO Box 2000, Oxford Road, Aylesbury, Buckinghamshire HP21 8ZB. Telephone: 01296 414141 or Freephone 08000 282812 and quote 'Sainsbury's'; or
- Computershare who offer a telephone and internet facility which gives shareholders the opportunity to trade at a known price. The telephone service is available from 8.00am to 4.30pm, Monday to Friday, excluding bank holidays, on telephone number 0370 703 0084. The internet share dealing service gives shareholders the option to submit instructions to trade online and more information can be found by visiting www.computershare.com/sharedealingcentre.

Further information and detailed terms and conditions are available on request by calling either provider.

Dividend Reinvestment Plan ('DRIP')

The Company has a DRIP, which allows shareholders to reinvest their cash dividends in the Company's shares bought in the market through a specially arranged share dealing service. No new shares are allotted under this DRIP and approximately 29,210 shareholders participate in it. Full details of the DRIP and its charges, together with mandate forms, are available from the Registrars. Alternatively, you can elect to join the DRIP by registering for Investor Centre at www.investorcentre.co.uk.

Individual Savings Account ('ISA')

A corporate ISA is available from The Share Centre Ltd and offers a tax efficient way of holding shares in the Company. For further information contact: The Share Centre, PO Box 2000, Oxford Road, Aylesbury, Buckinghamshire HP21 8ZB. Telephone: 01296 414141 or freephone 08000 282812 and quote 'Sainsbury's'.

American Depository Receipts ('ADRs')

The Company has a sponsored Level I ADR programme for which The Bank of New York Mellon acts as depositary.

The ADRs are traded on the over-the-counter ('OTC') market in the US under the symbol JSAIY, where one ADR is equal to four ordinary shares. All enquiries relating to ADRs should be addressed to:

BNY Mellon
Shareowner Services
PO Box 30170
College Station
TX 77842-3170

Toll Free Telephone # for domestic callers: 1-888-269-2377
International callers can call: +1-201-680-6825
Website: www.mybnymdr.com
Email: shrrelations@bnymellon.com

ShareGift

If you have only a small number of shares which would cost more for you to sell than they are worth, you may wish to consider donating them to the charity ShareGift (Registered Charity 1052686) which specialises in accepting such shares as donations. The relevant stock transfer form may be obtained from Computershare Investor Services PLC. There are no implications for Capital Gains Tax purposes (no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief. Further information about ShareGift may be obtained on 020 7930 3737 or from www.sharegift.org.

Consolidated Dividend Confirmations

The Company has adopted the Consolidated Dividend Confirmation ('CDC') process in relation to dividend payments. This means that those shareholders receiving their dividend direct into their bank account will receive a CDC once a year detailing all payments made throughout that year.

Tax information – Capital Gains Tax ('CGT')

For CGT purposes, the market value of ordinary shares on 31 March 1982 adjusted for all capital adjustments was 91.99 pence and B shares 10.941 pence.

Share capital consolidation

The original base cost of shares apportioned between ordinary shares of $28^4/_7$ pence and B shares is made by reference to the market value of each class of shares on the first day for which a market value is quoted after the new holding came into existence. The market value for CGT purposes of any share or security quoted on the Stock Exchange Daily Official List is generally the lower of the two quotations on any day plus one quarter of the difference between the values.

On Monday, 19 July 2004 the values were determined as follows:

New ordinary shares 257.5 pence
B shares 35 pence

General contact details

Share price information is available on the Company's website, in the financial press and the Cityline service operated by the Financial Times (Telephone: 0906 003 3904).

For general enquiries about Sainsbury's Finance call: 0500 405 060.

For any customer enquiries please contact our Customer Careline by calling: 0800 636 262.

Registered office and advisers

Registered office
J Sainsbury plc
33 Holborn
London EC1N 2HT
Registered number 185647

Auditors
Ernst & Young LLP
1 More London Place
London SE1 2AF

Solicitors
Linklaters LLP
One Silk Street
London EC2Y 8HQ

Stockbrokers
UBS
1 Finsbury Avenue
London EC2M 2PP

Morgan Stanley
25 Cabot Square
Canary Wharf
London E14 4QA

Cautionary statement
Certain statements included in this Annual Report are forward looking and are therefore subject to risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied because they relate to future events. These forward-looking statements include, but are not limited to, statements relating to the Company's expectations. Forward-looking statements can be identified by the use of relevant terminology including the words: 'believes', 'estimates', 'anticipates', 'expects', 'intends', 'plans', 'goal', 'target', 'aim', 'may', 'will', 'would', 'could' or 'should' or, in each case, their negative or other variations or comparable terminology and include all matters that are not historical facts. They appear in a number of places throughout this Annual Report 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 businesses we operate. Consequently, our actual future financial condition, performance and results could differ materially from the plans, goals and expectations set out in our forward-looking statements. The Company undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

Glossary

Active Kids – Our nationwide scheme to help inspire school children to take more exercise and to eat more healthily. Launched in 2005, Active Kids is open to all nursery, primary and secondary schools as well as Scouts and Girl Guides in the UK.
www.sainsburys.co.uk/activekids

Annual General Meeting (AGM) – This year the AGM will be held on Wednesday 6 July 2016 at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE at 11.00am.

basics – Sainsbury's entry level own-brand range of products.

bps – Basis points.

Brand Match – Initiative using market-leading technology guaranteeing price match on the basket of comparable grocery branded goods with Asda. Over 12,000 branded grocery lines are included and the initiative works by offering customers who buy ten or more unique items and at least one branded product, a coupon at the till. We even include promotions provided the same number of products are bought. Maximum value of coupons £10.

by Sainsbury's – Core own label brand.

Click & Collect – Service which allows customers to place general merchandise and grocery orders online for collection in store.

CMBS – Commercial Mortgage Backed Securities.

Collection – Sainsbury's own-brand general merchandising products.

Company – J Sainsbury plc.

Corporate Responsibility and Sustainability (CR&S) – The need to act responsibly in managing our impact on a range of stakeholders: customers, colleagues, investors, suppliers, the community and the environment.

CPI – Consumer Price Index.

Dividend cover – Underlying profit after tax from continuing operations attributable to ordinary shareholders divided by total value of dividends declared during the year.

Earnings Per Share (EPS) – Earnings attributable to ordinary shareholders of the parent divided by the weighted average number of ordinary shares in issue during the year, excluding those held by ESOP Trusts, which are treated as cancelled.

EBITDAR – Earnings before interest, tax, depreciation, amortisation and rent.

ESOP Trusts – Employee Share Ownership Plan Trusts.

Fairtrade – The Fairtrade label is an independent consumer label that guarantees a fair deal for marginalised workers and small scale farmers in developing countries. Producers receive a minimum price that covers the cost of production and an extra premium that is invested in the local community.
www.fairtrade.org.uk

Fair value – The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

FTSE4Good – The FTSE Group, an indexing company, runs the FTSE4Good index series to measure the performance of companies that meet corporate responsibility standards, and to facilitate investment in those companies.
www.ftse.com/products/indices/FTSE4Good

FVTPL – Fair value through profit or loss. Method of valuing a financial instrument where changes in fair value are recognised directly in the income statement.

Gearing – Net debt divided by net assets.

Group – The Company and its subsidiaries.

IFRIC – International Financial Reporting Interpretations Committee.

IFRSs – International Financial Reporting Standard(s).

Income Statement – Formerly known as the profit and loss account under UK GAAP.

Joint venture (JV) – A business jointly owned by two or more parties.

Kantar Worldpanel (Kantar) – An independent third party providing data on the UK Grocery Market.

Live Well for Less – Sainsbury's customer commitment to continue to help people live the life they want to live, with quality products at fair prices.

Like-for-like sales – The measure of year-on-year same store growth.

LTIP – Long Term Incentive Plan.

MSC – Marine Stewardship Council.

Nectar – One of the most popular loyalty schemes in the UK, of which Sainsbury's is a partner.

Non-controlling interest – The equity in a subsidiary not attributable, directly or indirectly, to the Company.

OFT – Office of Fair Trading.

PRA – Prudential Regulation Authority.

Real discount rate – Discount rate less inflation rate.

ROCE – Return on capital employed.

RPI – Retail Price Index.

Taste the Difference – Sainsbury's premium own-brand range of products.

Total Shareholder Return (TSR) – The growth in value of a shareholding over a specified period, assuming that dividends are reinvested to purchase additional units of the stock.

Tu – Sainsbury's own label clothing range.

Underlying basic earnings per share – Profit after tax from continuing operations attributable to ordinary shareholders of the parent before any profit or loss on the disposal of properties, investment property fair value movements, retailing financing fair value movements, the financing element of IAS 19 and defined benefit pension scheme expenses, acquisition adjustments arising from the Sainsbury's Bank acquisition, and one-off items that are material and infrequent in nature, but after the coupons on perpetual securities, divided by weighted average number of ordinary shares in issue during the year, excluding those held by ESOP trusts, which are treated as cancelled.

Underlying cash flow from operations – Underlying cash generated from operations before net rent and cash payments to the pension scheme.

Underlying operating profit – Underlying profit before tax from continuing operations before underlying net finance costs and underlying share of post-tax profit or loss from joint ventures.

Underlying profit before tax – Profit before tax from continuing operations attributable to ordinary shareholders of the parent before any profit or loss on the disposal of properties, investment property fair value movements, retailing financing fair value movements, the financing element of IAS 19 and defined benefit pension scheme expenses, acquisition adjustments arising from the Sainsbury's Bank acquisition, and one-off items that are material and infrequent in nature, but after the coupons on perpetual securities.

Notes

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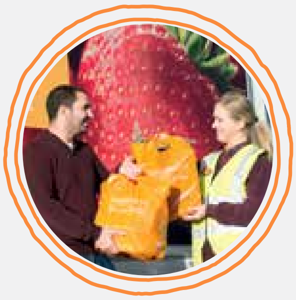

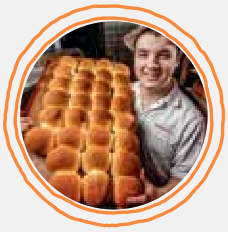


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