Annual Statement from the Remuneration Committee Chairman

Dear Shareholder,

With changing customer expectations and a rapidly evolving business, the incentive pay outcomes for 2016/17 reflect our performance in the context of a volatile UK retail grocery market.

Key remuneration decisions for 2016/17

Total remuneration for the Executive Directors has decreased by 11 to 16 per cent as a result of our incentive arrangements reflecting our performance during the year.

- *Annual bonus* – Our Executive Directors are committed to developing our strategy and driving the performance of our business in the challenging environment. The profit and sales targets set at the start of the year were not achieved. However, good progress was made on a number of key strategic, operational and customer initiatives and there was strong performance against individual objectives. In light of the overall results, the Committee determined that no cash annual bonus should be paid in respect of the year.
- *Deferred Share Award* – The Committee determined that awards under the DSA should be granted at 70 per cent of the maximum for all participants recognising, in particular, the continued performance of the business in relative terms and the significant achievements made on our strategic goals. This award is deferred into shares.
- *2014 Future Builder* – Following two consecutive years of no payout, an element of the 2014 Future Builder vested as a result of our performance against the cash flow and relative sales measures. A performance multiplier of 0.9x was applied to the core award for all participants resulting in vesting of 22.5 per cent of the maximum. Half vests in May this year and the remaining half will vest in May 2018 after a further holding period.

2017 Remuneration Policy

The previous policy was approved by shareholders in 2014 and, therefore, we are bringing a revised Remuneration Policy for shareholder approval at the 2017 AGM, in line with the regulatory requirement to renew our policy at least once every three years.

We have consulted extensively with our major shareholders regarding the new policy and as part of this review process we looked at alternative long-term incentive structures which could adapt to the dynamic nature of the grocery sector. While the Committee saw the merits of alternative structures, we recognised that shareholder views on these remain mixed at this stage. Consequently we have opted to maintain the key features of the Remuneration Policy previously approved by shareholders in 2014.

While the overall approach and pay levels remain unchanged, we have taken the opportunity to make a small number of technical changes to reflect evolving market and best practice. These include:

- Introduction of a two-year holding period for Future Builder awards, meaning that shares will not normally be released until five years after grant;
- Shareholding guidelines increased from 1.5 times to 2.0 times salary for Executive Directors (CEO will remain at 2.5 times);
- Reduction in retirement benefits for any future appointment from 30 per cent to 25 per cent; and
- Strengthened recovery provisions (malus and clawback).

It is important for senior executive pay to be performance-based and to encourage sustainable long-term value for our shareholders. It is also in shareholders' interests for the Company to be able to attract and retain the talented leaders required to deliver strong performance in challenging markets.

However, as a business with around 195,000 colleagues, we are also acutely aware of the wider context in which the Committee makes key decisions. We continue to consider wider colleague reward when determining pay arrangements for the Executive Directors, and this remains a fundamental part of our approach to pay. There is a strong focus on core values across the business, and this is reflected in the strategy. Taking a responsible and sustainable approach to business is a defining characteristic of the Sainsbury's culture and this extends to the approach to executive remuneration.

Looking ahead

Salary review

In line with our policy, we have followed our normal approach to the review of salaries for the Executive Directors and have awarded both Mike Coupe and John Rogers a salary increase of 1.5 per cent effective March 2017, in line with other management colleagues. Kevin O'Byrne, who joined the Board as Chief Financial Officer in January 2017, was not eligible for an increase given his start date.

2016 and 2017 Future Builder

As we communicated in last year's Report, the setting of performance criteria for the Future Builder award granted in May 2016 was delayed to ensure the measures and targets were relevant and meaningful in the context of the enlarged Group following the acquisition of Home Retail Group plc. The Committee ultimately decided that synergy targets should be added to the Future Builder to complement the existing Return on Capital Employed, Earnings Per Share, cash flow and costs savings measures. Details of these targets were published on our website during the year and are also set out in this year's Remuneration Report on page 83.

The Committee has decided to retain this performance framework for awards to be granted during 2017, based on performance through to March 2020. We have recalibrated the ROCE targets in order to provide realistic but stretching goals reflecting the current and future prospects of the business as well as the retail sector as a whole over the next three years. The cost saving and synergy ranges have also been updated based on stated objectives over the period. Overall these provide an appropriately stretching incentive for participants. Further detail of targets for 2017 awards are set out on page 82.

The 2017 AGM

The Remuneration Committee remains firmly committed to the principle of pay for performance, ensuring that rewards for the senior leadership team are aligned with the experience of long-term shareholders, while also considering the pay and benefits of our wider workforce.

In line with the UK reporting regulations, the Directors' Remuneration Policy will be put to a binding vote and the Annual Report on Remuneration will be put to an advisory vote at the AGM on 5 July 2017.

Finally, as you will be aware, this is my last letter to you as Remuneration Committee Chairman as I am stepping down from the Board at the AGM. It has been a pleasure to work with an organisation such as Sainsbury's and I know that Susan Rice will be an excellent Remuneration Committee Chairman as she takes up the position from July 2017.

Mary Harris
Chairman, Remuneration Committee

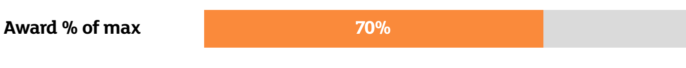
"The Remuneration Committee remains firmly committed to the principle of pay for performance, ensuring that rewards for the senior leadership team are aligned with the experience of long-term shareholders."

Mary Harris

Summary of 2016/17 remuneration decisions

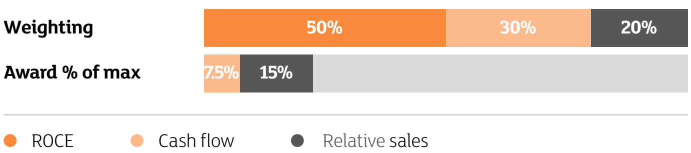
Pay element	2016/17 decisions
Salary	— Mike Coupe – £929,486 and John Rogers – £685,125 – salary increase of 1.5 per cent in March 2016, in line with other management and central colleagues. — Kevin O'Byrne – £625,000 – on appointment as Chief Financial Officer on 9 January 2017.
Annual bonus **No payout to the Executive Directors**	— No payment was made in relation to the annual bonus for 2016/17, reflecting overall business performance. Full details of the bonus measures can be found on page 80. — For 2015/16 the bonus outturn was 76 per cent of the maximum for Mike Coupe and 78 per cent of the maximum for John Rogers.
Deferred Share Award **Award of 70 per cent of max**	— Performance assessed taking into account financial performance, returns to shareholders, relative performance against peers and strategic goals. — Financial targets partially met. — Good relative performance in terms of price, quality and service. — Dividend paid ahead of listed peers. — Significant progress against strategic goals; the acquisition of Home Retail Group plc has accelerated the Company's strategy. — For 2015/16 the DSA paid out at 80 per cent of the maximum.

Deferred Share Award



Pay element	2016/17 decisions
LTIP/Future Builder **Vesting 22.5 per cent of max**	— The Future Builder, based on performance to March 2017, will vest at 22.5 per cent of the maximum. Partial vesting was achieved under the cash flow and relative sales elements. — For the past two years, there has been no vesting of awards.

Future Builder



Total Remuneration

		Mike Coupe £000 2016/17	Mike Coupe £000 2015/16	John Rogers £000 2016/17	John Rogers £000 2015/16	Kevin O'Byrne £000 2016/17[2]
Fixed pay	Salary	**929**	916	**685**	650	**108**
	Benefits	**17**	38	**66**[1]	17	**3**
	Pension	**279**	275	**171**	163	**27**
Performance-related pay	Annual bonus	**–**	767	**–**	472	**–**
	Deferred Share Award	**716**	806	**432**	486	**–**
	LTIP/Future Builder	**408**	–	**245**	–	**–**
Total pay		**2,349**	2,802	**1,599**	1,788	**138**

1 John Rogers' benefits for 2016/17 include costs associated with accommodation in and travel to Milton Keynes following his appointment as CEO of Sainsbury's Argos.
2 Kevin O'Byrne was appointed on 9 January 2017.

Summary of 2017/18 Remuneration Policy

This section summarises the key changes to the Remuneration Policy since it was last approved in 2014, and how it will be implemented for 2017/18. The full policy is set out on pages 88 to 94.

Implementation for 2017/18

<table>
<tr><th>Pay element</th><th>Summary of policy</th><th>Approach for 2017/18</th></tr>
<tr><td>Salary
Increase in line with colleagues</td><td>Salaries are set taking into consideration a range of internal and external factors. Increases are normally in line with those for the wider workforce.</td><td>Mike Coupe and John Rogers received salary increases of 1.5 per cent in March 2017 in line with other management and central colleagues.
The 2017/18 salaries are:
— Mike Coupe – £943,428
— John Rogers – £695,402
— Kevin O'Byrne – £625,000</td></tr>
<tr><td>Benefits</td><td>Range of benefits provided in line with market practice and reflecting individual circumstances.</td><td>No changes to current arrangements.</td></tr>
<tr><td>Retirement benefits
Reduction in pension for future appointments</td><td>Participation in either the Company defined contribution plan and/or a cash salary supplement. The maximum value is 30 per cent of salary for existing Executive Directors. For new appointments the maximum value is being reduced under the new Policy from 30 per cent of salary to 25 per cent.</td><td>No changes to salary supplement in lieu of pension for Mike Coupe (30 per cent of salary), John Rogers (25 per cent of salary) and Kevin O'Byrne (25 per cent of salary).</td></tr>
<tr><td>Annual bonus
No change to quantum and general structure</td><td>Based on key financial 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.</td><td>Performance is based on profit, sales, customer and individual performance. Profit accounts for at least half of the bonus.
The maximum bonus for 2017/18 is:
— Mike Coupe – 110 per cent of salary
— John Rogers – 90 per cent of salary
— Kevin O'Byrne – 90 per cent of salary</td></tr>
<tr><td>Deferred Share Award
No change to quantum and general structure</td><td>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 share awards deferred for two financial years.
Maximum opportunity of up to 125 per cent of salary per annum.</td><td>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.
The maximum award for 2017/18 is:
— Mike Coupe – 110 per cent of salary
— John Rogers – 90 per cent of salary
— Kevin O'Byrne – 90 per cent of salary</td></tr>
<tr><td>LTIP/Future Builder
Additional holding period
No change to quantum</td><td>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.
For awards granted from 2017 onwards, a two-year holding period applies following the end of the three-year performance period.
Maximum award of up to 250 per cent of salary per annum.</td><td>Awards are structured as core awards, with a performance multiplier of up to four times. The 2017/18 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)
— Kevin O'Byrne – core award of 50 per cent of salary (max 200 per cent)
The targets for 2017 awards are as follows:
<table>
<tr><th>Measure</th><th>Weighting</th><th>Threshold target (1.0x core award)</th><th>Maximum target (4.0x core award)</th></tr>
<tr><td>Return on capital employed (ROCE)</td><td>20%</td><td>8%</td><td>11%</td></tr>
<tr><td>Underlying basic earnings per share (EPS)</td><td>20%</td><td>23p</td><td>30p</td></tr>
<tr><td>Cumulative underlying cash flow from retail operations after capex (cash flow)</td><td>20%</td><td>£3,500m</td><td>£5,150m</td></tr>
<tr><td>Cumulative strategic cost savings (cost savings)</td><td>20%</td><td>£450m</td><td>£550m</td></tr>
<tr><td>HRG acquisition synergies (synergies)</td><td>20%</td><td>£160m</td><td>£200m</td></tr>
</table></td></tr>
<tr><td>Shareholding guidelines
Increased guidelines</td><td colspan="2">The Executive Directors are required to build a significant shareholding in the Company. For the CEO this remains at 2.5 x salary, while for other Executive Directors this has increased to 2.0 x salary (from 1.5 x salary).
The shareholding guidelines are now aligned with the maximum grant levels for Future Builder awards.</td></tr>
<tr><td>Recovery provisions
Strengthened provisions</td><td colspan="2">The Executive Directors' incentive arrangements are subject to malus and clawback.</td></tr>
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Annual Report on Remuneration

Remuneration principles

Our colleagues are a key part of the Company's strategy and our 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:

The Committee takes a rounded approach to pay and considers a variety of factors when determining, and subsequently implementing, the policy for senior executives. It believes it is important to exercise sound 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.

Linked to business strategy	**Supports Sainsbury's values**	**Drives long-term growth**	**Secures high calibre leaders**	**Encourages share ownership**
Specifically built around our strategy	Aligned to the Company's values as outlined in our Sustainability Plan	Encourages the right behaviours to deliver long-term growth	Recruit and retain high calibre leaders who can deliver operational excellence	Enables executives to become shareholders in the Company

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 11 March 2017, together with comparative figures for the 52 weeks to 12 March 2016.

		Mike Coupe £000		John Rogers £000		Kevin O'Byrne £000
	Notes	**2016/17**	2015/16	**2016/17**	2015/16	**2016/17**
Base salary	1	**929**	916	**685**	650	**108**
Benefits	2	**17**	38	**66**	17	**3**
Pension		**279**	275	**171**	163	**27**
Total fixed pay		***1,225***	*1,229*	***922***	*830*	***138***
Annual bonus	3	**–**	767	**–**	472	**–**
Deferred Share Award	4	**716**	806	**432**	486	**–**
Long-Term Incentive Plan	5	**408**	–	**245**	–	**–**
Total		**2,349**	2,802	**1,599**	1,788	**138**

1 Kevin O'Byrne was appointed on 9 January 2017. His full-year salary will be £625,000.
2 Benefits include a combination of cash and non-cash benefits, valued at the taxable value. For Mike Coupe, John Rogers and Kevin O'Byrne this includes a cash car allowance (£15,250) and private medical cover. For John Rogers this also includes an annual travel allowance of £6,500 per annum and accommodation costs of £45,647 per annum in relation to a change of location to Milton Keynes following his appointment as CEO of Sainsbury's Argos. Also included is a value for Sharesave options based on a 20 per cent discount on the savings in the year.
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 value relates to the Future Builder award vesting in May following the end of the relevant financial year, which is the third year of the performance period. 50 per cent of the shares are released in May after the end of the relevant performance period and the balance one year later. The figures include accrued dividends over the performance period. The 2015/16 awards lapsed. The 2016/17 awards are based on the average share price over the fourth quarter for 2016/17 of £2.632.
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 £50,000 (2015/16: £45,744) for his services during 2016/17. John Rogers was appointed a Non-Executive Director of Travis Perkins plc on 1 November 2014 and received £57,052 (2015/16: £56,240) for his services during the year. Kevin O'Byrne was appointed as a Non-Executive Director of Land Securities plc on 1 April 2008 and received £15,041 for his services since his appointment as Chief Financial Officer on 9 January 2017.

Base salary

	Salary as at 2016/17 year-end	Salary effective from 12 March 2017
Mike Coupe	£929,486	£943,428
John Rogers	£685,125	£695,402
Kevin O'Byrne	£625,000	£625,000

When considering salaries the Committee takes account of a number of factors, with particular focus on the general level of salary increases awarded throughout the Company. The salary review for management and central colleagues in March 2017 was generally 1.5 per cent and for Sainsbury's hourly-paid retail colleagues in August 2016 was 4.0 per cent. Where relevant, the Committee also considers external market data on salary and total remuneration but the Committee applies judgement when considering such data. For 2017/18 both Mike Coupe and John Rogers will receive a salary increase of 1.5 per cent effective March 2017 in line with other management colleagues. Kevin O'Byrne, who joined the Board as CFO in January 2017, was not eligible for an increase given his start date.

Pension

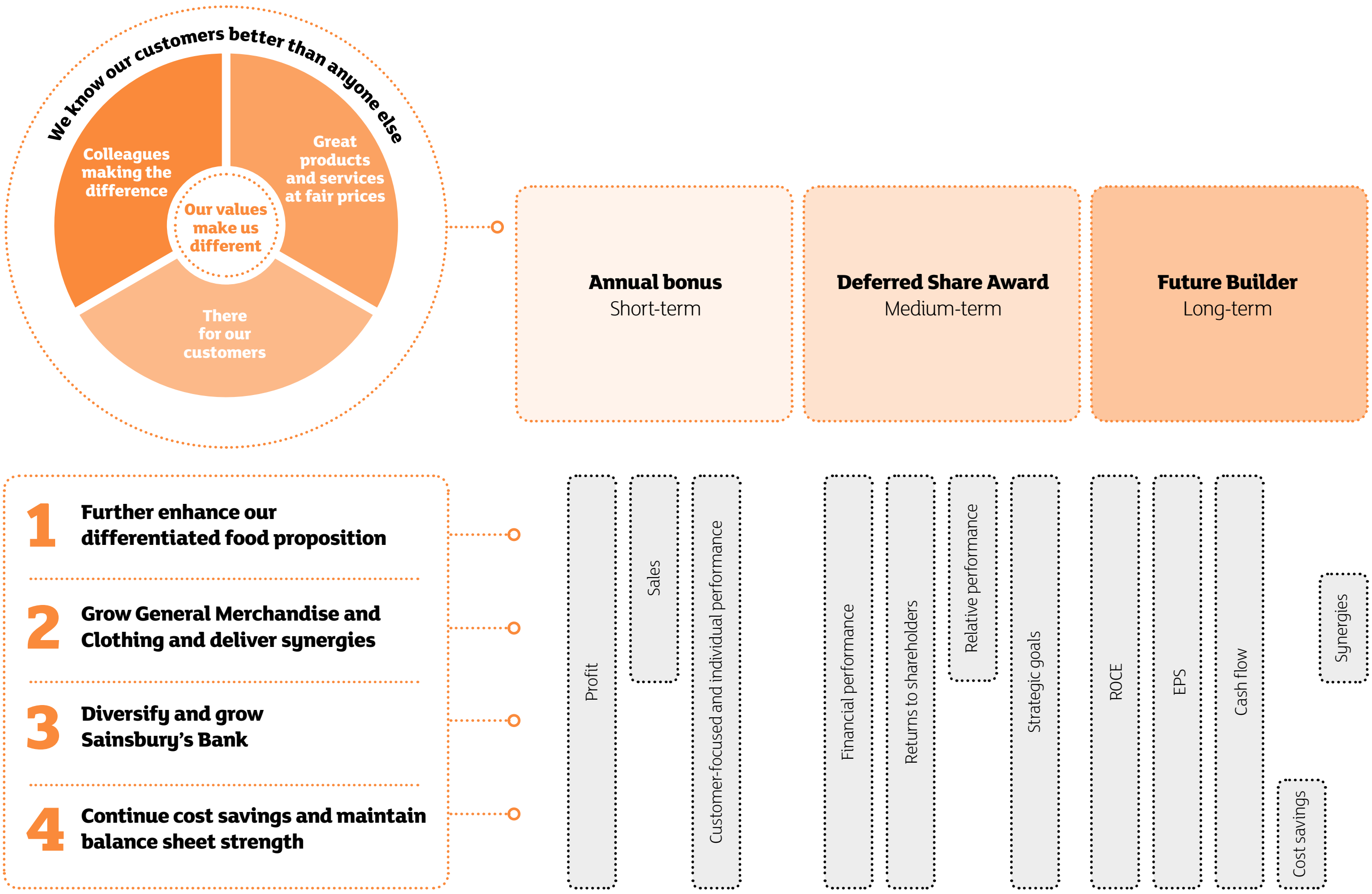
In lieu of pension plan participation, Mike Coupe receives a cash pension supplement of 30 per cent of salary and John Rogers and Kevin O'Byrne receive 25 per cent of salary. No Director has any entitlement to a Sainsbury's defined benefit pension.

Benefits

For 2016/17 and 2017/18, benefits for Executive Directors include the provision of company car benefits, private medical cover, long-term disability insurance, life assurance and colleague discount. Benefits for John Rogers also include an annual travel allowance and accommodation costs in relation to a change of location to Milton Keynes following appointment as CEO of Sainsbury's Argos.

Performance-related pay

The Committee believes it is important that a significant portion of the Executive Directors' 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 specific metrics incorporated into the annual bonus, Deferred Share Award and Future Builder are built around the overall strategy and our key priorities.



The Board is of the opinion that the performance targets for the 2017/18 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, in line with last year, the Company is retrospectively disclosing the financial performance targets set for the 2016/17 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. Targets for Future Builder awards have been disclosed on a prospective basis.

Annual bonus

2017/18 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. For the most senior executives, at least 50 per cent of the award is weighted towards the achievement of profit under the current structure. A performance gateway also has to be achieved in order to trigger a payment of any awards. 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. The targets are set such that considerably stretching performance in excess of internal and external forecasts is required for maximum payout.

The customer-focused measure is based on a customer satisfaction index, which is a survey operated by a third party, that assesses the satisfaction of Sainsbury's customers shopping 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 value.

The maximum annual bonus award opportunity for the Chief Executive is 110 per cent of base salary and for the other Executive Directors is 90 per cent of base salary. The weighting of each measure is shown in the table below.

	Maximum opportunity as per cent of salary	
	CEO	Other Executive Directors
Profit	60%	45%
Sales	10%	10%
Customer-focused and individual performance	40%	35%
Total	**110%**	**90%**

2016/17 annual bonus payment (audited information)

The performance measures for 2016/17 were the same as outlined above for 2017/18.

Overall financial results for the year were good in the context of a challenging and competitive trading environment. However, the profit and sales outcomes were below the threshold performance hurdles due to the stretch of the targets. The targets were set at the beginning of the financial year prior to the acquisition of Home Retail Group plc and so performance has been measured excluding the impact of the transaction to allow for a comparison on a like-for-like basis. The table below sets out the threshold and stretch profit and sales targets and the actual outturn for 2016/17.

	Threshold	Stretch	Actual
Profit[1]	£540m	£640m	£502m
Sales[2]	£25,919m	£26,119m	£25,595m

1 Underlying profit before tax, excluding Home Retail Group plc, and derived from Group Profit minus Argos business as usual profit and synergies.
2 Total sales including VAT and duty, including petrol sales, excluding Argos and Sainsbury's Bank. Petrol volumes and prices held constant to remove the effect of fuel volatility on sales.

Both Mike Coupe and John Rogers exceeded a number of their customer-focused and individual performance objectives set at the start of the year, with strong progress made on executing the key strategic priorities.

Following the end of the financial year, the Committee reviewed performance and determined that the business results in absolute terms did not warrant the payment of a cash bonus to the Executive Directors. While no bonus is payable to the Executive Directors, colleagues across the Group shared in a bonus of £78 million, reflecting their contribution throughout the year.

Deferred Share Award

2017/18 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 with shareholders.

The DSA covers broadly the top 50 senior leaders in the Company, including Executive Directors. Performance is assessed in the round based on the Committee's judgement of performance against a number of measures within four broad categories. The categories and examples of the measures that will be reviewed for 2017/18 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	*Proposition, channels, 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 performance 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 other Executive Directors is 90 per cent of base salary.

2016/17 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.

2016/17 continued to be a challenging year for retailers and the Company only partially met its financial targets. However, the Company performed well against its peers in terms of price, quality, service and dividends paid. It also made significant progress against our strategic goals with the acquisition of Home Retail Group plc which will accelerate our strategy. The Committee, therefore, agreed that for 2016/17 awards would be made at 70 per cent of the maximum level, compared with 80 per cent last year. It also determined that the profit gateway for the plan was achieved. 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.

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 2016/17 financial year and the shares vest in March 2019 subject to continued employment.

	Maximum opportunity	Outcome	
	Per cent of salary	Per cent of salary	Value £000
Mike Coupe	110%	77%	£716
John Rogers	90%	63%	£432

2016/17 Deferred Share Award performance

Financial performance

- Underlying profit before tax of £581 million
- Groceries Online sales growth of over eight per cent and order growth of around 12 per cent
- General Merchandise (excluding Argos) sales growth of over two per cent
- Clothing growth of over four per cent
- Convenience sales growth of over six per cent

Returns to shareholders

- Five-year Total Shareholder Return ahead of listed peers
- Dividends paid to shareholders outperform listed peers and maintain dividend cover of 2.0x underlying earnings
- Underlying basic EPS of 21.8 pence per share

Relative performance against peers

- Competitive price position with lower regular prices
- Market share performance in line with big four supermarket peers
- Outperformance of product quality perception relative to our peers

Strategic goals

1 Further enhance our differentiated food proposition

- Successful completion of quality investment programme with over 3,000 own-brand products new or improved
- Successful implementation of simplified pricing strategy, reinvesting in everyday lower prices
- 151 Grocery click and collect sites now open
- Industry-leading service and availability, with 17 Grocer 33 wins and a third consecutive Investors in People Gold accreditation
- Outperformance of product quality perception relative to our peers

2 Grow General Merchandise and Clothing and deliver synergies

- Acquisition of Home Retail Group plc completed in September 2016
- Delivery of £7 million of synergies, against a target of £0 to £5 million
- Rolled out revised General Merchandise and Clothing format in 16 stores
- General Merchandise (excluding Argos) growth of over two per cent, Clothing growth of over four per cent
- Sixth largest clothing retailer by volume with eight million customers
- 39 Argos Digital stores opened this year in our supermarkets
- Rolled out 207 digital collection points, including 90 Argos Click and Collect counters
- Argos is the third most-visited e-commerce website in the UK

3 Diversify and grow Sainsbury's Bank

- Successful migration to new banking platform
- Successful integration of Argos Financial Services, enhancing the product portfolio for customers
- ATM estate growth of five per cent
- Website visits increased by 34 per cent
- Travel money transactions up 25 per cent
- Good financial performance with an operating profit of £62 million

4 Continue cost savings and maintain balance sheet strength

- £130 million of cost savings delivered and on track to deliver three-year target of £500 million
- Optimising store replenishment processes
- Better use of warehouse capacity
- Unlocking shareholder value from Pharmacy sale
- Net debt reduction of £349 million since 2016 from improved working capital and Home Retail Group plc acquisition

Long-term incentives

2017/18 policy

The long-term incentive plan operated at Sainsbury's is known as Future Builder. Around 250 senior managers across the business participate in this arrangement. Awards were originally granted under the Long-Term Incentive Plan approved by shareholders in 2006. A renewed Long-Term Incentive Plan was approved by shareholders at the 2016 AGM, which is now being used.

Future Builder awards have been granted under the same structure for a number of years. A core award of shares is granted, generally calculated as a percentage of salary and scaled according to level of seniority. Vesting of the core award is dependent on performance against specific targets (common for all participants) tested at the end of a three-year performance period. The core awards can grow up to four times at stretch levels of performance.

Historically, awards have been structured so that half of any awards vest following the end of the performance period, with the remaining half vesting after a further year. For awards granted to Executive Directors from 2017 onwards, awards will normally be subject to a new two-year holding period following the end of the three-year performance period. This will result in future awards to Executive Directors normally only being released five years after grant.

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. The Committee believes that having a gateway is an important feature of the plan and mitigates the risk of unwarranted vesting outcomes. This gateway applies to all outstanding Future Builder awards.

2017 Future Builder awards (2017/18 to 2019/20 performance period)

Award levels will remain unchanged for the coming year. In 2017 Mike Coupe will receive a core award of 62.5 per cent of salary (maximum 250 per cent of salary) and the other Executive Directors will receive core awards of 50 per cent of salary (maximum 200 per cent of salary).

The 2017 awards will be subject to the same scorecard of metrics used for the 2016 awards. The Committee consulted with major shareholders regarding the targets for 2017 awards and the proposed target ranges were subsequently updated to reflect shareholder feedback. The cost savings and synergies targets for 2017 have been updated to align with the strategy communicated to shareholders for the period to March 2020. The ROCE targets have also been recalibrated in order to provide realistic but stretching goals reflecting the current and future prospects of the business as well as the retail sector as a whole over the next three years. Overall the Committee is of the view that these targets provide an appropriately stretching incentive for participants. The agreed measures, targets and weightings for 2017 awards are as follows:

Measure	Weighting	Threshold target (1.0x core award)	Maximum target (4.0x core award)
ROCE	20%	8%	11%
Underlying basic EPS	20%	23p	30p
Cumulative underlying cash flow from retail operations after capex	20%	£3,500m	£5,150m
Cumulative strategic cost saving	20%	£450m	£550m
Home Retail Group plc acquisition synergies	20%	£160m	£200m

2014 Future Builder (2014/15 to 2016/17 performance period) (audited information)

The 2014 Future Builder award was subject to ROCE, cash flow and relative sales performance targets, excluding Argos. In addition, a performance gateway must be achieved before any element could vest.

The following table sets out the extent to which each performance measure was achieved and this resulted in a performance multiplier of 0.9x which is applied to the core award, i.e. 22.5 per cent of the maximum available award vested.

	Weighting	Threshold target (1.0x core award)	Maximum target (4.0x core award)	Achieved	Multiplier achieved
ROCE	50%	10.75%	12.00%	7.97%[1]	0.0x
Cumulative underlying cash flow from retail operations[2]	30%	£5,750m	£6,750m	£5,802m	0.3x
Relative sales v IGD Index[3]	20%	Match Index	Index + 1.0% p.a.	+0.6%	0.6x
Performance gateway	The Remuneration Committee must be satisfied that the Company's underlying performance over the period justifies the level of vesting.			Achieved	
			Total		**0.9x out of a max of 4.0x**

1 Figure relates to Group ROCE including Argos excluding pension fund deficit, while the targets exclude Argos.

2 Cumulative underlying cash flow from retail operations excluding Argos based on the reported cash flow generated from core retail operations over the performance period after adding back net rent and cash pension costs and adjusted for the cash impact of non-underlying items. Only core retail operations are included in recognition of the differences in cash generation between the retail business and Sainsbury's Bank.

3 Relative sales performance is measured using the IGD Index (IGD Market Track) adjusted to reflect the constituents at the start of the performance period. The Index measures growth in like-for-like sales (excluding fuel and Argos) across the market based on the performance of all of the Company's key competitors. This is an independent index of sales efficiency, which is viewed as a robust reference point for performance across the food retail sector.

2015 Future Builder (2015/16 to 2017/18 performance period)

Following the acquisition of Home Retail Group plc in September 2016, the targets will be assessed based on performance of the enlarged Group. After a detailed review, the Committee is satisfied that the targets originally set for this award remain appropriately stretching and that no adjustments are required. The Committee will continue to keep the targets under review in light of the acquisition of Home Retail Group plc. Appropriate disclosure of any adjustments necessary to ensure performance is assessed on a fair and consistent basis will be provided in next year's report.

Measure	Weighting	Threshold target (1.0x core award)	Maximum target (4.0x core award)
ROCE	25%	9%	12%
Underlying basic EPS	25%	23p	30p
Cumulative underlying cash flow from retail operations after capex	25%	£3,500m	£5,150m
Cumulative strategic cost saving	25%	£450m	£600m

2016 Future Builder awards (2016/17 to 2018/19 performance period)

Measure	Weighting	Threshold target (1.0x core award)	Maximum target (4.0x core award)
ROCE	20%	9%	12%
Underlying basic EPS	20%	23p	30p
Cumulative underlying cash flow from retail operations after capex	20%	£3,500m	£5,150m
Cumulative strategic cost savings	20%	£350m	£450m
Home Retail Group acquisition synergies	20%	£100m	£150m

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, including Sainsbury's Argos and Habitat, 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.

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 and synergies.

Synergies
- Synergies represent the value driven from combining the J Sainsbury plc and Home Retail Group plc businesses since the acquisition in September 2016. The delivery of synergies was a key part of the deal.
- The target represents the EBITDA synergies delivered by the end of the three-year 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	£2,323,715	20% of each element	876,940	09/03/2019
	DSA[2]	88% of salary	£805,860	n/a	304,121	n/a
John Rogers	Future Builder[1]	200% of salary	£1,370,250	20% of each element	517,112	09/03/2019
	DSA[2]	72% of salary	£486,000	n/a	183,410	n/a
Kevin O'Byrne	Future Builder[1]	200% of salary	£1,250,000	20% of each element	479,660	09/03/2019
	DSA[2]	–	–	–	–	–

1 The performance conditions applying to 2016 Future Builder awards are set out on page 83. The basis of award shows the maximum value, being four times the core award. The awards for Mike Coupe and John Rogers were made on 12 May 2016 and the number of shares has been calculated using the five-day average share price prior to grant (5 to 11 May 2016) of £2.6498. The award for Kevin O'Byrne was made on 26 January 2017 and the number of shares has been calculated using the five-day average share price prior to grant (19 to 25 January 2017) of £2.6060. Subject to performance, 50 per cent of the award vests on 12 May 2019 and 50 per cent 12 months later. The award is structured as a nil-cost option with an exercise period of up to two years.

2 The DSA was made on 12 May 2016 based on performance over the 2016/17 financial year. The award was made at 80 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 (5 to 11 May 2016) of £2.6498. No further performance conditions apply. Awards become exercisable on 16 March 2018. The award is structured as a nil-cost option with an eight-year exercise period.

Summary of remuneration arrangements for Kevin O'Byrne

Kevin O'Byrne was appointed as Chief Financial Officer of J Sainsbury plc on 9 January 2017 following John Rogers' appointment as CEO of Sainsbury's Argos.

Kevin was not eligible to receive a 2016/17 annual bonus or Deferred Share Award. He was awarded a 2016 Future Builder award with a maximum value of 200 per cent of salary shortly after appointment. The operation and structure of the award is in line with other participants and will vest at the normal time of 50 per cent in May 2019 and the remainder in May 2020. This performance based award is to compensate Kevin for remuneration forfeited on leaving his previous employment and is in line with our recruitment policy. The Committee is satisfied that this award is of comparable commercial value to the award which is being bought-out.

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 2016/17 financial year. Further details of the movements of the Executive Directors' share awards during the year are set out on page 87.

	Ordinary shares[1]			Scheme interests[3]			
	12 March 2016	11 March 2017	2 May 2017[2]	Deferred Share Awards[4]	Future Builder awards with performance period completed[5]	Future Builder awards with performance period outstanding[6]	SAYE
Mike Coupe	1,068,515	1,143,027	1,143,027	470,028	0	2,305,556	4,518
John Rogers	560,226	660,145	660,232	285,075	0	1,318,524	6,302
Kevin O'Byrne[7]	0	180,000	180,000	0	0	479,660	0

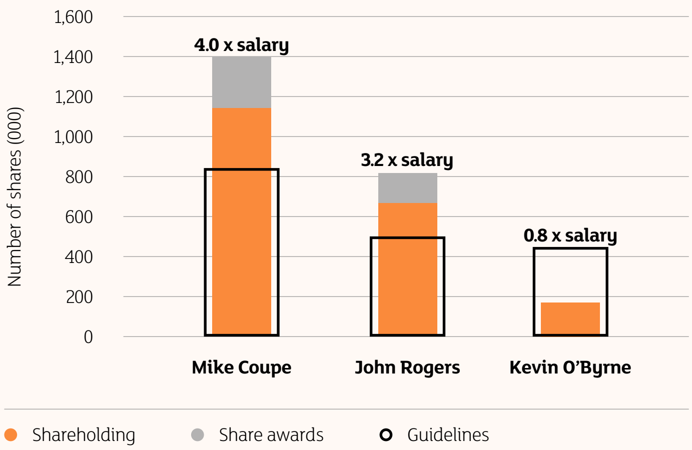
1 Ordinary shares are beneficial holdings which include the Directors' personal holdings and those of their spouses and minor children. They also include the beneficial interests in shares which are held in trust under the Sainsbury's Share Purchase Plan.
2 The total includes shares purchased under the Sainsbury's Share Purchase Plan between 11 March 2017 and 2 May 2017.
3 Deferred Share Awards and Future Builder awards are structured as nil-cost options.
4 Relates to 2014/15 and 2015/16 Deferred Share Awards.
5 The 2012 and 2013 Future Builder awards lapsed and therefore no value is shown.
6 Relates to 2014, 2015 and 2016 Future Builder awards (maximum) where the performance period has not ended. As noted above, following the year-end, the 2014 award will vest at 22.5 per cent of maximum.
7 12 March 2016 figure relates to 9 January 2017 when Kevin O'Byrne joined the Board.
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 1.0 million shares (2016: 7.9 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 have been updated for the 2017 Directors' Remuneration Policy and continue to require the Chief Executive to have a holding of 2.5 times salary while the other Executive Directors are now required to hold 2.0 times salary. Directors are expected to build this shareholding within five years of appointment to the relevant role. In addition to shares held, share awards under the DSA and Future Builder awards where the performance period has ended count towards the guideline (on a net of tax basis).

Both Mike Coupe and John Rogers have shareholdings that meet and significantly exceed the current shareholding guideline. Kevin O'Byrne was appointed to the Board in January 2017 and will be expected to build his shareholding during the course of his tenure.

Shareholding guidelines

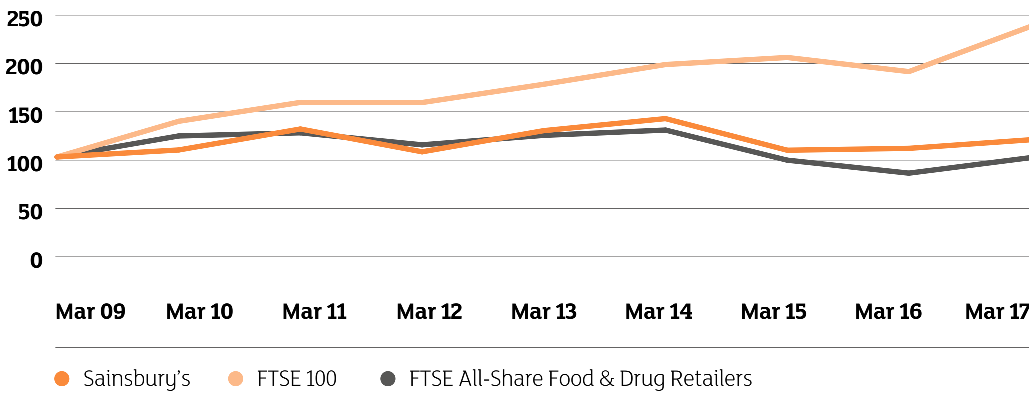


Shareholding calculated using (i) salaries as at 11 March 2017, (ii) share total based on total of shareholding plus net of tax value (tax assumed to be 47 per cent) of share awards not subject to performance as at 11 March 2017 and (iii) the closing mid-market share price on 10 March 2017 of £2.664.

Performance and CEO remuneration

The graph shows the TSR performance of an investment of £100 in J Sainsbury plc shares over the last eight 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



	CEO	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15[1]	2015/16	2016/17
Single figure remuneration £000	M Coupe:						1,507	2,802	2,349
	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%	35%
	J King:	92%	65%	61%	84%	73%	0%		
LTIP vesting percentage of maximum	M Coupe:						0%	0%	22.5%
	J King:	80%	48%	43%	44%	40%	0%		

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

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. Participation in Sharesave is conditional on three months' service. Executive Directors may participate in these plans in the same way as all other colleagues. Mike Coupe participates in Sharesave and John Rogers participates in SSPP. 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 2011 Sharesave plan (five-year), with a £2.38 option price, and the 2013 Sharesave plan (three-year), with a £3.32 option price, came to an end on 1 March 2017 for over 11,500 colleagues. Colleagues could either take their savings 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 £19.3 million. The Company currently has over 32,500 colleagues participating in Sharesave with around 58,500 individual savings contracts.

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 2015/16 and 2016/17 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]	1.5%	0%	n/a
All colleagues[2]	4.0%	15.6%	(37.9)%

1 The bonus per cent change relates to the cash annual bonus and there was no payment in 2016/17.
2 Figures relate to average based on number of full-time equivalent colleagues and the 2016/17 figures reflect the Home Retail Group plc acquisition.

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 11 March 2017, an estimated 7.8 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 2.6 per cent over ten years in respect of its executive share plans. This is on the basis that all outstanding awards vest in full.

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 28 to the financial statements) and distributions to shareholders (being declared dividends).

Colleague pay			Distribution to shareholders		
2015/16 £m	2016/17[1] £m	% change	2015/16 £m	2016/17 £m	% change
2,541	2,878	13.3%	234	232	(0.9)%

1 The 2016/17 figures reflect the Home Retail Group plc acquisition.

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 11 March 2017 for each Non-Executive Director, together with comparative figures for the 52 weeks to 12 March 2016.

	2016/17			2015/16		
	Fees[1] £000	Benefits[2] £000	Total £000	Fees[1] £000	Benefits[2] £000	Total £000
David Tyler	500	1	501	495	1	496
Matt Brittin	65	–	65	64	–	64
Brian Cassin[3]	62	1	63	–	–	–
Mary Harris	84	3	87	82	4	86
David Keens[4]	84	6	90	68	–	68
John McAdam[5]	27	–	27	82	–	82
Susan Rice	78	15	93	64	14	78
Jean Tomlin	78	–	78	76	2	78

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 Brian Cassin was appointed to the Board on 1 April 2016.
4 David Keens was appointed to the Board on 29 April 2015.
5 John McAdam stepped down from the Board on 6 July 2016.

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 61.

During the year, the Chairman and Non-Executive Directors' fees were reviewed, but no changes were made.

	Fees effective from 27 September 2015
Chairman fee	£500,000
Base fee	£65,000
Senior Independent Director fee (additional)	£18,500
Chairman of Remuneration Committee fee (additional)	£18,500
Chairman of Audit Committee fee (additional)	£18,500
Chairman of Corporate Responsibility and Sustainability Committee fee (additional)	£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]		
	12 March 2016	11 March 2017	2 May 2017
David Tyler	50,000	75,000	75,000
Matt Brittin	1,000	14,090	14,090
Brian Cassin[2]	–	25,000	25,000
Mary Harris	13,252	27,446	27,446
David Keens	100,000	100,000	100,000
Susan Rice	1,000	4,000	4,000
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 1 April 2016 when Brian Cassin was appointed as a Director.

Directors' appointment dates

Mike Coupe	1 August 2007 (appointment as Chief Executive 9 July 2014)
John Rogers	19 July 2010
Kevin O'Byrne	9 January 2017
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
Susan Rice	1 June 2013
Jean Tomlin	1 January 2013

Governance – Remuneration Committee

Committee membership

The Remuneration Committee during the year comprised Mary Harris (Chairman), John McAdam (until 6 July 2016), Susan Rice and Jean Tomlin. All members of the Committee are independent Non-Executive Directors. Susan Rice will take over as Chairman at the AGM on 5 July 2017 having been a Committee member since September 2015.

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 (Head of Reward) and Ed Barker (Director of Group Finance) are invited to attend Committee 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.

The Committee typically meets four times each year, or more as required. 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 key issues the Committee discussed during the year were remuneration arrangements in relation to changes on the Operating Board, the impact of the acquisition of Home Retail Group plc on incentives, a review of long-term incentive arrangements and the 2017 Directors' Remuneration Policy.

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, incentive plan rules and the Remuneration Policy. Their consultants attended all of the Committee meetings. In relation to their advice, Deloitte received fees of circa £170,000 (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.

Deloitte 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 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 2016 AGM and the Directors' 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 (2016 vote)	98.77% 1,277 million	1.23% 15.8 million	36.0 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 at 12 March 2016	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 (£000)[6]	Number of options held at 11 March 2017
Mike Coupe	Long-Term Incentive Plan[1]	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
		12/05/2016	253	Nil	–	876,936	–	–		–	–	–	876,936
	Deferred Share Award[2]	15/05/2014	333	Nil	126,561	14,278	140,839	–	05/05/2016	269	140,839	379	–
		14/05/2015	269	Nil	165,907	–	–	–		–	–	–	165,907
		12/05/2016	253	Nil	–	304,121	–	–		–	–	–	304,121
	Sharesave[3]	11/12/2013	388	332	4,518	–	–	–		–	–	–	4,518
	Total				**2,031,590**	**1,195,335**	**140,839**	**305,984**			**140,839**	**379**	**2,780,102**
John Rogers	Long-Term Incentive Plan[1]	19/05/2011	343	Nil	62,975	–	–	–	05/05/2016	269	62,975	169	–
		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
		12/05/2016	253	Nil	–	517,112	–	–		–	–	–	517,112
	Deferred Share Award[2]	15/05/2014	333	Nil	112,115	12,647	124,762	–	05/05/2016	269	124,762	336	–
		14/05/2015	269	Nil	101,665	–	–	–		–	–	–	101,665
		12/05/2016	253	Nil	–	183,410	–	–		–	–	–	183,410
	Sharesave[3]	09/12/2011	297	238	6,302	–	–	–		–	–	–	6,302
	Total				**1,355,525**	**713,169**	**124,762**	**271,056**			**187,737**	**505**	**1,609,901**
Kevin O'Byrne	Long-Term Incentive Plan[1]	26/01/2017[5]	261	Nil	–	479,660	–	–		–	–	–	479,660
	Total					**479,660**							**479,660**

1 Details of the performance conditions applying to Future Builder awards are set out on pages 82 to 83. The LTIP share figures relate to the maximum that could be achieved.
2 See pages 80 to 81 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 Details of Kevin O'Byrne's 2016 Future Builder are set out on page 84.
6 This is the notional gain on the date of exercise had all shares been sold.

Directors' Remuneration Policy

The following section sets out our Directors' Remuneration Policy. This policy is subject to a binding shareholder vote at the AGM on 5 July 2017 and, if approved, will be effective from this date.

Changes to the Remuneration Policy

Although the policy is being renewed, the key features remain unchanged from the policy previously approved by shareholders in 2014. As part of the review minor amendments have been made to reflect evolving market and best practice. These include:

- The introduction of a two-year holding period on Future Builder awards granted from 2017 onwards, which means future awards will normally be released five years after the grant date;
- Shareholding guidelines for Executive Directors, other than the CEO, are increased to 2.0 times salary, with the requirement for the CEO remaining at 2.5 times salary;
- Retirement benefits for any future appointment are reduced from 30 per cent to 25 per cent of salary; and
- Strengthened recovery provisions (malus and clawback).

Policy Table for Executive Directors

The table below summarises each element of the policy for Executive Directors, with further details set out after the table.

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. Salary levels effective for 2017/18: — Mike Coupe – £943,428 — John Rogers – £695,402 — Kevin O'Byrne – £625,000
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

Retirement benefits	
Purpose and link to strategy	Provides an income following retirement and assists colleagues in building funds 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, with a maximum value of up to 25 per cent of salary per annum for any new Executive Director appointments. 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 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. Recovery provisions apply.
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 payout requires outperformance of stretch objectives. Maximum opportunity for 2017/18: — Mike Coupe – 110 per cent of salary — John Rogers – 90 per cent of salary — Kevin O'Byrne – 90 per cent of salary
Performance details	Based on a combination of financial (e.g. profit) and individual metrics. A performance 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 awards are 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 vested shares. Recovery provisions apply.
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. Maximum opportunity for 2017/18: — Mike Coupe – 110 per cent of salary — John Rogers – 90 per cent of salary — Kevin O'Byrne – 90 per cent of salary
Performance details	Basket of metrics covering four categories: financial performance, returns to shareholders, relative performance against peers and strategic goals. A performance 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. Vested awards will normally be subject to a two-year holding period following the end of the performance period which means future awards will normally be released five years after the grant date. 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 in respect of any financial year. Awards structured as core award (up to 62.5 per cent of salary per annum) with a performance multiplier of up to 4 times. For achievements 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 1 times the core award. Award levels for 2017/18: — Mike Coupe – core award of 62.5 per cent of salary — John Rogers – core award of 50 per cent of salary — Kevin O'Byrne – core award of 50 per cent of salary
Performance details	Based on a combination of financial and strategic measures appropriate within the context of the Company strategy and external environment over the relevant performance period. 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 measures and targets remain aligned with its objectives. The Committee would seek to consult as appropriate with its major shareholders regarding any material changes. Weightings for 2017/18 awards: — ROCE – 20 per cent — EPS – 20 per cent — Cash flow – 20 per cent — Cost savings – 20 per cent — Synergies – 20 per cent

Shareholding guidelines	
Purpose and link to strategy	Alignment of Executive Directors with shareholders.
Operation	Guidelines are Chief Executive 2.5 times salary, other Executive Directors 2.0 times salary. Guideline expected to be met within five years of appointment.

Setting performance measures and targets

The Committee believes it is important that the performance conditions applying to incentive arrangements support the short and long-term corporate ambitions of the Company. We operate in a dynamic market with evolving challenges and the Committee reviews the performance measures and targets each year to ensure that they remain relevant and stretching. Further details of the performance measures are set out in the Annual Report on Remuneration.

The performance measures in the annual bonus and Deferred Share Award are selected as they are the key drivers of business performance. The targets for the annual bonus and DSA are set with reference to the corporate strategy and internal budgets as well as the external context (e.g. market forecasts). This approach seeks to ensure that the threshold and stretch targets are appropriately challenging.

The Future Builder performance measures focus on longer term growth and returns to shareholders, and a similar target-setting approach is used.

The Committee may vary or rebalance the weighting of the performance metrics for future annual bonus, DSA and Future Builder awards, in order to ensure that they remain aligned with the Company's strategic objectives. The Committee may also adjust the targets for awards or the calculation of performance measures and vesting outcomes for events not foreseen at the time the targets were set to ensure they remain a fair reflection of performance over the relevant period.

Recovery provisions (malus and clawback) – preventing rewards for failure

The Remuneration Committee may operate recovery provisions (malus and clawback) on all incentive awards. The Committee may reduce or cancel an unvested award, or impose further conditions on an unvested award in the event of material mis-statement of financial results, serious reputational damage, serious misconduct or fraud.

In addition, in the circumstances outlined above, the Committee may clawback incentives, by requiring an Executive Director to make a repayment in relation to bonus payments and share awards. This provision would apply for up to two years following the end of the relevant performance period.

Consideration of colleague pay and conditions

When considering remuneration arrangements for Executive Directors, the Committee takes into account, as a matter of course, the pay and conditions of colleagues throughout the Company.

In particular, the Committee receives regular updates of any major changes to the pay and benefits of colleagues generally and the Committee takes into account wider pay issues when determining Executive Directors' remuneration. When setting Executive Director salary increases the Committee considers the overall salary increase budget for management and the increase in rate of pay for hourly-paid colleagues, including the impact that implementing the National Living Wage has on colleague pay.

The Committee does not formally consult with colleagues on the setting of the policy but as a result of the Company's all-employee share plans, colleagues are able to become shareholders in the Company and can comment on the policy in the same way as other shareholders. Additionally, as mentioned in the Corporate Responsibility Report, we are looking at forums for our Non-Executive Directors and colleague representatives to discuss key business issues (including remuneration).

Differences in Remuneration Policy for all colleagues

Many aspects of the Remuneration Policy for Executive Directors are consistent with the reward strategy for other colleagues across the Company. Below executive level, pay and benefits are scaled to reflect the nature of the role and based on the levels of pay in comparable roles in the market.

All colleagues, including colleagues at Sainsbury's Bank and Sainsbury's Argos, are entitled to base salary, benefits including pension and colleague discount. Eligible colleagues participate in our annual bonus plans which are aligned under a common set of principles with performance metrics tailored to different populations.

Senior executives expected to have the greatest influence on Company performance over time are eligible for participation in long-term incentive plans. All colleagues have the opportunity to become shareholders in the Company through our all-employee share plans.

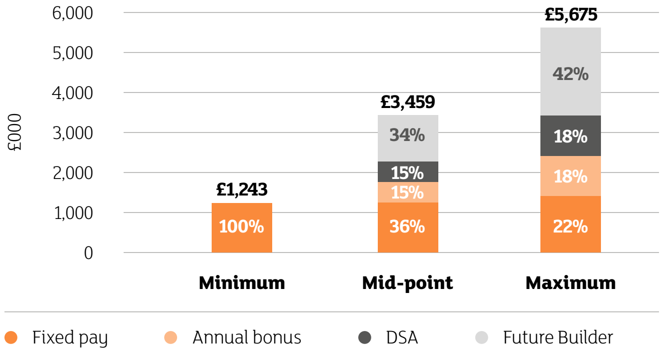
Participation in a pension plan is offered to all colleagues on a contributory basis, with the Company contribution varying by grade. Following auto-enrolment, we now have over 120,000 colleagues in our pension plans.

Potential total remuneration opportunity under our pay policy

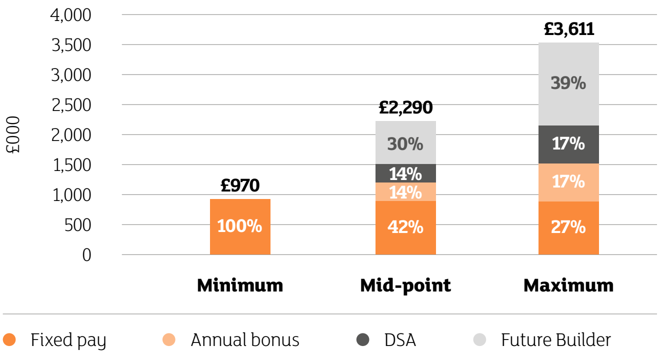
The Committee believes it is important that a significant portion of the package for Executive Directors is performance-related and delivered in shares to align their interests with shareholders. The balance between fixed pay (base salary, pension and benefits) and variable pay (annual bonus, Deferred Share Award and Future Builder) changes with performance. The variable proportion of total remuneration increases significantly for increased levels of performance. At least 60 per cent of the package is delivered through variable pay at mid-point performance and this proportion increases to at least three-quarters of the package at maximum levels of performance.

The charts show the total remuneration potential of the Executive Directors, in accordance with the Remuneration Policy, under three performance scenarios. In line with the regulations, the charts exclude the effect of share price movements.

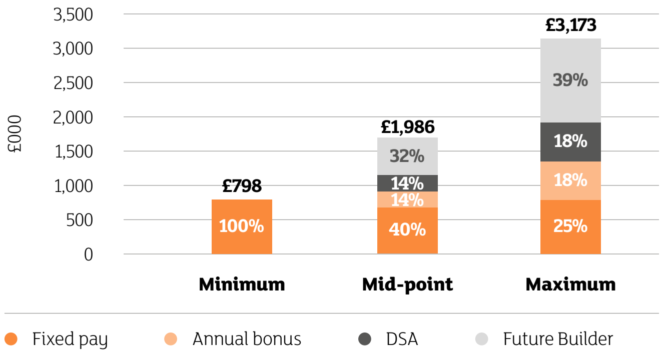
Mike Coupe



John Rogers



Kevin O'Byrne



	Opportunity	Minimum	Mid-point	Maximum
Fixed pay	Salary – Mike Coupe £943,428; John Rogers £695,402; Kevin O'Byrne £625,000 Benefits – value in line with 2016/17 Pension – CEO 30% of salary; other Executive Directors 25% of salary			
Annual bonus	CEO – 110% of salary Other Executive Directors – 90% of salary	Nil	50% of maximum	100% of maximum
Deferred Share Award	CEO – 110% of salary Other Executive Directors – 90% of salary	Nil	50% of maximum	100% of maximum
Future Builder	CEO – core award of 62.5% of salary Other Executive Directors – core award 50% of salary	Nil	Multiplier of 2.0x	Multiplier of 4.0x

Our approach to recruitment

The Committee believes it is vital to be able to attract and recruit leaders of the calibre required to deliver our strategic objectives, while remaining mindful of the cost to the Company. When determining remuneration arrangements for new appointments, the Committee intends to pay no more than it believes is necessary to secure the required talent. The Committee will seek to align the remuneration package with the approved Remuneration Policy.

Fixed pay	Salary and benefits (including retirement benefits) would be determined in accordance with the Policy Table above. An alternative package may also be necessary where an individual fulfils an executive role on an interim basis. In certain cases, the initial salary for a new appointment may be set at a lower level, with the intention of increasing the salary over time as the executive gains experience in the role. Benefits may need to be tailored based on the individual circumstances (e.g. relocation, housing or travel allowances may be required).
Variable pay	The maximum variable remuneration which may be offered to an executive will be no more than 500 per cent of salary (excluding any buy-out arrangements). This limit is consistent with the overall maximum set out in the Policy Table. Within these limits and where appropriate the Committee may tailor the award (e.g. timeframe, form, performance criteria) based on the commercial circumstances. Shareholders will be informed of the terms for any such arrangements.
Buy-outs	The Committee may need to buy-out remuneration terms forfeited on joining the Company. In such circumstances, the Committee will seek to ensure any buy-out is of comparable commercial value and capped as appropriate. The quantum, form and structure of any buy-out arrangement will be determined by the Committee taking into account the terms of the previous arrangement being forfeited (e.g. form and structure of award, timeframe, performance criteria, likelihood of vesting, etc.). The buy-out may be structured as an award of cash or shares. However, the Committee will normally have a preference for replacement awards to be made in the form of shares and to be within the Company's existing incentive plans. Where an executive is appointed from either within the Company or following corporate activity/reorganisation (e.g. acquisition of another company), the normal policy would be to honour any legacy arrangements in line with the original terms and conditions.

On the appointment of a new Non-Executive Chairman or Non-Executive Director, the terms and fees will normally be consistent with the fee policy outlined later in the Directors' Remuneration Policy.

Service contracts and policy for departing Executive Directors

The Company's policy is for Executive Directors' service contracts to be terminable on 12 months' notice by either party.

Contracts contain non-compete and non-solicit clauses with key suppliers and colleagues. The Company's normal practice is that Executive Directors may take up one non-executive role outside the Company, with approval from the Board, subject to the role being in a business that does not compete with the Company and with consideration of the time commitment. Directors are normally entitled to retain the fees earned from such appointments.

In the event of early termination without notice, any severance payment would be limited to one-year's salary and benefits (including pension), normally payable on a phased basis and subject to mitigation. Benefits payable may include certain one-off benefits in connection with termination such as legal costs and the costs of meeting any settlement agreement. There are no specific terms relating to a change of control.

The Executive Directors' service contracts are available for shareholders to view at the Company's registered office.

The Committee retains discretion to determine the exact termination terms of any Executive Director, having regard to all the relevant facts and circumstances available to them at the time. The table below sets out the general position and range of approaches in respect of incentive arrangements. In accordance with the terms of the relevant incentive plan rules, based on the circumstances of any departure the Committee has discretion to determine how an Executive Director should be categorised for each element and determine vesting levels accordingly based on the range shown below.

Detailed provisions

Deferred Share Awards and Future Builder awards are subject to the terms of the relevant plan rules under which the award has been granted. It is expected that future awards would normally be granted under the LTIP rules approved by shareholders at the 2016 AGM. The Committee may adjust or amend awards only in accordance with the provisions of the relevant plan rules. This includes making adjustments to awards to reflect one-off corporate events, such as a change in the Company's capital structure. In accordance with the plan rules, awards may be settled in cash rather than shares, where the Committee considers this appropriate.

On a change of control, Deferred Share Awards would be released or vest in full. Future Builder awards may vest taking account of relevant factors including progress against relevant performance conditions and may be pro-rated based on time.

In the event of a demerger or other significant distribution, Deferred Share Awards or Future Builder awards may be allowed to vest wholly or in part. A winding up, administration or a voluntary arrangement event would result in Deferred Share Awards being released or vesting in full and Future Builder awards would normally vest subject to achievement of the relevant performance conditions on the same time pro-rated basis as above.

In similar corporate events, awards under HMRC approved all-employee plans would vest in accordance with the standard approved terms.

The Committee may approve payments to satisfy commitments agreed prior to the implementation of this policy where such commitment was either; (i) made prior to the implementation of the 2014 Remuneration Policy; or (ii) agreed during the term of, and was consistent with, the 2014 Remuneration Policy. This includes previous incentive awards that are currently outstanding and unvested (e.g. prior year Deferred Share Awards). The structure of these legacy awards are generally consistent with the Policy Table but the performance conditions applying may be different. Further details of outstanding awards are set out in the Annual Report on Remuneration.

The Committee may also approve payments outside of this policy, in order to satisfy any legacy arrangements made to a colleague prior to (and not in contemplation of) promotion to the Board of Directors.

The Committee may make minor amendments to the Remuneration Policy to aid its operation or implementation without seeking shareholder approvals (e.g. for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) provided that any such change is not to the material advantage of colleagues.

	'Bad leaver' (e.g. termination for cause, etc.)	**'Good leaver'** (e.g. cessation due to ill-health, injury, etc.)
Annual bonus	No entitlement following date notice served.	Bonus may be payable subject to performance. Awards normally pro-rated based on the period worked during the financial year, with payments usually occurring following the year-end.
Deferred Share Award	No entitlement to current year's award following date notice served. Unvested awards will lapse on notice.	Participants may be considered for an award, but normally must be employed and not under notice to receive current year's award. Outstanding unvested awards normally do not lapse. Awards may be pro-rated for the proportion of the deferral period elapsed on cessation, unless the Committee determines otherwise. Awards may vest following cessation or at another date. On death, unvested awards will be released and vest in full.
Long-Term Incentive Plan (i.e. Future Builder)	Unvested awards will lapse on notice.	Unvested awards normally vest at the normal time subject to performance. Awards will normally be pro-rated by reference to the proportion of the performance period that has elapsed since cessation, unless the Committee determines otherwise. On death, awards vest early on cessation with performance measured at this time. Awards are pro-rated by reference to the proportion of the performance period that has elapsed since cessation. If the Director leaves in the first six months after the start of the performance period, the award normally lapses in full.
All-employee share plans	In line with HMRC rules.	

Remuneration Policy for the Non-Executive Chairman and Non-Executive Directors

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

The Non-Executive Chairman and Non-Executive Directors do not have service contracts. The Company's policy is to appoint the Non-Executive Chairman and Non-Executive Directors for an initial three-year period, which may be extended for a further term by mutual consent. The initial appointments and any subsequent reappointments are subject to annual election or re-election by shareholders.

Non-Executive Directors' appointments may be terminated at any time by serving three months' written notice by either party; six months' in the case of the Non-Executive Chairman. The Non-Executive Directors' letters of appointment are available for shareholders to view at the Company's registered office.

Non-Executive Director Remuneration Policy

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 chairing 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. Fee levels as at 12 March 2017: — Non-Executive Chairman – £500,000 per annum — Basic fee – £65,000 per annum — Senior Independent Director, Chair of Remuneration and Audit Committees additional fee – £18,500 per annum — Chairman of Corporate Responsibility and Sustainability Committee additional fee – £13,000 per annum

Consideration of shareholder views

The Remuneration Committee values the views of the Company's shareholders and guidance from shareholder representative bodies. The Committee proactively consults extensively with our major shareholders to ensure that their views are represented in discussions on remuneration matters. As part of the process for approaching the renewal of the policy, the Committee consulted with major shareholders on a range of topics including potential alternative incentive structures. The renewed policy reflects guidance received from major investors during the course of the engagement process.

The Directors' Remuneration Policy will be put to a binding vote and the Annual Report on Remuneration will be put to an advisory vote at the AGM on 5 July 2017. 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 2 May 2017.

Mary Harris
Chairman, Remuneration Committee

Additional statutory information

Dividends

Details on the payment of the final dividend can be found on page 51.

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 and Home Retail Employee Share Trust waive their right to vote and to dividends on the shares they hold which are unallocated. Total dividends waived by the Trustees during the financial year amounted to £497,762. 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 2016, 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 in note 19 of the Notes to the Financial Statements including shares allotted as a result of the HRG acquisition. At the date of this report, 2,188,900,863 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 2 May 2017, 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 DTR5 of the Disclosure Guidance and Transparency Rules:

	Number of Ordinary Shares	% of voting rights
Qatar Holdings LLC	481,746,132	22.01
Deutsche Bank AG	109,650,100	5.01

Directors' interests

The beneficial interests of the Directors and their families in the shares of the Company are shown in the Directors' Remuneration Report on pages 84 and 86.

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 a Director of the Company. The Company purchased and maintained Directors' and Officers' liability insurance throughout 2016/17, which has been renewed for 2017/18. Neither the indemnities nor the insurance provide cover in the event that the Director is proved to have acted fraudulently.

Employment

Employment policies

The Company values the different perspectives and experiences of all our colleagues. We are proud of our diverse workforce because every colleague's unique viewpoint helps us to innovate and to understand and embrace different customers' needs and wants. We are committed to providing equal opportunities for all colleagues and applicants, including during recruitment and selection, training and development, and promotion.

A Great Place to Work strategy is in place, underpinned by well-developed policies for the fair and equal treatment of all colleagues. Training is provided which ensures that policies are understood throughout the organisation. We have a workplace adjustments process in place for our colleagues who are living with a disability or long-term health condition which operates through the Government's Access to Work scheme. Workplace adjustments can be made at any point during a colleague's employment with us. See page 39 for further information on our diversity strategy.

Colleague engagement

We deliver regular colleague communications which build trust in our corporate strategy, vision and values, enable our colleagues to do a good job, and provide information which matters to colleagues about their pay, benefits and career opportunities. We are committed to delivering news and information to our colleagues in a clear and timely way, and communicating change sensitively.

Colleagues receive information from their managers, as well as a range of internal communications including films and magazines and have access to a colleague intranet, and Yammer, our social platform. In addition, as we have detailed in the Great Place to Work section of this report on page 38, there are a number of ways for colleagues to have their say, from our colleague idea scheme, Message Mike, to Talking Shop when colleagues have an opportunity to meet members of our Operating Board and ask questions.

All colleagues receive a letter from our Chief Executive Officer every time we announce our results detailing our Company performance, and how our colleagues have played their part. Through our communication channels and messages from the Chief Executive Officer we have also set out Company milestones, explaining how every colleague can help to achieve them, and we celebrate our success when we reach them by rewarding colleagues with an increase in colleague discount.

Human rights and modern slavery

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 commitment to sourcing with integrity is reflected in long-standing policies, processes and partnerships on ethical trade which seek to protect the rights of the people working in our supply chains. We are founding members of the Ethical Trading Initiative (ETI) and work closely with our suppliers, government agencies, non-profit organisations, unions and others to ensure that our standards are maintained.

This year sees the publication of our first statement in accordance with clause 54 of the Modern Slavery Act, 2015. It marks a development of our approach that sees us align across our entire business and supply chain, incorporating our own operations, from facilities management and logistics to Sainsbury's Bank and Sainsbury's Argos. In addition to maintaining our existing activities, we have taken a number of steps over this financial year to solidify our governance structure, processes and awareness-raising activities on the topic that will help us better identify and address worker exploitation. These include updates to our commercial terms and policies, enhancing our training, and a leading role in industry partnerships to develop a common standard for worker accommodation and a new certification scheme for labour providers.

We have been developing our updated risk-based approach in response to the growing intelligence on where slavery and trafficking risk exists across our industry. We are using enhanced data analytics capability and human rights expertise to create a next-generation diagnostic risk assessment tool that can be applied across the many and different areas of our business. We are confident that it will help us to implement an effective strategy and set of prevention and remediation activities, that are appropriate for each area of our business.

Greenhouse gas emissions

In line with the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), we have recalculated our Group base year due to the acquisition, within this reporting year, of HRG which includes Argos and Habitat.

This year we have disclosed the emissions performance of the combined Sainsbury's Group, Sainsbury's, Argos and Habitat. We have in addition, aligned scope and boundaries with legacy Sainsbury's reporting. All of the following figures are therefore reflective of these changes.

Sainsbury's has measured its greenhouse gas (GHG) footprint since 2005 and set a challenging target to reduce absolute emissions by 30 per cent by 2020, compared to our baseline (and 65 per cent relative to sales floor area).

Argos and Habitat have also set a target to reduce emissions by 40 per cent relative to sales floor area by 2020.

Location-based emissions

Versus 2005/06, in 2016/17 our:

- Sainsbury's Group emissions reduced by 11.9 per cent absolute and 41 per cent relative;
- Sainsbury's emissions reduced by 11.4 per cent absolute and 42.5 per cent relative; and
- Argos and Habitat emissions reduced by 15.9 per cent absolute and 26.5 per cent relative.

Sainsbury's Group

	GHG Emissions (tCO_2e)		
	2005/06	2015/16	2016/17
Total (tCO_2e)	**1,554,492**	**1,475,251**	**1,369,573**
Intensity measurement (tCO_2e/'000 sq ft)	89.77	57.37	53.00

Sainsbury's

	GHG Emissions (tCO_2e)		
Emission source	2005/06	2015/16	2016/17
Combustion of fuel & operation of facilities (Scope 1)	536,694	601,091	579,864
Electricity, heat, steam and cooling purchased for own use (Scope 2)	833,787	722,512	634,960
Total (tCO_2e)	**1,370,481**	**1,323,603**	**1,214,824**
Intensity measurement (tCO_2e/'000 sq ft)	90.37	57.05	51.96

Argos and Habitat

	GHG Emissions (tCO_2e)		
Emission source	2005/06	2015/16	2016/17
Combustion of fuel & operation of facilities (Scope 1)	101,563	71,847	84,363
Electricity, heat, steam and cooling purchased for own use (Scope 2)	82,448	79,801	70,386
Total (tCO_2e)	**184,011**	**151,648**	**154,749**
Intensity measurement (tCO_2e/'000 sq ft)	85.55	60.35	62.91

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.

Versus 2005/06, in 2016/17 our market based:

- Sainsbury's Group emissions reduced by 21.5 per cent absolute and 47.4 per cent relative;
- Sainsbury's emissions reduced by 22.2 per cent absolute and 49.6 per cent relative; and,
- Argos and Habitat emissions reduced by 16.3 per cent absolute and 26.8 per cent relative.

Sainsbury's Group

	GHG Emissions (tCO_2e) 2005/06	2015/16	2016/17
Total (tCO_2e)	**1,554,492**	**1,208,359**	**1,219,903**
Intensity measurement (tCO_2e/'000 sq ft)	89.80	46.99	47.21

Sainsbury's

Emission source	GHG Emissions (tCO_2e) 2005/06	2015/16	2016/17
Combustion of fuel & operation of facilities (Scope 1)	536,694	589,728	563,520
Electricity, heat, steam and cooling purchased for own use (Scope 2)	833,787	541,102	502,298
Total (tCO_2e)	**1,370,481**	**1,130,830**	**1,065,818**
Intensity measurement (tCO_2e/'000 sq ft)	90.37	48.74	45.58

Argos and Habitat

Emission source	GHG Emissions (tCO_2e) 2005/06	2015/16	2016/17
Combustion of fuel & operation of facilities (Scope 1)	101,563	71,847	84,363
Electricity, heat, steam and cooling purchased for own use (Scope 2)	82,448	5,682	69,722
Total (tCO_2e)	**184,011**	**77,529**	**154,085**
Intensity measurement (tCO_2e/'000 sq ft)	85.55	30.85	62.64

Dual emissions reporting
Overall emissions have been presented to reflect both location and market based methodologies, affecting both Scope 1 and Scope 2 emissions.

Scope 1: 16 per cent of total natural gas usage is covered by Green Gas Certification (100 per cent Renewable Gas Guarantee of Origin Contract); therefore 16 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 2016 for all sources.

Scope 2: 20 per cent of UK electricity is covered by a PPA, which meets all of the required quality criteria; therefore 20 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
As a result of our ongoing investment in energy reduction initiatives:

- Sainsbury's Group absolute UK electricity consumption decreased year-on-year by 1.5 per cent and 11 per cent versus 2005/06 whilst adding 49.2 per cent more sales area;
- Sainsbury's absolute UK electricity consumption has decreased year-on-year by 1.4 per cent and 11.6 per cent versus 2005/06 whilst adding 54.2 per cent more sales area; and
- Argos and Habitat absolute UK electricity consumption decreased year-on-year by 1.5 per cent and 4.9 per cent versus 2005/06 whilst adding 14.4 per cent more space.

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 2016, and IEA 2014 for those overseas. The reporting period is the financial year 2016/17, 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.

Political donations
The Company made no political donations in 2016/17 (2015/16: £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 policy is not to undertake any tax planning schemes that seek to use so-called 'tax havens' for aggressive tax planning and for the purpose of tax avoidance.

The Group 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 and Argos stores are based in the UK (with the exception of some Argos stores in the Republic of Ireland), as such, substantially all (more than 99 per cent) of our Group sales are generated and taxed in the UK.

Branches
Details of branches of Group subsidiaries can be found in note 37 of the Notes to the Financial Statements.

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 23 of the Notes to the Financial Statements.

Ethical policies
The Company takes bribery extremely seriously and is committed to ensuring compliance with laws and regulations. Colleagues are expected to abide by a set of clearly communicated formal policies, such as the Ethical Supplier Policy and the Conflicts of Interest/Relationships at Work Policy. Training in support of these policies is provided to colleagues especially in the commercial divisions, firstly during their induction into the Company and thereafter through annual refreshers.

Disclosure of information to the 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.

Directors' Report

The Directors' Report comprises pages 01 to 73, 95 to 98 and 100 of this Annual Report and Financial Statements. The following information is also incorporated into the Directors' Report:

Information requirement	Location within Annual Report
Interest capitalised	See note 10
Publication of unaudited financial information	Leverage ratio, see note 23
Details of any long-term incentive schemes	See Remuneration Report and note 30
Shareholder waiver of dividends	See note 22
Shareholder waiver of future dividends	See note 22

Other information requirements set out in LR 9.8.4R are not applicable to the Company.

By order of the Board

Tim Fallowfield
Company Secretary and Corporate Services Director
2 May 2017