

3 June 2016

J SAINSBURY PLC (THE “COMPANY”)

ANNUAL REPORT AND FINANCIAL STATEMENTS 2016

The following documents have today been posted or otherwise made available to shareholders:

- Annual Report and Financial Statements 2016
- Notice of Annual General Meeting

In accordance with Listing Rule 9.6.1 a copy of each of these documents has been uploaded to the National Storage Mechanism and will be available for viewing shortly at <http://www.morningstar.co.uk/uk/NSM>

The above documents may be viewed online at www.j-sainsbury.co.uk/ar16 and www.j-sainsbury.co.uk/notice16 respectively.

A condensed set of the Company's financial statements and information on important events that have occurred during the financial year and their impact on the financial statements were included in J Sainsbury plc's Preliminary Results Announcement on 4 May 2016. That information together with the information set out below which is extracted from the Annual Report and Financial Statements 2016 (the “Annual Report 2016”) constitute the material required by Disclosure and Transparency Rule 6.3.5 which is required to be communicated to the media in full unedited text through a Regulatory Information Service. This announcement is not a substitute for reading the full Annual Report 2016. Page and note references in the text below refer to page numbers in the Annual Report 2016. To view the preliminary announcement, slides of the results presentation, the transcript of the presentation and the webcast please visit www.j-sainsbury.co.uk.

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OUR PRINCIPAL RISKS AND UNCERTAINTIES

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

- Colleagues making the difference;
- Great products and services at fair prices; and
- There for our customers.

The risk discussion includes assessment of both gross and net risk, where gross risk reflects the risk exposure and risk landscape before considering the mitigations in place and net risk being the residual risk after mitigations. The risk appetite for each key risk is also discussed and assessed.

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

Key Risk Movements

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

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

Business continuity and major incidents response (gross risk exposure no change)

<i>Risk</i>	<i>Mitigation</i>
A major incident or catastrophic event could impact on the Group's ability to trade.	<p>Sainsbury's has detailed plans in place, supported by senior representatives who are trained in dealing with major incidents and have the authority levels to make decisions in the event of a potentially disruptive incident.</p> <p>The Business Continuity Steering Group meets quarterly to ensure that the business continuity ("BC") policy and strategy is fit for purpose. In addition, it oversees the mitigation of all risks associated with BC and IT disaster recovery. In the event of any unplanned or unforeseen events the Business Continuity Management Team is convened at short notice to manage the response and any associated risk to the business.</p> <p>All key strategic locations have secondary backup sites which would be made available within pre-defined timescales and are regularly tested.</p>

Business strategy and change (gross risk exposure increased)

<i>Risk</i>	<i>Mitigation</i>
<p>If the Board adopts the wrong business strategy or does not communicate or implement its strategies effectively, the business may be negatively impacted. Risks to delivering the strategy, change initiatives forming part of the strategy and other significant supporting change such as the internal transformation of the Digital & Technology function need to be properly understood and managed to deliver long-term growth for the benefit of all stakeholders alongside management of business as usual.</p>	<p>The business strategy is focussed on the following:</p> <ul style="list-style-type: none"> • We know our customers better than anyone else; • We will be there wherever and whenever they need us; • We will offer great products and services at fair prices; • Our colleagues make the difference; and • Our values make us different. <p>The progress against strategic programmes and any risks to delivery, such as the ability to implement and deliver change and new business initiatives, are regularly reviewed by the Board and the overall strategy is reviewed at the annual two-day Strategy Conference. The Operating Board also holds regular sessions to discuss strategy. This activity is supported by a dedicated strategy team. To ensure the strategy is communicated and understood, the Group engages with a wide range of stakeholders including shareholders, colleagues, customers and suppliers on a continual basis. In addition, management performs ongoing monitoring of business as usual performance to determine indicators of potential negative performance as a result of change initiatives.</p>

Colleague engagement, retention and capability (gross risk exposure increased)

<i>Risk</i>	<i>Mitigation</i>
<p>The Group employs over 162,000 colleagues who are critical to the success of our business. Attracting and maintaining good relations with talented colleagues and investing in their training and development is essential to the efficiency and sustainability of the Group's operations. Delivery of the strategic objectives, including development of new businesses and progress on multi-channel and digital, increases the risk of Sainsbury's ability to attract, motivate and retain talent, specific skill sets and capability. In addition, the challenging trading environment requires a focus on efficient operations which may include change initiatives impacting colleagues, therefore presenting a</p>	<p>The Group's employment policies and remuneration and benefits packages are regularly reviewed and are designed to be competitive with other companies, as well as providing colleagues with fulfilling career opportunities. Colleague surveys, performance reviews, communications with trade unions and regular communication of business activities are some of the methods the Group uses to understand and respond to colleagues' needs. In addition to strong leadership and nurturing of talent by line managers, processes are also in place to identify talent and actively manage succession planning throughout the business. Ongoing reviews are performed to understand the nature of capability and specific skill sets required to deliver objectives. This is supported by embracing new ways of attracting talent and our corporate value 'Great Place to Work' reinforces our commitment to giving people the opportunity to be the best they can be.</p>

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

<i>Risk</i>	<i>Mitigation</i>
It is essential that the security of customer, colleague and company confidential data is maintained. A major breach of information security could have a major negative financial and reputational impact on the business. The risk landscape is increasingly challenging with deliberate acts of cybercrime on the rise targeting all markets and heightening the risk exposure.	A Data Governance Committee is established and is supported by focused working groups looking at the management of colleague data, customer data, information security, commercial data and awareness and training. Senior appointments have been made into new roles specifically focused on Data Governance and Information Security. In April 2015, a Chief Information Security Officer was appointed to further develop the Information Security Strategy and build the necessary capability to deliver against that strategy. In September 2015, a new Head of Data Governance was appointed to focus on improving how we handle data across the organisation. Various information security policies and standards are in place which focus on encryption, network security, access controls, system security, data protection and information handling. A review of key third parties who hold sensitive customer or colleague data continues to take place, and progress is monitored by the Data Governance Committee. A risk based security testing approach across Sainsbury's IT infrastructure and applications is in place to identify and remediate ongoing vulnerabilities.

Environment and sustainability (gross risk exposure no change)

<i>Risk</i>	<i>Mitigation</i>
Environment and sustainability are core to Sainsbury's values. The key risk facing the Group in this area relates to reducing the environmental impact of the business with a focus on reducing packaging and new ways of reducing waste and energy usage across stores, depots and offices.	A number of initiatives are in place, which are being led by the Environmental Action Team and the Corporate Responsibility Steering Group, to reduce our environmental impact and to meet our customers' expectations in this area. Further details are included in the Corporate Responsibility review on pages 59 to 60.

Financial and treasury risk (gross risk exposure no change)

<i>Risk</i>	<i>Mitigation</i>
<p>The main financial risks are the availability of short and long-term funding to meet business needs and fluctuations in interest, commodity and foreign currency rates. The business has now acquired full ownership of Sainsbury's Bank which presents a risk that the Group's financial performance and position may be negatively impacted if the Bank transition and performance is not delivered as planned. In addition, there remains a risk around Pensions as the Group operates a number of pension arrangements that are subject to risks in relation to liabilities as a result of changes in life expectancy, inflation and future salary increases, and to risks regarding the value of investments and the returns derived from such investments.</p>	<p>The Group Treasury function is responsible for managing the Group's liquid resources, funding requirements, interest rate and currency exposures and the associated risks as set out in note 29 on page 126. The Group Treasury function has clear policies and operating procedures which are regularly reviewed and audited.</p> <p>Sainsbury's Bank operates an enterprise wide risk management framework. The principal financial risks relating to the Bank and associated mitigations are set out in note 29 to the financial statements on page 131.</p> <p>With regard to Pensions, an investment strategy is in place which has been developed by the pension trustee, in consultation with the Company, to mitigate the volatility of liabilities, to diversify investment risk and to manage cash. In September 2013, the Sainsbury's Defined Benefit Pension Scheme was closed to future contributions which will help us to manage the escalating costs of pensions and protect the pensions that colleagues have already built up in the Scheme.</p>

Health and safety - people and product (gross risk exposure no change)

<i>Risk</i>	<i>Mitigation</i>
<p>Prevention of injury or loss of life for both colleagues and customers is of utmost importance. In addition it is paramount to maintaining the confidence our customers have in our business.</p>	<p>Clear policies and procedures are in place detailing the controls required to manage health and safety and product safety risks across the business and comply with all applicable regulations. These cover the end-to-end operation, from the auditing and vetting of construction contractors, to the health and safety processes in place in our depots, stores and offices to the controls in place to ensure people and product safety and integrity.</p> <p>In addition, established product testing programs are also in place to support rigorous monitoring of product traceability and provide assurance over product safety and integrity. Supplier terms and conditions and product specifications set clear standards for product/raw material safety and quality which suppliers are expected to comply with.</p> <p>Process compliance is supported by external accreditation and internal training programmes, which are aligned to both health and safety laws and Sainsbury's internal policies. In addition, resource is</p>

	dedicated to manage the risk effectively, in the form of the Group Safety Committee and specialist safety teams.
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Political & regulatory environment (gross risk exposure increased)

<i>Risk</i>	<i>Mitigation</i>
In the UK there are unprecedented levels of political uncertainty and ongoing regulatory change. The uncertain outcome of the EU referendum, an increasing focus of localism to drive and deliver policy and current legislative requirements including the Business Rates, Workplace Pensions, National Living Wage and Apprenticeship Levy place a cumulative burden on Sainsbury's.	We actively engage with the governments, administrations and regulatory bodies to communicate our views, and those of our customers and colleagues, regarding geopolitical issues with the aims of informing the debate and ensuring our opinions are represented in the policy and decision making processes. We publically communicate matters where we believe industry change is required.

Trading environment & competitive landscape (gross risk exposure no change)

<i>Risk</i>	<i>Mitigation</i>
Effective management of the trading account is key to the achievement of performance targets. The sector outlook has been and is set to remain challenging. The challenging trading environment, food price deflation and the price reduction and price matching activity across the sector may adversely impact performance. There is also an ongoing risk of supplier failure, with possible operational or financial consequences for the Group.	We adopt a differentiated strategy with a continued focus on delivering quality products and services with 'universal appeal', at fair prices helping our customers Live Well for Less. This is achieved through the continuous review of our product quality, key customer metrics, monitoring of current market trends and price points across competitors, active management of price positions, development of sales propositions and increased promotion and marketing activity. In February 2016 we announced our plans to phase out multi-buy promotions in favour of lower regular prices, the next step in our commitment to provide customers even better value with lower regular prices. In delivering our strategic plan, including our price investment, we will maintain the strength of our balance sheet and have therefore identified a series of measures to conserve cash in the business. Through these measures we will deliver sustainable operating cost savings. With regards to supplier continuity, Sainsbury's undertakes credit checks on suppliers and maintains regular, open dialogue with key suppliers concerning their ability to trade.

RELATED PARTY TRANSACTIONS

Group

a) Key management personnel

The key management personnel of the Group comprise members of the J Sainsbury plc Board of Directors and the Operating Board. The key management personnel compensation is as follows:

	2016 £m	2015 £m
Short-term employee benefits	7	10
Post-employment employee benefits	1	1
Share-based payments	4	9
	12	20

Ten key management personnel had credit card balances with Sainsbury's Bank (2015: nine). These arose in the normal course of business and were immaterial to the Group and the individuals. Five key management personnel held saving deposit accounts with Sainsbury's Bank (2015: three). These balances arose in the normal course of business and were immaterial to the Group and the individuals.

b) Joint ventures and associates

Transactions with joint ventures and associates

For the 52 weeks to 12 March 2016, the Group entered into various transactions with joint ventures and associates as set out below.

	2016 £m	2015 £m
Management services received	(1)	(1)
Management services provided	4	-
Income share received from joint ventures	33	17
Dividend and distributions received	46	70
Proceeds from repayment of loan to joint venture	-	17
Investment in joint ventures and associates	(18)	(12)
Rental expenses paid	(65)	(65)

Year-end balances arising from transactions with joint ventures and associates

	2016 £m	2015 £m
Receivables		
Other receivables	28	37
Loans due from joint ventures	3	2
Payables		
Other payables	(1)	-
Loans due to joint ventures	(5)	(5)

c) Retirement benefit obligations

As discussed in note 31, the Group has entered into an arrangement with the Pension Scheme Trustee as part of the funding plan for the actuarial deficit in the Scheme. Full details of this arrangement are set out in note 31 to these financial statements.

Company

a) Subsidiaries

The Company enters into loans with its subsidiaries at both fixed and floating rates of interest on a commercial basis. Hence, the Company incurs interest expense and earns interest income on these loans and advances. The Company also received dividend income from its subsidiaries during the financial year. The amounts outstanding are unsecured and settled in cash.

Transactions with subsidiaries

	2016 £m	2015 £m
Repayment of floating rate subordinated dated/undated loan capital from Sainsbury's Bank ¹	-	60
Investment in Sainsbury's Bank	(137)	(59)
Loans and advances given to, and dividend income received from subsidiaries		
Loans and advances given	17	229
Loans and advances repaid by subsidiaries	(122)	(45)
Interest income received in respect of interest bearing loans and advances	222	201
Dividend income received	5,556	252
Loans and advances received from subsidiaries		
Loans and advances received	(299)	(275)
Loans and advances repaid	49	21
Loan settlement in the year attributable to liquidations	4,306	-
Interest expense paid in respect of interest bearing loans and advances	(47)	(56)

¹ The £60 million dated subordinated loan capital was repaid in December 2014.

Year-end balances arising from transactions with subsidiaries

	2016 £m	2015 £m
Receivables		
Loans and advances due from subsidiaries	2,720	2,758
Payables		
Loans and advances due to subsidiaries	(817)	(5,201)

b) Joint ventures and associates

Transactions with joint ventures and associates

For the 52 weeks to 12 March 2016, the Company entered into transactions with joint ventures and associates as set out below.

	2016 £m	2015 £m
Investment in joint ventures	(15)	(12)

Year-end balances arising from transactions with joint ventures and associates

	2016 £m	2015 £m
Payables		
Loans due to joint ventures	(5)	(5)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

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

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

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

