

Second Quarter Trading Statement for the 16 weeks to 24 September 2016

Progress against strategy with like-for-like transaction growth across all channels

- **Total Retail sales¹ down 0.4 per cent (excl. fuel), flat (inc. fuel)**
- **Like-for-like Retail sales¹ down 1.1 per cent (excl. fuel), down 0.5 per cent (inc. fuel)**
- **Like-for-like transaction growth and total volume growth¹**

Mike Coupe, Group Chief Executive, said: "We continue to make progress against our strategy and, while like-for-like sales were down 1.1 per cent (excl. fuel), driven by food price deflation, we delivered like-for-like transaction growth across all channels and total volume growth. This shows that customers are consistently choosing Sainsbury's for the choice, quality, value and customer service we offer.

"Our ambition is to help customers live well for less. We have made further investment in everyday low prices and continue to improve the quality of our products. Our general merchandise and clothing offer is popular with customers and the acquisition of Home Retail Group will accelerate our multi-product, multi-channel strategy. We will open 200 new digital collection points by the end of the year and already have 15 Argos Digital stores open in Sainsbury's stores so customers can shop 90,000 products whenever and wherever they want.

"We expect the market to remain competitive and the effect of the devaluation of sterling remains unclear. However, Sainsbury's is well positioned to navigate the changing marketplace and we are confident that our strategy will enable us to continue to outperform our major peers."

Argos second quarter performance for the 13 weeks to 27 August 2016

Completion of the acquisition of Home Retail Group plc took place on 2 September 2016. Home Retail Group's last trading update was for its first quarter results. In its second quarter to 27 August 2016, Argos achieved total sales² growth of 3.0 per cent and like-for-like sales growth of 2.3 per cent.

Strategic and operational highlights

Our vision is to be the most trusted retailer where people love to work and shop. We are focused on delivering the five pillars of our strategy:

We know our customers better than anyone else

We continue to invest in competitive prices, with reductions across more of the everyday products that our customers buy regularly.

- We have removed the vast majority of multi-buy promotions and we continue to reduce our promotional activity in favour of lower, regular prices. This quarter, we maintained our highest-ever customer satisfaction scores³.
- We will remain competitive on price and, following price reductions in the Spring, we have made further investments in the prices of everyday items such as our 335g Broccoli which was reduced from £0.50 to £0.40, our 3x Large Onions reduced from £1.00 to £0.80, our frozen Deep Pan Margherita Pizza reduced from £1.30 to £0.90 and our 46 pack of Little Ones Newborn Nappies reduced from £3.75 to £2.50.

Great products and services at fair prices

We continue to improve the quality and range of our Food, Clothing and General Merchandise products.

¹Retail Sales exclude the sales from the acquired Home Retail Group business since acquisition on 2 September 2016

²Argos sales performance quoted in this trading statement excludes VAT, in line with its pre-acquisition reporting

³CSI - Customer Satisfaction Tracking, Q1 and Q2 2016

- Earlier this month, we launched our new *On the Go* range of sandwiches, salads, sushi, snacks and drinks. We have invested in the quality of the whole range, reviewing every aspect to improve the taste and freshness and give customers more choice, across snacks, options for breakfast and healthier foods.
- General Merchandise had a good quarter with sales growth of over four per cent.
- Our clothing business continued to gain market share⁴, but saw a slight sales decline in a weak market and against a double digit increase in the same quarter last year. We launched a new women's clothing collection - *Tu Premium* - a collection of elegant, affordable pieces made from luxury fabrics with a tailored fit.
- Sainsbury's Bank continued its good performance with credit card new business growing 58 per cent year-on-year. The transfer of the Argos Financial Services business to Sainsbury's Bank also took place at the end of the quarter.

There for our customers

Our ambition is to make our customers' lives better and easier every day by finding new ways to save them time, money and effort.

- We completed the acquisition of Home Retail Group, marking the start of an exciting new phase for Sainsbury's, Argos and Habitat as one multi-channel, multi-product retailer. 30 Argos digital stores will be open in Sainsbury's stores by Christmas 2016 and digital in-store collection points are now being introduced in supermarkets so customers can collect *Tu* clothing, Argos products, eBay purchases and DPD parcels under one roof.
- Our convenience business grew by nearly seven per cent and achieved its best ever week during the quarter, in both the number of customers served and sales in a week. We opened nine new convenience stores.
- Groceries Online delivered eight per cent sales growth and nearly 12 per cent growth in customer orders. Our online fulfilment centre in East London is now open and caters for the growing demand for our online delivery service in the capital. We also began trialling same day online grocery deliveries, now available from eight stores.
- We completed the sale of our pharmacy business to LloydsPharmacy.

Colleagues making the difference

The high retail and service standards set by our colleagues make the difference to our customers every day.

- Our store colleagues continue to deliver consistently excellent customer service. In recognition of the difference they make, we announced a four per cent pay increase from 28 August, matching last year's increase.
- For the fourth year running, we won the annual Grocer 33 Service and Availability Awards. We were also awarded a Gold accreditation by Investors in People, making Sainsbury's the UK's largest employer to have reached the Gold standard and the only retailer to achieve three consecutive Gold awards.
- We welcomed colleagues from Argos and Habitat to Sainsbury's and we are now a team of 195,000 colleagues, focused on serving customers whenever and wherever they want to shop with us and delivering excellent customer service.

Our values make us different

Our values underpin our strategy, make good business sense and give us real competitive advantage.

- We remain committed to cutting food waste in our own operations and helping our customers to do the same. We are now reporting our food waste figures (in tonnage). Our charitable food donation partnerships have increased significantly over the last year and now stand at over 1,000, which means more food is reaching those who need it most.
- We gave away one million fridge thermometers to help customers keep their food fresher for longer, following a successful trial in our *Waste less, Save more* town of Swadlincote in Derbyshire.
- We have removed the vast majority of multi-buys, helping our customers to reduce waste at home and we continue to make good progress on reformulation, making it easier for our customers to live healthier lives.
- Our Active Kids programme, which this summer included the Active Kids Paralympic Challenge, provided the opportunity for 2.2 million children from 7,000 schools across the UK to engage in Paralympic sports including sitting volleyball and goalball.

⁴Kantar Worldpanel, 24 weeks ended 28 August 2016

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Notes

1. All sales figures contained in this trading statement are stated including VAT⁵ and in accordance with IFRIC 13
2. Like-for-like sales include the impact of extensions as follows:

	FY 2015/16	Q1	Q2	H1
Retail sales⁶ growth excluding fuel				
Total	0.4%	0.3%	(0.4)%	(0.1)%
Like-for-like	(0.9)%	(0.8)%	(1.1)%	(1.0)%
Included in like-for-like sales				
Net contribution from extensions	0.1%	0.0%	0.0%	0.0%
Retail sales growth including fuel				
Total	(1.2)%	(0.1)%	0.0%	(0.0)%
Like-for-like	(2.5)%	(1.0)%	(0.5)%	(0.7)%

3. Store investment programme 2016/2017:

2016/17	Q1	Q2	H1
Supermarkets			
New	-	1	1
Replacements	-	1	1
Extensions	-	-	-
Refurbishments	-	4	4
Closures	-	(1)	(1)
Convenience			
New	7	9	16
Closures	(6)	-	(6)
Extensions	-	-	-
Refurbishments	-	1	1

At the end of the quarter, Sainsbury's had 602 supermarkets and 783 convenience stores

⁵ Argos sales performance quoted in this trading statement excludes VAT, in line with its pre-acquisition reporting

⁶ Retail Sales exclude the sales from the acquired Home Retail Group business since acquisition on 2 September 2016

4. Argos' historic total and like-for-like sales performance is set out below. This reflects its pre-acquisition periods: FY2015/16 for the 52 weeks to 27 February 2016; Q1 for the 13 weeks to 28 May 2016; Q2 for the 13 weeks to 27 August 2016; and H1 for the 26 weeks to 27 August 2016

	FY 2015/16	Q1	Q2	H1
Argos sales growth⁵				
Total	0.0%	2.6%	3.0%	2.8%
Like-for-like	(2.6)%	0.1%	2.3%	1.2%

At the end of the quarter, Argos had 839 stores

5. Certain statements made in this announcement are forward-looking statements. Such statements are based on current expectations and are subject to a number of risks and uncertainties that could cause actual results to differ materially from any expected future events or results referred to in these forward-looking statements. Unless otherwise required by applicable law, regulation or accounting standard, we do not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise
6. Sainsbury's also released today its Second Quarter Corporate Responsibility & Sustainability update. This is available at www.j-sainsbury.co.uk/investor-centre/results-and-presentations/
7. A conference call will take place at 8:30am. To listen to the audio webcast we recommend that you register in advance. To do so please visit www.j-sainsbury.co.uk prior to the event and follow the on-screen instructions. To view the transcript of the conference call go to www.j-sainsbury.co.uk and follow the on-screen instructions in the second quarter trading statement section
8. Sainsbury's will announce its Interim Results on 9 November 2016. The Group Statutory Interim Results will only include the three weeks of financial results of the acquired Home Retail Group business, from the date of acquisition on 2 September 2016 until the end of the Sainsbury's half year on 24 September 2016
9. The sale of our Pharmacy business to LloydsPharmacy completed on the 31 August 2016. The impact of this disposal will be excluded from like-for-like sales for a period of one year from this date