

Future Builder 2016 – Performance Measures

The long-term incentive vehicle in use at Sainsbury's is known as Future Builder. Awards are granted annually to senior managers, including to executive directors.

As outlined in the 2015/16 Annual Report, in light of the acquisition of Home Retail Group plc (HRG) the setting of the performance criteria for the 2016 Future Builder awards was deferred until after the acquisition completed. The performance measures and targets have now been determined. This award is based on performance measured over the three financial years ending March 2019.

The targets for the 2016 Future Builder awards are as follows:

	Weighting	Threshold (25% vests)	Maximum (100% vests)
Return on capital employed ('ROCE') ¹	20%	9%	12%
Underlying basic earnings per share ('EPS') ²	20%	23p	30p
Cumulative underlying cash flow from retail operations after capex ('cash flow') ³	20%	£3,500m	£5,150m
Cumulative strategic cost savings ('cost savings') ⁴	20%	£350m	£450m
HRG acquisition synergies ('synergies') ⁵	20%	£100m	£150m
<p>Performance gateway: The Remuneration Committee must be satisfied that the Company's underlying performance over the period justifies the level of vesting. Vesting will be reduced if the vesting outcome is not considered to be justified. At vesting, when making this judgement the Committee has scope to consider such factors as it deems relevant.</p>			

- ROCE 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.
- Underlying basic EPS is based on underlying profit after tax divided by the weighted average number of ordinary shares in issue during the year.
- 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.
- Cumulative strategic cost savings represents cost reductions over the performance period as a result of identified initiatives. It excludes Sainsbury's Bank.
- Synergies target represents the value driven from combining the J Sainsbury plc and HRG businesses post the acquisition and represents the EBITDA synergies being delivered by the end of the three year performance period.

Further details including information regarding other elements of the remuneration package for executive directors will be provided in the 2016/17 Directors' Remuneration Report.