

J Sainsbury plc: Board of Directors



1 David Tyler (64)* Chairman

Date of appointment: 1 October 2009
David has served as a Non-Executive Director since 1 October 2009 and as Chairman since 1 November 2009.

Skills and experience: David has broad and extensive experience in both executive and non-executive roles across the consumer, retail, business services and the financial services sectors. He is also an experienced chairman having served in that role previously at Logica plc and 3i Quoted Private Equity plc and currently at Hammerson plc and Domestic and General Group Limited. His last executive position was as Finance Director of GUS plc, and previously he held senior financial and general management roles with Christie's International Plc, County NatWest Limited and Unilever PLC. He has also been a Non-Executive Director of Experian plc, Reckitt Benckiser Group plc and Burberry Group Plc.

Other roles: Chairman of Hammerson plc
Chairman of Domestic and General Group Limited

2 Mike Coupe (56)♥ Chief Executive Officer

Date of appointment: 1 August 2007
Mike has served as an Executive Director since 1 August 2007 and as Chief Executive Officer since 9 July 2014

Skills and experience: Appointed Chief Executive Officer on 9 July 2014, Mike has been a member of the Operating Board since October 2004. Mike has vast retail industry experience in trading, strategy, marketing, digital and online as well as multi-site store experience. He joined Sainsbury's from Big Food Group where he was a board director of Big Food Group plc and Managing Director of Iceland Food Stores. He previously worked for both ASDA and Tesco, where he served in a variety of senior management roles.

Other roles: Non-Executive Director of Greene King plc

3 Kevin O'Byrne (52)**Chief Financial Officer****Date of appointment:** 9 January 2017**Skills and experience:** Kevin joined the Board on 9 January 2017 and brings a wealth of retail and finance experience. Kevin was previously Chief Executive Officer of Poundland Group until December 2016 and held executive roles at Kingfisher plc from 2008 to 2015, including Chief Executive Officer of B&Q UK & Ireland and Group Finance Director. Prior to this, Kevin was Group Finance Director of Dixons Retail plc.**Other roles:** Non-Executive Director and Chairman of the Audit Committee of Land Securities Group PLC**4 John Rogers (48)****Chief Executive Officer of Sainsbury's Argos****Date of appointment:** 19 July 2010

John served as Chief Financial Officer of J Sainsbury plc from 19 July 2010 until 5 September 2016 when he was appointed as Chief Executive Officer of Sainsbury's Argos.

Skills and experience: John has extensive experience in finance, strategy, digital, online, property and financial services. John became Chief Executive Officer of Sainsbury's Argos on 5 September 2016 following the acquisition of Home Retail Group. Prior to this appointment, John was Chief Financial Officer of J Sainsbury plc for six years and had responsibility for finance, group strategy, Sainsbury's online, business development, property, procurement and operational efficiency. He was also Director of Corporate Finance from 2005 to 2007, Director of Group Finance from 2007 to 2008 and in July 2008, he was appointed to the Operating Board as Property Director. John is also a member of the Sainsbury's Bank plc Board. Prior to Sainsbury's, John was Group Finance Director for Hanover Acceptances, a diversified corporation with wholly-owned subsidiaries in the food manufacturing, real estate and agri-business sectors.**Other roles:** Non-Executive Director of Travis Perkins plc**5 Matt Brittin (48) ♦ *****Non-Executive Director****Date of appointment:** 27 January 2011**Skills and experience:** As Google's President – Europe, Middle East and Africa, Matt has extensive experience of running a high profile, fast moving, innovative, digital business. Before joining Google to run its UK operations at the start of 2007, Matt spent much of his career in media and marketing, with particular interests in strategy, commercial development and sales performance. This included commercial and digital leadership roles in UK media. He is also a Director of charitable organisation, The Media Trust.**Other roles:** Google's President – Europe, Middle East and Africa**6 Brian Cassin (49) ♦ *****Non-Executive Director****Date of appointment:** 1 April 2016**Skills and experience:** Brian brings present day experience of running a FTSE40 company and of big data and analytics – topics of key importance to Sainsbury's. Brian joined Experian as Chief Financial Officer in April 2012, a post he held until his appointment as Chief Executive Officer in July 2014. Prior to this, Brian spent his career in investment banking at Baring Brothers International, Greenhill & Co where he was Managing Director and Partner and the London Stock Exchange where he held senior roles.**Other roles:** Chief Executive Officer of Experian plc**7 Mary Harris (51) ♦ ♥ *****Non-Executive Director****Date of appointment:** 1 August 2007

Mary is due to step down from the Board on 5 July 2017.

Skills and experience: Mary has extensive strategic experience in consumer goods and brings a strong understanding of a customer led retail environment to the Board. Mary is a Non-Executive Director of ITV plc and Reckitt Benckiser Group plc and a Member of the supervisory board of Unibail-Rodamco S.E. She is former member of the Supervisory Board of TNT Express NV and spent much of her career with McKinsey & Company, most recently as a partner, where she worked primarily with retail/consumer clients in China, South East Asia and Europe. Her previous work experience includes working for PepsiCo in Greece and the UK, as a sales and marketing executive.**Other roles:** Non-Executive Director of ITV plc and Reckitt Benckiser Group plc and a member of the supervisory board of Unibail-Rodamco S.E.**8 David Keens (63) ♦ *****Non-Executive Director****Date of appointment:** 29 April 2015**Skills and experience:** David has extensive retail experience and knowledge of consumer facing businesses, together with his core skills in finance. David is also a Non-Executive Director and the Senior Independent Director of Auto Trader Group plc, and chairs its Audit Committee. David was formerly Group Finance Director of NEXT plc from 1991 to 2015 and their Group Treasurer from 1986 to 1991. Previous management experience includes nine years in the UK and overseas operations of multinational food manufacturer Nabisco and, prior to that, seven years in the accountancy profession.**Other roles:** Non-Executive Director, the Senior Independent Director and Chair of the Audit Committee of Auto Trader Group plc**9 Susan Rice (71) ♦ *****Senior Independent Director****Date of appointment:** 1 June 2013

Susan has served as a Non-Executive Director since 1 June 2013 and has been the Senior Independent Director since 6 July 2016.

Skills and experience: Susan has extensive experience as a Non-Executive Director, as well as in retail banking, financial services, leadership and sustainability. Her career in retail banking is particularly relevant to our ownership of Sainsbury's Bank. Susan is Chairman of Scottish Water and Business Stream. Previously, Susan was a member of the First Minister's Council of Economic Advisors, Managing Director of Lloyds Banking Group Scotland and was previously Chief Executive and then Chairman of Lloyds TSB Scotland plc. She has also held a range of other non-executive directorships including at the Bank of England and SSE plc.**Other roles:** Chairman of Scottish Water, Chairman of Business Stream, Chairman of the Scottish Fiscal Commission and a Non-Executive Director of the North American Income Trust.**10 Jean Tomlin (62) ♥ ♦ *****Non-Executive Director****Date of appointment:** 1 January 2013**Skills and experience:** Jean has extensive experience and breadth of skills in human resources and corporate responsibility. Jean was formerly Director of HR, Workforce and Accreditation for The London Organising Committee of the Olympic and Paralympic Games, where she oversaw the creation and execution of the hugely successful Games Maker volunteering programme. She was previously Group HR Director at Marks and Spencer Group PLC, HR Director and founder member of Egg plc and Sales & Operations Director of Prudential Direct.**Other roles:** Independent Board member of Michael Kors Holdings Limited, a Trustee of Step Up To Serve, and a Council Member at Loughborough University.**Retirements in 2016/17:** In line with best practice, John McAdam retired from the Board on 6 July 2016.**Life President****Lord Sainsbury of Preston Candover KG****Key to Committee members**

- ♦ Remuneration Committee
- Audit Committee
- * Nomination Committee
- ♥ Corporate Responsibility and Sustainability Committee

♦ ● ♥ ♦ Denotes Chairman of Committee

J Sainsbury plc: Operating Board



1 Mike Coupe
Chief Executive Officer

See page 54.

2 Kevin O'Byrne
Chief Financial Officer

See page 55.

3 John Rogers
Chief Executive Officer of Sainsbury's Argos

See page 55.

4 Tim Fallowfield
Company Secretary & Corporate Services Director

Date of appointment: September 2004

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

5 Peter Griffiths, OBE
Chief Executive Officer of Sainsbury's Bank

Date of appointment: May 2014

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

6 Jon Hartland**Acting Retail and Operations Director****Date of appointment:** October 2015**Skills and experience:** Jon joined Sainsbury's in 1986 and held the position of Store Director for numerous stores until 1996. He then held a number of senior roles before becoming the Change Director in 2002 and later becoming the Central Retail Director. Jon was appointed Director for Non-Food Operations in 2011 and has been acting as the Retail and Operations Director role since October 2015. He sits on the GS1 apparel Europe board and was previously a Regional manager for Fine Fare (part of Associated British Foods plc).**7 Paul Mills-Hicks****Food Commercial Director****Date of appointment:** May 2014**Skills and experience:** Paul joined the Operating Board in May 2014 as Food Commercial Director having spent over ten years at Sainsbury's. He was closely involved in the formation and execution of the 'Making Sainsbury's Great Again' strategy. Following this he held a variety of roles in commercial, strategy and finance, most recently as Business Unit Director for Grocery. Prior to Sainsbury's, Paul was European Controller at Marks and Spencer Group plc and a Director at UBS Warburg.**8 Angie Risley****Group HR Director****Date of appointment:** January 2013**Skills and experience:** Angie was appointed Group HR Director and a member of the Operating Board in January 2013 with responsibility for human resources. She is also a Non-Executive Director of Serco Group plc and chairs their Remuneration Committee and is a Director of Sainsbury's Bank plc. Angie was most recently Group HR Director at Lloyds Banking Group and prior to this an Executive Director of Whitbread plc with responsibility for HR and Corporate Social Responsibility. She was a member of the Low Pay Commission.**9 Richard Newsome****Acting Digital and Technology Director****Date of appointment:** January 2017**Skills and experience:** Richard joined the Operating Board in January 2017, with responsibility for the Digital & Technology Division. He joined Sainsbury's in July 2014 as Director of Operations, from Rolls-Royce where he was responsible for Global IT Programme Delivery. Prior to that Richard had been UK IT Director for Cadbury and Kraft Foods, Client Director for Xansa's IT Outsourcing business, and had a long career in IT and Business Change at The Boots Company.**Simon Roberts****Retail and Operations Director****Date of appointment:** Simon is due to join the Operating Board in July 2017.

Corporate Governance



Dear Shareholder

The Board this year has maintained its particular focus on the Company's strategic direction and on driving the creation of sustainable long-term value for shareholders. This is particularly important in a sector like ours which is experiencing significant change and which is highly competitive.

Over an extended period, the Board considered the potential attractions of Argos and was closely engaged this year with the acquisition of its owner, Home Retail Group plc (HRG), believing that this will accelerate the strategy announced in 2014. We are pleased with the pace of integration and the opportunities that Argos is providing. We are now a multi-channel, multi-product retailer with a market-leading digital offer and nationwide fast-track delivery capabilities.

Food is our core business and it is our priority to offer customers great quality and choice at fair prices which differentiates us in an increasingly competitive market. The Board reviews our supermarket business on a regular basis to ensure it is well positioned to meet the challenges of the current trading environment. Our focus is on creating the differentiated offer our customers want and achieving cost savings and efficiencies.

Another of our priorities has been the delivery of the growth strategy of Sainsbury's Bank. During the year we have had a number of opportunities to meet the Bank's management team and Board, to discuss progress and agree the key actions for the short and medium term.

Upon the completion of the HRG acquisition, we reviewed our senior management structure and made some important changes to the executive team. We take succession at Board and senior management level very seriously and believe that we have management of the highest calibre. We announced that John Rogers, our Chief Financial Officer since 2010, would be appointed to the key role of Chief Executive Officer of Sainsbury's Argos. In this role he will continue to drive the integration of Argos with Sainsbury's general merchandise business, and deliver the ongoing digital transformation across Sainsbury's Argos. John and the experienced Management Board at Sainsbury's Argos have made an excellent start in their new roles.

We welcomed Kevin O'Byrne as our new Chief Financial Officer in January 2017. Kevin has a wealth of retail and financial experience from his previous senior roles at Kingfisher, Dixons and Poundland and has a track record in growing businesses. We are sure that he will make a great contribution to the business and to the Board. We are also pleased that Simon Roberts is joining Sainsbury's as Retail and Operations Director on the Operating Board. Simon previously held senior positions at Boots and Marks & Spencer and we believe that he will have a major impact on our future success.

We are sorry that Mary Harris will be stepping down from the Board at this year's AGM having completed over nine years of service as a Non-Executive Director. I would like to thank Mary for her very valuable contribution over that time and particularly for her skilful leadership of the Remuneration Committee over recent years. I am pleased that Susan Rice will take over as Chairman of the Remuneration Committee on Mary's departure. A search for a new Non-Executive Director to join the Board is under way.

As a Board, we take governance very seriously and we regularly discuss and review our ways of working and our effectiveness. During the year, we asked Manchester Square Partners (MSP) to carry out a review of our effectiveness and are now working through an action plan, based on their feedback, to build on our strong foundations. We believe that Sainsbury's unique values and culture play a key role in our success and we were therefore particularly pleased with MSP's conclusion in this regard that "the Board embodies and leads by example on the behaviours and culture which Sainsbury's aims to drive throughout the organisation". Their review is described in detail on page 61.

We continue to have a mix of men, women and ethnic backgrounds on our Board. This diversity is in line with good governance and appropriate for both Sainsbury's and our customer base. We continue to focus on increasing our diversity and inclusivity at all levels of the business and I draw your attention to the detailed review on pages 39 and 65.

David Tyler

David Tyler
Chairman

Compliance Statement

The Board is committed to strong governance and, during the year, the Company has complied with all the provisions of the UK Corporate Governance Code (Governance Code). This report outlines how we have applied the Governance Code's main principles throughout the year.

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

Leadership

How we are governed

The Board currently comprises three Executive Directors, the Chairman and six Non-Executive Directors. The Non-Executive Directors bring wide and varied commercial experience to the Board and committees. The Directors are subject to election by shareholders at the first AGM after their appointment and re-election at each AGM thereafter. All members of the Board, other than Mary Harris, will retire and seek election or re-election by shareholders at this year's AGM. John McAdam stepped down from the Board in July 2016 and Susan Rice succeeded him as Senior Independent Director.

In the period between John Rogers being appointed as Chief Executive Officer of Sainsbury's Argos in September 2016 and Kevin O'Byrne being appointed as Chief Financial Officer of the Company in January 2017, Ed Barker acted as Interim Chief Financial Officer and attended Board meetings and investor relations presentations in that capacity.

Division of responsibilities

Chairman, David Tyler

Responsible for leadership of the Board, ensuring its effectiveness in all aspects of its role and for setting the Board agenda. Ensures effective communication with shareholders and that the Board is aware of the views of major shareholders. Facilitates the contribution of the Non-Executive Directors through a culture of openness and debate, and ensures constructive relations between Executive and Non-Executive Directors.

Chief Executive Officer, Mike Coupe

Responsible for the day-to-day management of the Group and executing the strategy, once agreed by the Board. Creates a framework of strategy, values, organisation and objectives to ensure the successful delivery of results, and allocates decision making and responsibilities accordingly. Manages the risk profile in line with the risk appetite identified and accepted by the Board. Takes a leading role, with the Chairman, in the relationship with all external agencies and in promoting Sainsbury's.

Senior Independent Director, Susan Rice

Acts as a sounding board for the Chairman and as a trusted intermediary for the other Directors. Meets with the other Non-Executive Directors in the absence of the Chairman at least once a year in order to undertake a review of the Chairman's performance. Available to discuss with shareholders their views and any concerns that cannot be resolved through the normal channels of communication with the Chairman or the Executive Directors.

Role of the Board and its committees

Board

The Board is responsible for the long-term success of the Company, setting the Company's strategy, financial objectives and risk appetite, providing leadership to the business including on culture, values and ethics, monitoring the Company's overall financial performance and ensuring effective corporate governance and succession planning.

The matters reserved for the Board can be found on our website at www.j-sainsbury.co.uk

Operating Board

Day-to-day management of the Group is delegated to the Operating Board, which is chaired by Mike Coupe. The Operating Board has delegated certain powers to the Operating Board Committees, each of which has approved terms of reference setting out its areas of responsibility. John Rogers and Peter Griffiths represent the Sainsbury's Argos Management Board and the Sainsbury's Bank Board respectively on the Operating Board. The Operating Board held 12 scheduled meetings during the year. The responsibilities of each Director are set out on [pages 56 and 57](#).

Committees

Audit Committee

The Audit Committee reviews the integrity of the financial information provided to shareholders, oversees the Company's system of internal controls and risk management, approves the internal and external audit process, and monitors the process for compliance with relevant laws, regulations and policies.

i More details on [page 68](#)

Remuneration Committee

The Remuneration Committee recommends and reviews the remuneration policy, ensuring it is aligned to the long-term success of the Company. It also approves the remuneration and benefits of Executive and Operating Board Directors.

i More details on [page 74](#)

Nomination Committee

The Nomination Committee reviews the balance of skills, knowledge, experience, independence and diversity of the Board and its Committees, and succession planning at Board and senior management levels.

i More details on [page 64](#)

Corporate Responsibility and Sustainability Committee

The Corporate Responsibility and Sustainability (CR&S) Committee reviews the broad CR&S strategy and the Company's progress on the key corporate responsibility initiatives including diversity, values and colleague and customer insights.

i More details on [page 66](#)

*Terms of reference for each committee can be found on the website.

Operating Board Committees

Corporate Responsibility and Sustainability Steering Group
Mike Coupe

Data Governance Committee
Tim Fallowfield

Trading Board
Paul Mills-Hicks

Investment Board
Kevin O'Byrne

Group Safety Committee
Tim Fallowfield

Diversity and Inclusivity Steering Group
Angie Risley

Key areas of focus of the Board

The Board and Committees have a scheduled forward programme of meetings. This ensures that sufficient time is allocated to each key area and the Board's time together is used effectively. There is sufficient flexibility in the programme for specific items to be added to the agenda which enables the Board to focus on key matters relating to the business at the appropriate time.

The principal activities of the Board during the financial year included the following items, some of which were considered at each meeting, and others were reviewed periodically throughout the year:





Item
<p>Financial and Operational Performance</p> <p>The Board reviewed and discussed:</p> <ul style="list-style-type: none"> — Annual budget and Corporate (five year) plan — CEO Report including a market and trading update — Performance against key targets of Sainsbury's, Sainsbury's Argos and Sainsbury's Bank — Customer insights and service standards — Financial items including Preliminary and Interim results and the Annual Report — Dividend Policy and recommendations — Treasury and tax policy — Pensions
<p>Strategy</p> <p>At the strategy conference and on a regular basis throughout the year, the Board reviewed:</p> <ul style="list-style-type: none"> — The implementation of the agreed strategic plan, focusing particularly on the HRG acquisition and integration, the core supermarket strategy and Sainsbury's Bank — Potential further strategic initiatives — Regular market updates — Competitor performance
<p>Risk & Governance</p> <p>The Board reviewed and discussed risk and governance matters including:</p> <ul style="list-style-type: none"> — Reports from the Board committees – Audit, Remuneration, Nomination and CR&S — Information security and data governance — Board Evaluation — Corporate Responsibility and Sustainability — Internal controls and risk management — Safety reports (health and safety, and food) — Public Affairs — Litigation — Investor relations and other stakeholder engagement
<p>Colleagues</p> <p>The Board received updates on:</p> <ul style="list-style-type: none"> — Talent, diversity and succession planning — Colleague pay — Significant reorganisations — HR Policy

Strategy

The Board continued to prioritise its reviews of the implementation of the agreed strategic plans, focusing particularly on the HRG acquisition, the core supermarket strategy and Sainsbury's Bank. A two day strategy conference, with the attendance of the Board and Operating Board, was held in October. The strategy conference was a key opportunity for the Board to discuss, challenge and focus on strategy, including in-depth reviews of the retail market, competition, pricing and promotions, customer insights, Sainsbury's Bank strategy and the five year corporate plan. The strategy conference is carefully structured to achieve a balance between presentations and time for debate and discussion. External advisers attended for part of the conference. During the year, the Board also received regular updates on progress against the strategy and, in July, it will agree the objectives and principal areas of focus for the next strategy conference.

Home Retail Group acquisition

Given the strategic importance of the acquisition of HRG, the Board was fully engaged in planning, negotiating and approving the transaction, which is summarised below.

 <p>Up to Nov 2015</p>	<p>Planning</p> <p>The Board had in depth discussions over several months about the benefits and potential long-term shareholder value that could be created through a potential acquisition of HRG. The Board provided challenge and guidance to the executive team. The Board's detailed review confirmed that the combination of the businesses was attractive in principle for shareholders and customers of both companies.</p>
 <p>Nov 2015 to April 2016</p>	<p>Negotiation</p> <p>In November 2015, the Company approached HRG about the possibility of a combination of the two businesses. On 5 January 2016, Sainsbury's announced a possible offer for HRG. A sub-committee was established to oversee the negotiations and due diligence, and to ensure robust governance. The Board approved the terms and conditions of the offer.</p>
 <p>April to Sept 2016</p>	<p>Completing the deal and planning the integration</p> <p>On 2 April 2016, the HRG Board announced they would recommend Sainsbury's offer to their shareholders. During April to September, the Board had oversight of the progress of the transaction and supported the sub-committee in making decisions on a timely basis. Relevant documentation was reviewed and approved by the Board.</p> <p>It was imperative that there was an organisational and operational plan in place to commence integration. The Board approved the appointment of John Rogers as Chief Executive Officer of Sainsbury's Argos on completion of the deal.</p>
 <p>Sept 2016 onwards</p>	<p>Post completion and integration</p> <p>The acquisition completed on 2 September 2016. The integration of the Argos business into Sainsbury's started immediately. Regular updates on integration, synergies and trading performance and the emerging strategy of Sainsbury's Argos were considered by the Board. The Board took the opportunity to meet the management team and visit stores.</p>

Risk management

During the year David Keens, the Audit Committee Chairman, gave detailed updates to the Board following each Audit Committee meeting on risk management and internal controls and the specific matters considered by the Audit Committee. The Director of Internal Audit attends at least one Board meeting a year as part of the Board's overall review of the effectiveness of risk management and the system of internal controls. In addition, specific risks are regularly discussed. For instance, the Board receives an annual update and quarterly updates on health and safety, and food safety. One of the particular risks the Board also examined this year was data governance and information security and how the risks were being mitigated through a combination of people, process and technology change.

Board operation and attendance

The Board held eight scheduled meetings during the year, including the two-day strategy conference held in October. A significant number of additional ad hoc meetings and conference calls were also convened to deal with specific matters, particularly in relation to key decisions concerning the acquisition of HRG.

The Board had a number of informal meetings during the year. These included informal meetings of the Board the day before most Board meetings, and meetings with individual members of the Operating Board and their leadership teams to receive updates on their specific areas of responsibility. In addition, the Chairman and Non-Executive Directors met without the Executive Directors being present, and the Non-Executive Directors also met without the Executive Directors or the Chairman being present.

All Directors were made aware of the key discussions and decisions of each of the four principal Committees by the Chairman of each Committee providing a detailed summary at the Board meeting following the relevant Committee meeting. Minutes of Board and Committee meetings were circulated to Directors shortly after those meetings took place.

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

	Board	Audit	Remuneration	Nomination	CR&S
Matt Brittin	8(8)	4(4)		4(4)	
Mike Coupe	8(8)				2(2)
Mary Harris	8(8)		5(5)	4(4)	1(2)
David Keens	8(8)	4(4)		4(4)	
Brian Cassin	7(8)	4(4)		4(4)	
Susan Rice	8(8)	1(1)	5(5)	4(4)	
John Rogers	8(8)				
Jean Tomlin	7(8)		5(5)	4(4)	2(2)
David Tyler	8(8)			4(4)	
Kevin O'Byrne	2(2)				
John McAdam	3(3)		1(1)		

Notes: Ed Barker attended two meetings in his capacity as Interim CFO. The maximum number of meetings held during the year that each Director could attend is shown in brackets. Brian Cassin and Jean Tomlin were each unable to attend one Board meeting due to prior business commitments.

On the rare occasions that a Director is unavoidably unable to attend a meeting, the Chairman briefs them before the meeting so that their comments and input can be taken into account at the meeting, and provides an update to them after the meeting.

Effectiveness

Board evaluation

Key findings from 2015/16 review

- 1 Build on the strong links with the Board of Sainsbury's Bank and the broader management team at the Bank.

The Board has had regular opportunities to review the progress of Sainsbury's Bank's growth strategy during the year. The September Board meeting was held at the Bank's offices in Edinburgh, giving the Board an opportunity to meet the Bank's Board, including the Chairman and Non-Executive Directors, and the senior management team who made detailed presentations.

- 2 Some specific items could be given more visibility at Board level, including the work to increase diversity at all levels across the business.

The Board received a detailed update on the Company's diversity and inclusivity priorities at the strategy conference in October, with further updates at CR&S Committee and Board meetings.

- 3 Continue to monitor the broader competitive landscape, given the extent of the multi-channel retail market and the pace of change.

The Board discussed the broader competition landscape at the strategy conference in October and frequently at Board meetings.

2016/17 review

The Board agreed that the 2016/17 review should be carried out by an external facilitator. Three different suppliers took part in a tender process and the Board determined that Manchester Square Partners (MSP) should be appointed to conduct the evaluation exercise of the Board and its Committees. MSP had carried out the previous external review in 2013/14 – this continuity was felt to be advantageous in tracking any changes in the Board's effectiveness over that period. It was agreed that the review would explore a broad range of dimensions covering strategy, operational priorities, the Board's role, its structure and balance, succession, risk management and governance. These themes were developed into a full written set of questions to ensure that the objectives of the Board review were met.

The review was conducted from November 2016 to February 2017. MSP had access to the Board and strategy conference papers for the prior 12 months. Board members first completed a questionnaire and individual meetings were then held with all Directors, the Company Secretary, the Interim Chief Financial Officer, the Group HR Director, the Chief Executive Officer of Sainsbury's Bank and the audit partner from Ernst & Young. As part of the process MSP attended and observed a Board meeting. MSP presented the conclusions to the Board at a meeting convened for that purpose and the Board discussed the key points and agreed certain actions.

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

MSP concluded that "the Board is functioning well and in line with first class corporate governance, the Board dynamics are excellent – this is a collegiate, consensual, cohesive and supportive but challenging Board with a high degree of mutual trust, respect and integrity".

MSP highlighted a number of positive themes which had emerged from the evaluation, which include:

- There is clarity and alignment on the role of the Board, the strategic priorities, key challenges and risks.
- All Non-Executive Directors feel the need to challenge constructively and believe the quality of debate is high and has become more robust.
- The Board provides strong leadership and support to the business and is successfully overseeing a period of significant change.
- There is a strong sense of shared values. The Board embodies and leads by example on the behaviours and culture which Sainsbury's aims to drive through the organisation.
- The pace has increased significantly, especially around strategy, decision making and execution.
- Risk is well monitored and managed.
- There are effective, efficient and thorough Board structures, processes and information flows.

The Board identified the following actions:

- Review the Board programme to continue to find sufficient time for strategy and deep dives on big topics, with integration of individual topics if possible.
- Develop more informative KPIs around digital activities and the competitive environment.
- Having discussed Mary Harris's plans to step down from the Board at the AGM, start the succession process for an additional Non-Executive Director.
- Extend the timings of Board visits to the other business locations or suppliers in order to allow more time for interaction.
- Find additional opportunities to meet the broader management teams.

It is anticipated that the 2018 Board evaluation exercise will be carried out internally.

Induction

We have a comprehensive and tailored induction programme in place for Directors in order for them to gain an understanding of all aspects of the Group, including our culture and values, strategy, sustainability, governance and the opportunities and challenges facing the business. The programme includes store and depot visits and meetings with other members of the Board, members of the Operating Board, senior management and external advisers. The programme is ongoing for Non-Executive Directors, who often meet members of the management team on an individual basis to continue to build up their knowledge of the Company or visit stores, depots and other business locations and also suppliers. Subsequent training is available on an ongoing basis to meet any particular needs.

During the year, Brian Cassin and Kevin O'Byrne joined the Board and John Rogers was appointed as Chief Executive Officer of Sainsbury's Argos. David Keens continued his induction following his appointment to the Board in April 2015.

Brian Cassin

Brian Cassin joined the Board on 1 April 2016. During his induction to date, Brian has met with members of the Board and had a series of one to one meetings with members of the Operating Board and senior management to get an insight into each of their areas of responsibility. He visited a number of stores including the new store at Nine Elms. He also attended a colleague listening group where he heard feedback from store colleagues and he met with external advisers to understand regulatory matters and obligations.

David Keens

David Keens joined the Board on 8 July 2015. He has had a comprehensive and tailored induction which has continued this year and included further visits

to operations around the Group which were particularly relevant to his role as the Chairman of the Audit Committee. For more information see page 68.

Kevin O'Byrne and John Rogers also have continuing comprehensive inductions consistent with the scale and profile of their new executive roles.

Professional development, support and training

We have a programme for meeting Directors' training and development requirements. The Board programme includes regular presentations from management and informal meetings to build their understanding of the business and sector. This year a number of Board meetings were held at offsite locations including:



1 Marine Harvest

The Board held its June meeting at Sainsbury's salmon supplier, Marine Harvest, at their Scottish office. Here the Board had the opportunity to meet with the Food Commercial Director, and the Trading Division leadership team and to discuss the overall trading strategy, including pricing and promotions, provenance and supplier relationships. The Board also received a presentation on Marine Harvest, met their management team and toured their facility. This has given the Board a greater understanding of Sainsbury's trading strategy, focus on differentiation, supplier relationship management and the relationship with Marine Harvest.

2 Sainsbury's Bank

The Board held their September meeting at Sainsbury's Bank in Edinburgh and met with Sainsbury's Bank Non-Executive Directors, Chairman, Executive Committee and senior management. They discussed the opportunities and challenges facing the financial services sector, received a detailed overview of the Bank's strategy including short and medium term plans and met the broader management team.

3 Sainsbury's Argos

The Board met the Sainsbury's Argos Management Board and senior management team, in Milton Keynes in November, and had the opportunity to discuss trading, integration and strategic plans, and to visit stores.

4 The Online Fulfilment Centre in Bromley-by-Bow

The Board discussed online strategy and toured the facility with the management team at the new Sainsbury's Online Fulfilment Centre in Bromley-by-Bow. The purpose built Online Fulfilment Centre is 185,000 sq. ft. and has the capacity to fulfil 25,000 customer online orders per week.

During the year the Company Secretary provided updates to the Board on relevant governance matters, Directors' duties and obligations, and new legislation and its impact on the Company including the new Market Abuse Regulations and the Green Paper on Corporate Governance Reforms. Both the Audit and Remuneration Committees received regular updates on relevant accounting and remuneration developments, trends and changing disclosure requirements from external advisers and management. The Chairman, in collaboration with the Company Secretary and management, ensured that all Directors were properly briefed on issues arising at Board meetings and that they had sufficient, reliable and timely access to relevant information. Directors have access to independent professional advice if necessary and to the advice of the Company Secretary in fulfilling their duties and responsibilities.

Independence and conflicts of interest

The Chairman satisfied the independence criteria of the Governance Code on his appointment to the Board and all the Non-Executive Directors are considered to be independent. Each of the Directors has a duty to avoid a situation where he/she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests. The Company's Articles of Association permit the Directors to authorise conflicts and potential conflicts, where appropriate. The Board has established procedures for the disclosure by Directors of any such conflicts, and also for the consideration and authorisation of these conflicts by the Board. In accordance with the Companies Act 2006, the Board considered and authorised each Director's potential conflicts of interest during the year.

Whenever a Director takes on additional external responsibilities, the Board considers any potential conflicts that may arise. The Board continues to monitor and review potential conflicts of interest on a regular basis. The Board has specifically considered the executive or non-executive roles that some of the Non-Executive Directors have with companies that may be suppliers to Sainsbury's. The Board is satisfied that the independence of the Directors who have executive or non-executive roles with other companies is not compromised.

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

Relations with stakeholders

The Company is committed to maintaining good communications with stakeholders.

Institutional shareholders

- Normal shareholder contact is the responsibility of Mike Coupe, Kevin O'Byrne and James Collins, Head of Investor Relations.
- The Chairman met with institutional shareholders and other large investors. The Senior Independent Director, Susan Rice, is also available to attend meetings as required.
- The Company met regularly with its large investors and institutional shareholders who, along with sell-side research analysts, were invited to presentations by the Company immediately after the announcement of the Company's interim and full-year results.
- Large investors and institutional shareholders also visited a number of stores and concessions.
- They are also invited to participate in conference calls following the announcement of the Company's trading statements. The content of these presentations and conference calls are webcast and are posted on the Company's website www.j-sainsbury.co.uk/investor-centre so as to be available to all investors.
- While activity early in the year was constrained by Takeover Panel Rules relating to our offer for HRG, the Company met, through regular post-results roadshows, ad hoc meetings, conference attendances and site visits in the UK, US and Europe, a total of 187 shareholders and potential investors in 229 meetings over the course of the year.

Feedback from institutional shareholders

- The Board received regular updates on the views of major investors and the Investor Relations programme at each Board meeting.
- Makinson Cowell provided investor relations consultancy services to the Company and external analysis to the Board on the views of institutional investors and sell-side analysts.
- Makinson Cowell additionally carried out an extensive Investor Study, covering share price performance, the share register, the Investor Relations programme and investor views on the retail market, communication, strategy and management. Key conclusions and recommendations arising from this survey were presented to the Board.
- Non-Executive Directors also received regular market reports and broker updates from the Company's Investor Relations department.
- Investors are increasingly interested in corporate responsibility matters, details of which can be found on pages 66 and 67. Information on countering bribery can be found on page 97.

Private shareholders

- Our private shareholders are encouraged to access the Company's Interim and Annual Reports and presentations on our website. Other useful information such as announcements, historic dividend records and shareholder communications is also available on the website www.j-sainsbury.co.uk/investors

AGM

- Shareholders had the opportunity to meet and question the Board at the AGM. There was a display of various aspects of the Company's activities and Mike Coupe made a business presentation. This year the AGM will be held on 5 July 2017.
- All resolutions proposed at the 2016 AGM were taken on a poll vote and were passed with significant majorities.

Suppliers

The Board receive regular updates on the trading strategy, and supplier relationship management was a key area of focus of the June Board meeting held at Marine Harvest's facility in Scotland when Marine Harvest's management and the Trading Division Leadership team presented to the Board (page 62). The Company's compliance with the Grocery Supply Code of Practice is monitored by the Audit Committee (page 73) and David Keens met the Grocery Code Adjudicator in his role as Chairman of the Audit Committee. Supplier relationship management was also discussed by the CR&S Committee and in two CR&S stakeholder meetings, Mike Coupe and Jean Tomlin had the opportunity to hold discussions with key suppliers and other stakeholders.

Colleagues

The CR&S Committee discussed insight on colleague engagement, and summaries of the key issues that were important to colleagues, at each of the meetings. It has been agreed that some of the Non-Executive Directors will meet colleagues from the National Great Place to Work Group to hear colleagues' views on matters which are at the top of their agenda and share with them some of the items on the Board agenda. This will enhance the link between the Non-Executive Directors and colleague representatives.

Nomination Committee



Dear Shareholder

The Nomination Committee has overseen the Board's succession planning during the year which has resulted in the appointments of John Rogers and Kevin O'Byrne to their new roles. We believe that they will carry out their responsibilities in a highly effective way, and that they will contribute significantly to our operational and strategic discussions, and complement the existing balance of skills and experience around the boardroom table.

Succession and diversity at Board and senior management levels are key aspects of our agenda. Our priorities over the year were as follows:

- To implement the succession plan for the Argos Chief Executive Officer role and ensure a smooth transition.
- To plan and implement the appointment of a new Chief Financial Officer.
- To support succession at Operating Board and senior management levels, including the appointment of Simon Roberts as Retail and Operations Director, and the appointment of a new management board for Sainsbury's Argos.
- To plan succession at Non-Executive level in light of Mary Harris' decision to step down from the Board at this year's AGM, following over nine years of service to the Company. A search process for a new Non-Executive Director is under way.
- To review our progress on becoming a more diverse and inclusive business. The Committee received a full update on the Company's progress at the strategy conference in October and Directors continue to receive regular updates at Board meetings.
- To oversee the Company's approach to resourcing the needs of the business, developing our colleagues and recruiting new talent.

The Committee is pleased with the progress made on these priorities during the year and believes that the new appointments at Board and senior level position the business well for the future.

David Tyler

David Tyler
Chairman

Succession planning

The Board takes succession planning for both Board members and senior management very seriously. All of the Non-Executive Directors are members of the Nomination Committee which is chaired by David Tyler. Mike Coupe is invited to attend meetings. During the year, the Committee held four formal meetings and there were regular updates on its various search processes and appointments.

At the strategy conference in October, the Committee reviewed succession plans, development and talent management for senior managers as well as progress on inclusivity throughout the business. In March 2017, following the Board evaluation, the Committee considered the balance, skills and diversity of the Board. As part of its succession planning the Committee agreed to start a search for a new Non-Executive Director in light of Mary Harris stepping down from the Board at the AGM, and discussed the preferred experience for the role specification. The Committee also approved the appointment of Susan Rice as Chairman of the Remuneration Committee in July 2017. Susan has been a member of the Remuneration Committee since September 2015.

Each of our Directors were recruited following a robust selection process which has been facilitated by independent executive search consultants. The Committee believes Sainsbury's has a good balance and diversity amongst Non-Executive Directors, with several having extensive experience of retail and consumer-facing businesses and other highly relevant skills derived from serving in a range of major executive and non-executive positions throughout their careers.

The Committee oversaw the two key appointments of John Rogers and Kevin O'Byrne during the year.

John Rogers

John was promoted to the role of Chief Executive Officer of Sainsbury's Argos upon completion of Sainsbury's acquisition of HRG in September 2016. John's experience goes beyond his most recent role as Chief Financial Officer. His vast experience as a leader in the business in strategy, digital, online, financial services and property since he joined Sainsbury's in 2005 made John the ideal candidate to lead Sainsbury's Argos.

As Chief Executive Officer he will continue to drive the integration of Argos with Sainsbury's general merchandise business, and deliver the ongoing digital transformation across Sainsbury's Argos.

Kevin O'Byrne

Identify. Using the agreed brief, the Committee reviewed and shared feedback on a list of internal and external candidates from independent executive search consultants Egon Zehnder International. The diverse list of candidates was appraised against the key competencies and experience required for the role.

Interview. Mike Coupe and Angie Risley (Group HR Director) led a series of interviews with the shortlisted candidates. Preferred candidates then met with David Tyler, David Keens and John Rogers following which the Committee met to discuss feedback.

Select. After further meetings with Non-Executive Directors, Kevin O'Byrne was recommended for appointment by the Committee. He was identified as the preferred candidate particularly due to his wealth of retail and finance experience, and his track record in growing businesses.

Appoint. Kevin's appointment as Chief Financial Officer was approved and announced on 7 November 2016 and took effect on 9 January 2017.

During the search process Ed Barker, Sainsbury's Director of Group Finance, was appointed Interim Chief Financial Officer from 5 September 2016 until 9 January 2017.

Diversity and inclusivity

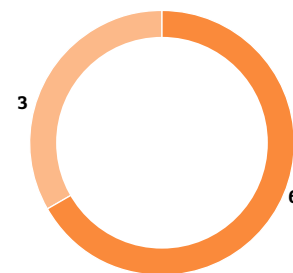
We want to be 'the most inclusive retailer'. We will achieve this aspiration by recruiting, retaining and developing diverse and talented people and creating an inclusive environment where everyone can be the best they can be and where diverse views are listened to. The Board is highly supportive of the initiatives to promote diversity and inclusivity throughout the business. For instance, Jean Tomlin attended Sainsbury's first Black, Asian, Minority Ethnic (BAME) event, delivering a key note speech to over 200 BAME colleagues about her career journey, experiences and challenges.

The Board receives regular updates on inclusivity and both the CR&S Committee and the Nomination Committee had detailed presentations on the range of priorities and the progress against them during the year. More about these initiatives and the progress being made can be found on page 39.

Our gender diversity statistics can be found in the table below. For most of the year, two members of the Operating Board (22%) were women, however following the departure of Sarah Warby in January 2017, the number fell to one.

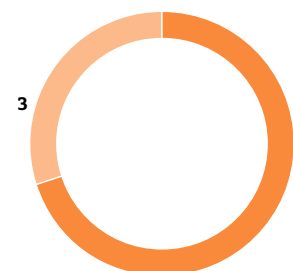
	Colleagues	Male	Female
Board	10	7 (70%)	3 (30%)
Operating Board	9	8 (89%)	1 (11%)
Divisional Directors and Senior Managers	265	183 (69%)	82 (31%)
Company	191,202	85,746 (45%)	105,456 (55%)

Board balance



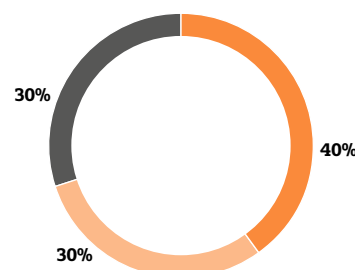
● Non-Executive Director ● Executive Directors

Board diversity



● Men ● Women

Board tenure



● 0-3 years ● 4-6 years ● 7-9 years

Corporate Responsibility and Sustainability Committee



Dear Shareholder,

Our vision is to be the most trusted retailer, where people love to work and shop, by living up to our values for customers, colleagues, suppliers, shareholders and wider society. This is critical to helping our customers to live well for less.

Throughout our 148-year history, we have always taken our responsibilities to society seriously. Today, the need for business to build trust by, for example, tax transparency or respecting human rights, is more important than ever. While we experience political change and uncertainty in some aspects of society, we know that we can still play an important role in supporting our customers in areas that matter to them.

Enabling people to live healthier lives, protecting the environment, supporting our colleagues and people who work throughout our supply chains and championing issues that affect our local communities, creates valuable opportunities to deepen our relationships with all our stakeholders while reducing risk.

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

Since we refreshed our Sustainability Plan in 2015, we have made significant progress in responding to changes in the world around us and deepening our understanding of the support our customers want from us.

For example, as part of our Respect for our environment value, we have continued to increase the impact of our *Waste less, Save more* campaign. This initiative was developed as a direct response to the findings in our Closer to Customers insight programme which revealed that customers wanted help with reducing food waste at home.

Many of our customers also want help to live healthier lives. Through our Living healthier lives value, we have reformulated more of our products to reduce salt, saturated fat and sugar, and we have continued to support young people in communities across the UK to do more exercise and eat more healthily through our flagship Active Kids scheme. Since its launch in 2005, we have invested more than £173 million in sports and cooking equipment and experiences for schools.

I am also particularly proud of the great progress we have made in Sourcing with integrity, towards developing sustainability standards across our key raw materials. The credibility and quality of this work relies on close partnership and co-creation with many independent, expert organisations around the world which help us to ensure we have world-class standards addressing economic, social and environmental issues. We place great value on these collaborations and I would like to thank all that have contributed to our journey.

As part of our Great place to work value, we strive to be the most inclusive retailer. During the year, we have launched our Embrace the Difference inclusion campaign internally with a host of engagement activities and training to support colleagues to embrace the differences they see in others. We're the largest employer to have reached the Investors in People Gold standard and the only retailer to achieve three consecutive Gold awards, and the feedback we received recognised that our values are a core part of our DNA. I was also pleased to see acknowledgment of our progress on gender, LGBT matters and apprenticeships – all underpinned by strong colleague advocacy and open communication that runs as a golden thread through our business.

As work to integrate and align activity across the Sainsbury's Group progresses in the year following the acquisition of HRG, we are identifying opportunities to have an even greater, positive impact on society. Despite this being a year of significant change for colleagues at Argos, some key activities, such as fundraising for Macmillan Cancer Support and the Irish Cancer Society – part of our Making a positive difference to our community value – have continued with real commitment. Building on this, we are confident that 2017/18 will be an exciting year for developing our approach to sustainability across the whole Group.

We continue to listen to all our stakeholders – customers, colleagues, suppliers and investors – to make sure we have the most relevant and effective strategy, leverage the knowledge and experience of experts and remain at the forefront of sustainability between now, 2020 and beyond. For me, what I am most proud of is how we work diligently across the organisation to deliver on our Sustainability Plan commitments and our values, day in and day out.

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

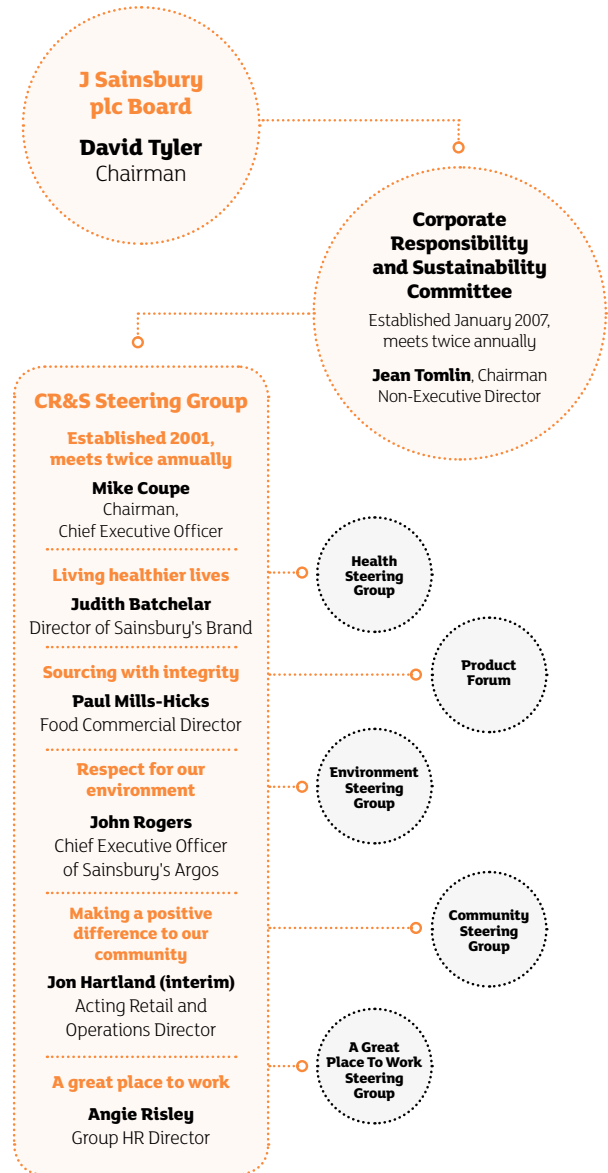
Jean Tomlin
Chairman, Corporate Responsibility
and Sustainability Committee

Corporate Responsibility and Sustainability Committee

Our Corporate Responsibility and Sustainability (CR&S) Committee is chaired by Jean Tomlin and attended by its members Mary Harris and Mike Coupe. David Tyler also attends the meetings. It met twice during the year and discussed our progress across each of our five values as well as our Sustainability Plan as a whole. For example, it reviewed the development of the *Waste less, Save more* customer food waste initiative and plans for the integration of Home Retail Group sustainability activities into the wider Sainsbury's strategy. Through these meetings the CR&S Committee also receives regular updates on colleague and customer views on issues relating to our values and Sustainability Plan so that we can respond appropriately.

These formal Committee meetings were supported by two CR&S stakeholder meetings that were hosted by Jean Tomlin and Mike Coupe. Key external stakeholders, including representatives from the Government, industry, non-governmental organisations and key suppliers, joined us to discuss issues that relate to our values. Our Sourcing with integrity event focused on the role that Sainsbury's can play in supporting the UN Sustainable Development Goals and stakeholders at our Living healthier lives event discussed the findings of our latest Active Kids research and the challenges faced by 11-14 year olds in leading a healthier lifestyle. These events are an important way for us to hear new perspectives and be challenged on issues that are important for our business and society. We feed what we learn back into our teams so that we can respond through how we deliver our Sustainability Plan.

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



Audit Committee



Dear Shareholder,

This year, the wide-ranging activities of the Committee have included the acquisition and integration of HRG, monitoring the transition of Sainsbury's Bank and the management of data security.

This is my second year on the Board and second report as Chairman of the Audit Committee. Building on the previous year, I have continued to visit Company operations around the Group, including data centres, business continuity facilities, online fulfilment services and supplier premises. There were further visits to Sainsbury's Bank in Edinburgh and to the newly acquired Argos Contact Centre in Widnes and Head Office in Milton Keynes. Retail store tours, both escorted and unannounced, are a regular feature.

The Committee provides oversight of the risk profile across the Group. This is undertaken by reviewing the principal risks and uncertainties and through regular updates from internal and external auditors. A new development this year has been the inclusion of Sainsbury's Argos into the Group risk management approach and into the activities of the Committee. The Company's principal risks and uncertainties are set out on pages 42 to 44.

We monitor the audit and risk activities of the operations of Sainsbury's Bank; including the continued transition from Lloyds Banking Group and recent integration of Argos Financial Services.

Data security and governance continues to be an area of focus for the Committee. Good progress is being made in identifying and managing data risks and in preparing for the introduction of new legislation in 2018.

This year's external Board evaluation process considered the role and effectiveness of the Committee. I am pleased to report that feedback relating to the Committee was positive and that we continue to provide the necessary support to the Board.

The significant financial and reporting matters considered by the Committee during the year are set out from page 69.

I am indebted to my co-Directors on the Committee for their time and insight during this past year. We, together with internal colleagues and external advisers, covered a wide range of topics and governance matters. Our intention is to continue in a similar, diligent manner over the coming year.

David Keens
Chairman, Audit Committee

Accountability

Committee membership

The Audit Committee is chaired by David Keens, with Matt Brittin and Brian Cassin as its other members, all of whom are independent Non-Executive Directors. Susan Rice stepped down as a member of the Committee on 4 May 2016.

The Board has determined that David Keens has recent and relevant financial experience. The Committee as a whole has relevant retail sector experience – for instance, David Keens held the role of Group Finance Director of Next plc for 24 years.

Attendees

The Chairman, Chief Executive Officer, Chief Financial Officer, Director of Internal Audit, Director of Group Finance, Company Secretary and Corporate Services Director, representatives from Sainsbury's Bank and the external auditor attended Audit Committee meetings.

Committee activities

The key activities of the Committee during the year in fulfilling its responsibilities included reviewing, monitoring and approving the following:

Financial reporting

- The integrity of the financial statements and any other formal announcement relating to financial performance
- The significant financial reporting issues and judgements contained in the financial statements
- The implementation of new accounting standards
- The Company's funding and liquidity position and its impact on the Company's financial and operational capabilities
- The assumptions and qualifications in support of the viability statement and going concern including stress testing against risk materialisation
- Assessment of whether the Annual Report is fair, balanced and understandable

Risk management and internal controls

- Risk management updates including reviews of principal risks and uncertainties
- The Risk Management Policy
- Reports from the Audit and Risk Committees of Sainsbury's Bank and on all important operating and regulatory matters, including the transition of the Bank, its liquidity, cash flows, capital adequacy and risk management processes

External audit

- The scope of the external audit plan and fee proposal
- The provision of non-audit fees in accordance with our policy
- The independence and objectivity of Ernst & Young
- The quality and effectiveness of Ernst & Young
- The reappointment of Ernst & Young as auditor

Internal audit

- The internal controls framework
- Management's responsiveness to Internal Audit's findings and recommendations
- Changes to the Internal Audit Charter
- The scope of the internal audit plan
- The effectiveness of the Internal Audit function

Other

- The integration of Sainsbury's Argos
- Whistleblowing
- The transition of Sainsbury's Bank
- Updates on data governance and information security
- The Company's compliance with the Grocery Supply Code of Practice
- Ongoing material litigation

- The Business Continuity Management Policy and the Code Compliance Officer Policy
- The FRC Audit Quality Review letter
- The Committee's revised terms of reference and its effectiveness

Significant financial and reporting matters

An accounting and tax paper was prepared by management and presented to the Audit Committee four times during the year. This provided detail on the main financial reporting judgements and issues. Specific accounting papers were also prepared when considered necessary.

The Committee considered the following significant financial and reporting issues during the year:

Impairment of financial and non-financial assets

The impairment of financial and non-financial assets was considered by the Committee, this is particularly appropriate in today's challenging marketplace. As disclosed in note 2 of the Notes to the Financial Statements, a review for impairment triggers is performed at each reporting date by considering if any current or future events suggest the recoverable value of certain assets may be less than their carrying value.

The Committee reviewed management's assessment of recoverable value and relevant judgements made. An impairment and onerous contract charge of £37 million was recognised in the year, as well as £57 million in relation to IT assets written off.

Complex property transactions

There was one major property transaction in the year, being the opening of the Nine Elms store in August 2016.

The Committee has reviewed the concepts of this transaction in a previous year to ensure that all accounting and tax issues are identified and appropriately presented in the accounts, including whether amounts recognised reflect the overall substance of these transactions. Please refer to note 3 of the Notes to the Financial Statements for property profits recognised in the year.

Pensions accounting

Following the acquisition of HRG during the year, the Group now holds two defined benefit schemes: the Sainsbury's defined benefit scheme and the HRG defined benefit scheme.

The Committee reviewed a summary of the key assumptions used in arriving at the valuations and obligations for both defined benefit pension schemes for the half-year and year-end reporting including inflation, discount and mortality rates. Benchmarking is assessed to ensure that the assumptions are appropriate.

Of particular note this year was the effect that the UK Referendum vote had on discount rates following a downward move in corporate bond yields, and the impact on the IAS 19 accounting deficit and therefore distributable reserves in the Group. The year-end reported discount rate was 2.7%, giving a consolidated IAS 19 pension deficit of £974 million before tax.

Items excluded from underlying results

The European Securities and Markets Authority (ESMA) published guidelines on Alternative Performance Measures (APMs) which applied to relevant communications released on or after 3 July 2016. In light of the ESMA guidance, additional disclosure is now also included on the APMs used by Sainsbury's – please refer to page 190.

Items excluded from underlying results are reviewed by the Committee, and the Committee is satisfied that the Group's presentation of these items is clear and that further disclosure is included where appropriate.

Sainsbury's Bank reporting

The Committee receives updates on the key agenda items discussed at the Bank's Audit Committee including accounting judgements and estimates and on all important operating and regulatory matters such as its liquidity, cash flows, capital adequacy and risk management processes. Representatives from the Bank Audit Committee and the Bank Internal Audit team attend meetings of the Committee at least twice a year.

During the year the accounting judgements and estimates reviewed by the Committee have included impairment assessments of the loans and advances due to Sainsbury's Bank customers, progress on the Bank transition, tax judgements and provisions and progress on the implementation of IFRS 9 "Financial instruments".

Supplier income

Supplier income is considered by the Committee, and whilst the majority is calculated through a formulaic process, the Committee is satisfied with the controls in place to manage any areas of judgement and estimation.

The Committee ensures the Group provides adequate reporting, including income statement and balance sheet disclosures within the Financial Statements (from page 99) and is satisfied with the level of disclosure.

Acquisition of Home Retail Group

On 2 September 2016, the Group acquired 100 per cent of the issued share capital of HRG, a listed company based in the United Kingdom. Significant work was undertaken to prepare for the integration of HRG, with the following areas in particular being considered by the Audit Committee:

- The approach to aligning the reporting dates of HRG and Sainsbury's
- The transfer of HRG financial services entities to Sainsbury's Bank
- Alignment of accounting policies between HRG and Sainsbury's
- Reviewed how the acquisition would impact the Group's IFRS 8 "Operating Segments" disclosures. Whilst an additional segment was identified, it was concluded that it met the aggregation criteria per IFRS 8 and the Group's reported segments therefore remained as Retail, Financial Services and Property Investment.
- Reviewed the accounting and financial reporting for the acquisition. This included reviewing the assumptions made in relation to valuing the assets and liabilities, which resulted in net assets acquired of £1,035 million and goodwill of £58 million. Refer to note 31 of the Notes to the Financial Statements for more information.
- The transition to Ernst & Young as auditors of Home Retail Group

Updates to accounting standards

Management are currently preparing for the implementation of three new accounting standards:

- IFRS 9 "Financial Instruments" effective for the year commencing 11 March 2018
- IFRS 15 "Revenue" effective for the year commencing 11 March 2018
- IFRS 16 "Leases" effective for the year commencing 10 March 2019

We have reviewed impact assessments prepared by management on the transition to each of these accounting standards and the assumptions made. Additional disclosures in relation to each of these are included in note 1 of the Notes to the Financial Statements.

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

Fair, balanced and understandable assessment

The Board is required to confirm that the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable (see page 100). To enable the Board to make this declaration, there is a year-end review process to ensure the Committee, and the Board as a whole, has access to all relevant information and, in particular, management's papers on significant issues faced by the business. The Committee received a paper from management detailing the approach taken in the preparation of the Annual Report and Financial Statements. The Audit Committee, and all other Board members, also received drafts of the Annual Report and Financial Statements in sufficient time to facilitate their review and enable them to challenge the disclosures if necessary. In addition, Ernst & Young reviewed the consistency between the narrative reporting of the Annual Report and the Financial Statements.

Viability statement

The Committee has assessed whether three years continue to be an appropriate timeframe over which to make the viability statement. It was concluded that the current three year assessment period remains appropriate and this was reviewed and adopted by the Board.

The processes underpinning the assessment of the Group's longer-term prospects were reviewed.

The viability statement and our approach to assessing long-term viability can be found on page 45.

External auditor

Independence and objectivity of the external auditor

The independence and objectivity of the external audit function is a fundamental safeguard to the interests of the Company's shareholders. In order to ensure their independence, the Audit Committee has overseen the Company's policy which restricts the engagement of Ernst & Young in relation to non-audit services.

The policy is designed to ensure that the provision of such services does not have an impact on the external auditor's independence and objectivity. It identifies certain types of engagement that the external auditor shall not undertake, including internal audit and actuarial services relating to the preparation of accounting estimates for the financial statements. It also requires that individual engagements above a certain fee level may only be undertaken with pre-approval from the Audit Committee, or if urgent, from the Committee Chairman and ratified by the subsequent meeting of the Committee. The policy also recognises that there are some types of work where a detailed understanding of the Company's business is advantageous. The policy is designed to ensure that the auditor is only appointed to provide a non-audit service where it is considered to be the most suitable supplier of the service.

The Audit Committee received a report on the non-audit services being provided and the cumulative total of non-audit fees. The cumulative non-audit fees are capped at 70% of the average of the audit fees for the Group for the preceding three year period.

The Audit Committee concluded that Ernst & Young remained objective and independent in their role as external auditors and that they continue to challenge management effectively.

The Audit Committee confirms that it has complied with the provision of the Statutory Audit Services Order 2014.

Audit and professional fees paid to the external auditor

The Audit Committee reviewed Ernst & Young's overall work plan, and approved their remuneration and terms of engagement. The majority of the non-audit work undertaken by Ernst & Young during 2016/17 was audit related assurance services and tax advisory services. These totalled £0.2 million. The total audit fees for the year in respect of the Group and subsidiaries were £1.9 million. For a breakdown on the fees please refer to note 5 of the Notes to the Financial Statements.

Effectiveness of the external auditor

Ernst & Young were appointed in July 2015 as the Company's auditor.

The Audit Committee reviewed Ernst & Young's effectiveness during the year. Additionally, a questionnaire was completed by the members of the Committee with feedback sought from key stakeholders including

the Interim Chief Financial Officer and Director of Group Finance. The questionnaire included evaluation of the audit partner and audit team, the approach to the audit, communications with the Committee, how Ernst & Young supported the work of the Audit Committee, and their independence and objectivity.

The Audit Committee concluded that Ernst & Young provided audit services efficiently and effectively and to a high quality. Areas for improvement or greater attention were discussed and shared with Ernst & Young and management.

Appointment of the external auditor

The Audit Committee has made a recommendation to the Board to reappoint Ernst & Young as the Company’s auditor for the 2017/18 financial year. Accordingly, a resolution proposing the reappointment will be tabled at the 2017 AGM.

Audit Quality Review

The Audit Quality Review team of the Financial Reporting Council (FRC) reviewed Ernst & Young’s audit of the Group’s Annual Report and Financial Statements 2016. The FRC have given us a copy of their report, which has been reviewed by the Committee and discussed with Ernst & Young. The report does not give the Committee any concerns over the quality, objectivity or independence of the audit.

Risk management and internal controls

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

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

The Board received updates on risk management and internal controls from the Chairman of the Audit Committee. All Committee papers and minutes were made available to the whole Board.

The Board also received reports relating to safety, other relevant risks, controls and governance. Any specific matters which could have affected the Company’s reputation were reported to the Board as they occurred.

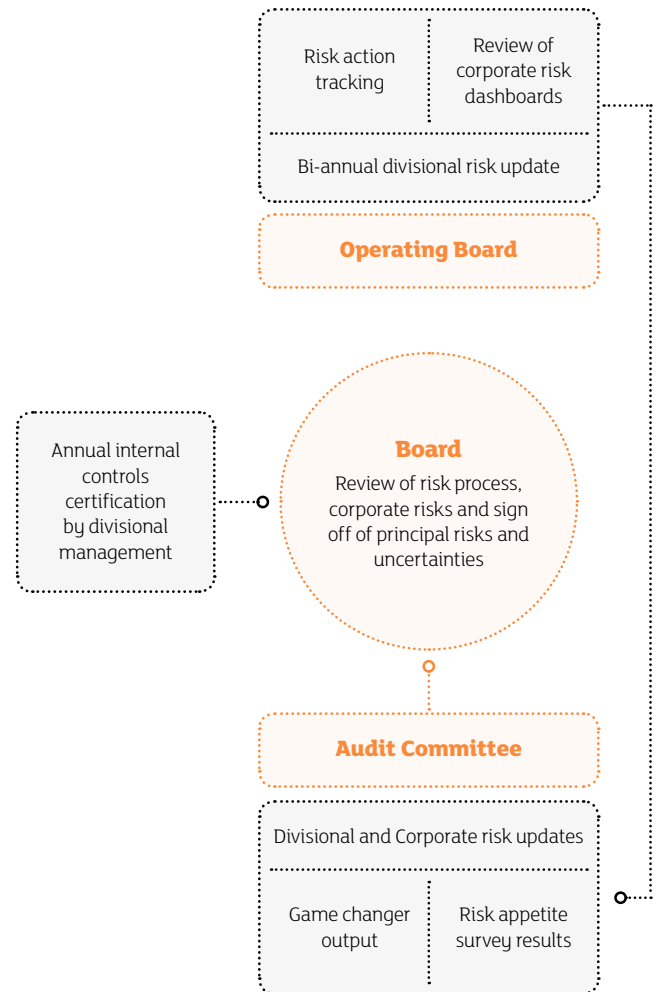
The Audit Committee has reviewed the effectiveness of the system of internal controls and has ensured that any required remedial action on any identified weaknesses has been, or is being taken.

The diagram on the right provides a high-level overview of the key risk management activities undertaken by the Operating Board, Audit Committee and Sainsbury’s divisional management that allow the Board to fulfil their obligations under the UK Corporate Governance Code and Companies Act 2006. The annual risk management process concludes with the Board’s robust assessment of the Company’s principal risks and uncertainties, including those that could threaten its business model, future performance, solvency and liquidity, and the completion of an annual internal controls certification.

Corporate risk management process

Accepting that risk is an inherent part of doing business, the risk management process is designed to identify key risks and to provide assurance that these risks are fully understood and managed in line with management’s risk appetite. The Audit Committee reviews the effectiveness of the risk management process at least annually.

The Operating Board maintains an overall corporate risk map which is reviewed twice a year by the Audit Committee and formally discussed with the Board. The risk map captures the most significant risks faced by the business and identifies the potential impact and likelihood at both a gross level (before consideration of mitigating controls) and net level (after consideration of mitigating controls). The Operating Board discusses and agrees the level of risk that the business is prepared to accept for each key



corporate risk. The target risk position is captured to reflect management’s risk appetite where this differs to the current net position. The Operating Board reviews the corporate risk dashboards during the year, comprised of key risk indicators, to ensure they identify any potential risk movements towards or away from their risk appetite. This enables the Operating Board to agree and monitor appropriate actions as required.

The risk management process is embedded at the Operating Board level and supported by a divisional risk management process. Operating Board members certify annually that they are responsible for managing their business objectives and internal controls so as to provide reasonable, but not absolute, assurance that the risks in their areas of responsibility are appropriately identified, evaluated and managed.

Internal Audit provides the Audit Committee with a risk management update twice a year which provides detail of the key risk activities undertaken at the divisional and corporate level.

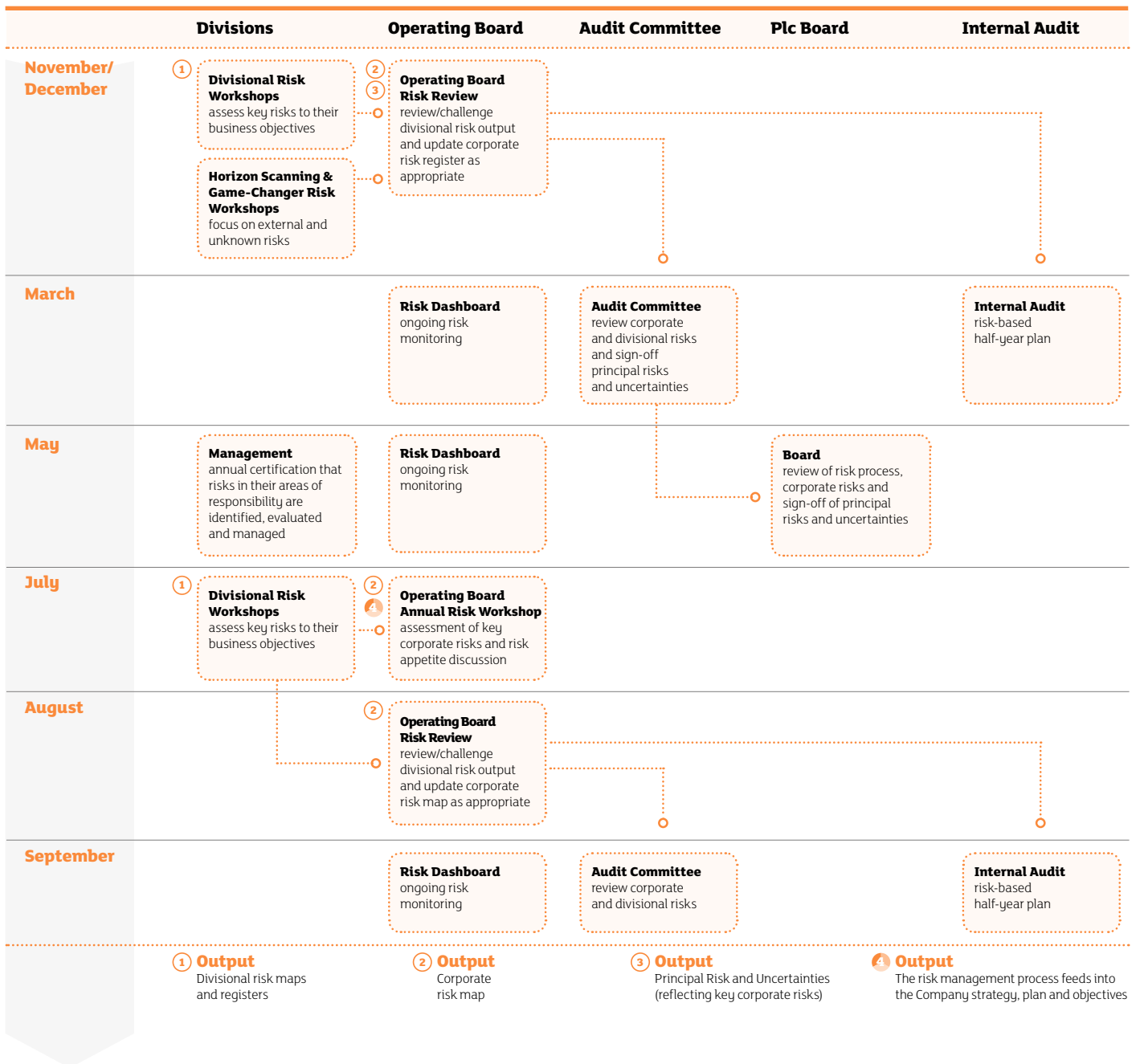
The risk management process is illustrated in the diagram on page 72. The specific risk activities undertaken in the financial year 2016/17 were as follows:

- Internal Audit facilitated risk workshops with each divisional leadership team to identify the key risks which may prevent the achievement of divisional objectives. Each divisional management team produced and maintained a divisional risk map and supporting risk register. The likelihood and impact of each key risk was evaluated at a gross level (before consideration of mitigating controls) and net level (after consideration of mitigating controls). Management’s risk appetite was reviewed and further actions to mitigate the risk were identified as required.
- The implementation of divisional risk actions were tracked by Internal Audit and reported to divisional leadership teams periodically. Risk action implementation rates are reviewed by the Operating Board regularly to monitor progress towards their risk appetite.

- Divisional management regularly reviews key divisional risks and the effectiveness and robustness of the mitigating controls as part of their normal business activities. Independent assurance over the controls is also provided through the delivery of the Internal Audit risk based plan.
- The Operating Board reviewed and challenged the output of the divisional risk process including new risks, risk movements and key risk themes. Where divisional risks are aligned to corporate risks the corporate risk map was updated as appropriate.
- Corporate risk dashboards comprised of key risk indicators have been developed to enable risk owners to identify any potential movements towards or away from their risk appetite. The Operating Board regularly reviewed the risk dashboards, reflecting any risk movements on the corporate risk map as required.
- Internal Audit facilitated a game-changer and horizon scanning risk workshop to identify external and uncertain risks over a five to ten year timeline. Key themes and outputs from this exercise were reviewed by the Operating Board to identify the potential impact on key corporate risks.

- Internal Audit provided independent assurance to management and the Committee as to the existence and effectiveness of the risk management process;
- Internal Audit conducted a risk appetite survey in December 2016 with the Operating Board to assess the extent to which consideration of risk appetite is embedded in the business. The output of the survey was presented to the Operating Board and Audit Committee for review and discussion; and
- The Board reviewed the risk management process and corporate risks at the year-end and approved the Company's principal risks and uncertainties (as set out on pages 42 to 44).

The risk management process is illustrated below:



Internal controls

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

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

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

Additional matters

Internal Audit

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

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

The effectiveness of the Internal Audit department is monitored and reviewed over the course of the year. The Committee has set KPIs which are used to assist it in reviewing the effectiveness of Internal Audit. The Director of Internal Audit reported against these KPIs twice during the year, highlighting any failure to achieve the target scores and explaining the reason therefore. In addition, an effectiveness questionnaire was completed by the Chairman of the Board and the members of each of the Committees and the Operating Board. The Committee concluded that Internal Audit continued to be effective.

Whistleblowing

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

Sainsbury's Bank

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

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

Grocery Supply Code of Practice

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

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

Summary annual compliance report

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

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