

Statement of corporate governance

Compliance

The following sections explain how the Company applies the principles and supporting principles of the Combined Code on Corporate Governance 2006 (the "Code"). During the year, the Company has complied with all the provisions of the Code.

The Board

The Board has been chaired since 2004 by Philip Hampton. It consists of three Executive Directors and six Non-Executive Directors. Dr John McAdam is the Senior Independent Director. The Directors' biographical details are set out on pages 24 and 25.

The Board is scheduled to meet eight times during the year, including a two-day strategy conference. The Chairman and Non-Executive Directors met during the year without the Executive Directors being present and the Non-Executive Directors also met during the year without the Executive Directors or the Chairman being present.

Division of responsibilities

There is a clear division of responsibilities between the Chairman and the Chief Executive which is set out in writing and has been approved by the Board. Philip Hampton is responsible for leadership of the Board, setting its agenda and monitoring its effectiveness. He ensures effective communication with shareholders and that the Board is aware of the views of major shareholders. He facilitates both the contribution of the Non-Executive Directors and constructive relations between the Executive and Non-Executive Directors. He ensures that the Chief Executive develops a strategy which is supported by the Board as a whole. Justin King is responsible for executing the strategy, once agreed by the Board. He creates a framework of values, organisation and objectives to ensure the successful delivery of key targets, and allocates decision making and responsibilities accordingly. He takes a leading role, with the Chairman, in the relationship with all external agencies and in promoting Sainsbury's.

Independence/Non-Executive Directors

The Non-Executive Directors bring wide and varied commercial experience to Board and Committee deliberations. They are appointed for an initial three-year term, subject to election by shareholders at the first AGM after their appointment, after which their appointment may be extended for a second term, subject to mutual agreement and shareholder approval.

Philip Hampton satisfied the independence criteria of the Code on his appointment. From 25 November 2008 until 16 January 2009 he was appointed Non-Executive Chairman of UK Financial Investments Limited ("UKFI"), the company set up to manage the Government's investments in various UK banks. On 19 January 2009 he was appointed to the Board of The Royal Bank of Scotland Group plc ("RBS") and became its Non-Executive Chairman on 3 February 2009. The Board considered each role and concluded that he would continue to be able to fulfil his duties to the Company, notwithstanding each new appointment, noting that the roles at UKFI and RBS were Non-Executive and part time. The Board also concluded that there were no material conflicts resulting from the appointments.

All the Non-Executive Directors are considered to be independent according to the provisions of the Code. The Board is satisfied that there is no compromise to the independence of the Directors who have executive or non-executive roles with other companies.

From 1 October 2008, there has been a Companies Act requirement that Directors must avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with a company's interests. Directors of public companies may authorise conflicts and potential conflicts, where appropriate, if a company's Articles of Association permit. Shareholders approved the appropriate amendments to the Company's Articles at the 2008 AGM.

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 Act, the Board considered and authorised each Director's reported potential conflicts of interest during the year. The Board will continue to monitor and review potential conflicts of interest on a regular basis.

The Board's role

The Board is focused on delivering sustainable added value for shareholders. It regularly considers strategic issues, key projects and major investments and monitors performance against delivery of the agreed key targets. It approves the corporate plan and the annual budget and reviews performance against targets at every meeting. These and other key responsibilities are formally reserved powers of the Board.

During the year the Board received updates on the investor relations programme and feedback from major shareholders and reviewed the funding of the Company's pension plans and broader pension matters. Given the current economic climate it has received regular detailed reports on the Company's funding and liquidity position. It has also regularly reviewed Sainsbury's Bank's liquidity and the overall control of its financial position and cash management.

The Board delegates certain responsibilities to its principal committees. Through the Audit Committee, the Directors ensure the integrity of financial information, the effectiveness of the financial controls and the internal control and risk management systems. The Remuneration Committee sets the remuneration policy for Executive Directors and determines their individual remuneration arrangements. The Nomination Committee recommends the appointment of Directors and has responsibility for evaluating the balance of the Board and for succession planning at Board level. The Corporate Responsibility ("CR") Committee reviews key CR policy, taking into account the Company's CR objectives and the overall strategic plan. Further details are set out below.

Attendance

The table shows the attendance of Directors at scheduled Board and Committee meetings. The Board scheduled eight meetings during the year and ad hoc conference calls were also convened to deal with specific matters which required attention between scheduled meetings.

	Board	Audit Committee	CR Committee	Nomination Committee	Remuneration Committee
Mike Coupe	8(8)	-	-	-	-
Anna Ford	8(8)	-	2(2)	4(4)	5(5)
Val Gooding	8(8)	-	-	4(4)	5(5)
Philip Hampton	8(8)	-	-	4(4)	-
Mary Harris	8(8)	4(4)	2(2)	4(4)	-
Gary Hughes	7(8)	4(4)	-	4(4)	-
Justin King	8(8)	-	2(2)	-	-
John McAdam	8(8)	4(4)	-	4(4)	-
Darren Shapland	8(8)	-	-	-	-
Bob Stack	8(8)	-	-	4(4)	5(5)

(The number of meetings held during the year is shown in brackets)

Information and development

The Chairman is responsible for ensuring that all Directors are properly briefed on issues arising at Board meetings and that they have full and timely access to relevant information. The quality and supply of information provided to the Board is reviewed as part of the Board evaluation exercise.

The Company has a programme for meeting Directors' training and development requirements. Newly appointed Directors who do not have previous public company experience at Board level are provided with appropriate training on their role and responsibilities. New Directors participate in a comprehensive and tailored induction programme including store and depot visits and meetings with members of the Operating Board, senior management and external advisors. Subsequent training is available on an ongoing basis to meet any particular needs. During the year the Company Secretary, Tim Fallowfield, has provided updates to the Board on relevant governance matters, new legislation and on Directors' duties and obligations, whilst the Audit Committee regularly considers new accounting developments through presentations from management and the external auditors. The consultants to the Remuneration Committee advise the Committee on relevant trends in remuneration matters. The Board programme includes presentations from management which, together with site visits, increases the Non-Executive Directors' understanding of the business and the sector.

All Directors have access to the advice and services of the Company Secretary. He has responsibility for ensuring that Board procedures are followed and for governance matters. The appointment and removal of the Company Secretary is one of the matters reserved for the Board. There is an agreed procedure by which members of the Board may take independent professional advice at the Company's expense in the furtherance of their duties.

Board evaluation

The Board agreed that this year's evaluation exercise should be conducted by Tim Fallowfield, the Company Secretary. Having agreed the key objectives with the Chairman, he prepared a detailed questionnaire and then met with each Director separately to discuss the Board's role and structure, process and relationships, and any emerging issues. The performance of the Board Committees was also reviewed. He then presented the findings to the Board, identifying what was working well and areas which could be improved or approached differently. The Board concluded that the action plan from the 2008 review had been implemented and it was satisfied with the progress that it had made during the year and that it was working effectively. An action plan was agreed to address the themes which emerged from this year's exercise; for instance the continuing training programme for the Non-Executive Directors will be updated.

The Senior Independent Director reviewed the Chairman's performance and subsequently met with him to provide feedback to him. The Chairman separately reviewed the contribution of each of the Directors with them.

Operating Board

Day-to-day management of the Company is delegated to the Operating Board, which is chaired by Justin King. The Operating Board held ten scheduled meetings during the year. Directors' responsibilities are set out on page 26. It has formal terms of reference setting out its key responsibilities. Minutes are copied to the Chairman and Non-Executive Directors. Operating Board members regularly attend and present at Board meetings as well as the strategy conference.

The Operating Board has delegated certain powers to the Trading Board, the Retail & Logistics Board and the Investment Board and

receives regular reports from the Health and Safety Committee, the Product Safety Committee and the Corporate Responsibility Steering Group.

Board Committees

The Board has delegated certain responsibilities to the Nomination, Remuneration, Corporate Responsibility and Audit Committees.

Nomination Committee

The Nomination Committee is chaired by Philip Hampton and comprises each of the Non-Executive Directors. Justin King is not a member of the Committee although he is invited to attend meetings.

The Committee holds one meeting each year where it reviews succession planning and senior management development. During the year Philip Hampton informed the Board that, having completed five years as Chairman, he would be stepping down from the Board during 2009. The Committee is leading the recruitment process for his successor, chaired by John McAdam, the Senior Independent Director. Search consultants, Egon Zehnder International, have been instructed by the Committee in connection with this process. The Committee has considered the skills, knowledge, background and experience required for the role, and a job specification has been prepared. The Committee has also specified the time commitment expected of the role.

The Committee's terms of reference are available on the website (www.j-sainsbury.co.uk/governance) and set out the Committee's responsibilities. The Committee meets when necessary and in 2008/09 met on four occasions.

Remuneration Committee

The Committee is chaired by Bob Stack who was appointed a Non-Executive Director and Chairman of the Committee on 1 January 2005. The Remuneration Report is set out on pages 33 to 40.

Corporate Responsibility Committee

The Committee is chaired by Anna Ford, and Justin King and Mary Harris are its members. Philip Hampton attends each meeting. It met twice during the year. Formal meetings are supported by CR strategic meetings hosted by Anna Ford and Justin King. Each meeting is based around one of the five CR principles and key external stakeholders are invited to attend. During the year five meetings were held, relating to each of the five principles.

At operational level, Justin King chairs the CR Steering Group, attended by the four Operating Board Directors and Lawrence Christensen, Chairman for the Environment, who champion each of our five CR principles.

A summary of the Company's corporate responsibility priorities and activities are set out on pages 12 to 15. This year's Corporate Responsibility report will be published in July 2009.

The Association of British Insurers recommends that the Board considers material risks and control processes relating to corporate responsibility. The Board receives an annual update on health and safety and product safety, and relevant controls and governance, and any specific issues on these and other matters which might affect the Company's reputation are reported to the Board as they occur. In addition the Audit Committee's review of the system of internal controls and risk management processes referred to below includes corporate responsibility risks and the Committee considers any major corporate responsibility or brand reputation issues identified by the process, to the extent any such exist. The induction programme for new Board Directors includes a full review of corporate responsibility.

Audit Committee

The Committee is chaired by Gary Hughes with John McAdam and Mary Harris as its other members, all of whom are independent Non-Executive Directors. The Board has determined that Gary Hughes has recent and relevant financial experience. Philip Hampton, Justin King, Darren Shapland, Karen Whitworth, Director of Group Internal Audit, other senior members of the Finance Division and the external auditors are invited to attend Committee meetings. Tim Fallowfield is secretary to the Committee.

During the year the Committee met on four occasions, the agendas being organised around the Company's reporting cycle. It monitored the integrity of the financial statements and any formal announcements relating to the Company's financial performance and reviewed any significant financial judgements contained in them. The Committee has also reviewed the effectiveness of the Company's financial controls and the systems of internal control and risk management. Where any weaknesses were identified, the detailed actions for resolution are closely monitored through to completion.

Given the current economic climate, the Committee has regularly reviewed the Company's funding and liquidity position and has considered its impact on the Company's financial and operational capabilities. The Committee's detailed review of the year-end position assisted the Board in giving the going concern statement set out on page 28.

The Committee reviewed PricewaterhouseCoopers LLP's ("PwC") overall work plan and approved their remuneration and terms of engagement and considered in detail the results of the audit, PwC's performance and independence and the effectiveness of the overall audit process. The Committee recommended PwC's re-appointment as auditors to the Board and this resolution will be put to shareholders at the AGM.

The Committee has implemented the Company's policy which restricts the engagement of PwC 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 auditors' independence and objectivity. It identifies certain types of engagement that the external auditors shall not undertake and others (such as tax planning and mergers and acquisitions advice) that can only be undertaken with appropriate authority from the Committee Chairman or the Committee, should non-audit fees exceed preset thresholds. The Committee receives a report at each meeting on the non-audit services being provided and the cumulative total of non-audit fees. In the event that cumulative non-audit fees exceed the audit fee then all subsequent non-audit expenditure must be approved by the Committee Chairman. The majority of the non-audit work undertaken during 2008/09 related to corporation tax advice and the 2009 pension funding valuation. The non-audit fees for the year were £0.9 million, and the audit fee for the year in respect of the Group, Company and its subsidiaries and the fee for the interim review totalled £0.8 million. The Committee is satisfied that the level of non-audit fees has no impact on the auditors' independence, noting that over each of the last three years audit fees have exceeded non-audit fees.

The Committee has regularly reviewed the Internal Audit department's resources, budget, work programme, results and management's implementation of its recommendations. Karen Whitworth, the Director of Group Internal Audit, has direct access to the Committee Chairman and Philip Hampton and has regular meetings with all Committee members. The Committee regularly met with PwC without management being present, and may meet the Director of Group Internal Audit separately if it deems necessary.

The Committee reviewed the Company's 'whistle blowing' procedures to ensure that arrangements are in place to enable colleagues and suppliers to raise concerns about possible improprieties on a confidential basis.

The Company has a fraud policy and has established a Serious Fraud Committee, which convenes in the event of serious incidents to oversee case management and ensure appropriate actions are taken. The Audit Committee receives an update at each meeting on all material frauds.

The Committee reviews the minutes of the meetings of the Sainsbury's Bank Audit Committee and receives a detailed update on any key matters. Given the economic climate it has particularly focused on the Bank's liquidity and cash flows, capital adequacy and risk management processes.

The Committee's terms of reference, which are available on the website (www.j-sainsbury.co.uk/governance), set out the Committee's responsibilities.

Internal control

The Board has overall responsibility for the system of internal controls, which is fully embedded into the operations of the Company and includes risk management. Certain of these responsibilities have been delegated to the Audit Committee. The Audit Committee has reviewed the effectiveness of the system of internal control and ensured that any required remedial action has or is being taken on any identified weaknesses. The system of internal controls has been in place throughout the year, up to the date of approval of the Annual Report and Financial Statements, and it accords with the Turnbull guidance and Section 1 of The Combined Code. It 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. It covers all controls including financial, operational and compliance controls and risk management procedures.

The processes used to assess the effectiveness of the internal control systems are ongoing, enabling a cumulative assessment to be made, and include the following:

- discussion and approval by the Board of the Company's strategic direction, plans and objectives and the risks to achieving them;
- review and approval by the Board of budgets and forecasts, including both revenue and capital expenditure;
- regular reviews by management of the risks to achieving objectives and actions being taken to mitigate them;
- regular reviews by management and the Audit Committee of the scope and results of internal audit work across the Company and of the implementation of recommendations. The scope of the work covers all key activities of the Company and concentrates on higher risk areas;
- reviews of the scope of the work of the external auditors by the Audit Committee and any significant issues arising;
- regular reviews by the Board and Audit Committee of identified fraudulent activity and any whistle blowing by colleagues or suppliers, and actions being taken to remedy any control weaknesses;
- reviews by the Audit Committee of accounting policies and levels of delegated authority; and
- consideration by the Board and by the Audit Committee of the major risks facing the Group and of the procedures in place to manage them.

Risk management

The risk management system has been enhanced and has been in place during the year and up to the date of approval of the Annual Report and Financial Statements. Accepting that risk is an inherent part of doing business, the system is designed to identify key risks and provide assurance that these risks are fully understood and managed. It is also supported by a risk policy and guidelines on how to apply the policy, which are communicated throughout the Company. The effectiveness of the process is reviewed twice a year by the Audit Committee which then reports to the Board.

The Operating Board maintains a risk register which is regularly reviewed and formally discussed twice a year with the Board. The register contains the key risks facing the Company and identifies the potential impact and likelihood of the risk at both a gross (pre mitigating controls) and a net (post mitigating controls) level. Where the net risk requires further actions, these are agreed with specific timelines. These actions are closely monitored until they are fully implemented. The principal risks are summarised on pages 22 and 23.

The risk management process is cascaded through each division and consists of:

- formal identification by the management of each division of the key risks to achieving their business objectives and the controls in place to manage them. This identification exercise is achieved through workshops which are facilitated by Internal Audit. The likelihood and potential impact of each risk is evaluated and actions necessary to mitigate them are identified. The risks and the robustness of the controls mitigating them are regularly reviewed by the management of each division as part of their normal business activities; and
- certification by management that they are responsible for managing the risks to their business objectives and that the internal controls are such that they provide reasonable but not absolute assurance that the risks in their areas of responsibility are appropriately identified, evaluated and managed.

The Operating Board reviews and challenges the output from the divisional risk process and updates the overall Company risk register if deemed necessary.

Internal Audit provides independent assurance as to the existence and effectiveness of the risk management activities described by management.

Investor relations

The Company is committed to maintaining good communications with investors. Normal shareholder contact is the responsibility of Justin King, Darren Shapland and Elliot Jordan, Head of Investor Relations. The Chairman, Philip Hampton, is generally available to shareholders and meets with institutional and other large investors as required.

The Company regularly meets with its large investors and institutional shareholders who, along with sellside research analysts, are invited to presentations by the Company immediately after the announcement of the Company's interim and full year results. 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/investors) so as to be available to all investors.

The Board regularly receives feedback on the views of major investors and the Investor Relations programme, and Makinson Cowell provide investor relations consultancy services to the Company and give an external analysis to the Board on the views of institutional investors and sellside analysts. Non-Executive Directors also receive regular market reports and broker updates from the Company's Investor Relations department.

Shareholders have the opportunity to meet and question the Board at the AGM, which will be held on 15 July 2009. There will be a display of various aspects of the Company's activities and Justin King will make a business presentation. A detailed explanation of each item of special business to be considered at the AGM is included with the Notice of Meeting which will be sent to shareholders at least 20 working days before the meeting. All resolutions proposed at the AGM will be taken on a poll vote. This follows best practice guidelines and enables the Company to count all votes, not just those of shareholders who attend the meeting.

Information on matters of particular interest to investors is set out on page 94 and on the Company's website (www.j-sainsbury.co.uk/investors).