
J SAINSBURY PLC
(the "Company")

Terms of Reference of the Audit Committee

The Audit Committee (the "Committee") shall have the following terms of reference

1. Constitution

- 1.1 The Board of Directors of the Company (the "Board") has established a committee of the Board known as the Audit Committee.
- 1.2 The Terms of Reference for the Committee outlined below are defined by the Board and may be amended by the Board at any time.

2. Membership

- 2.1 The Board is responsible for the appointment of members to the Audit Committee, for setting the term of members' appointments and for the revocation of any such appointments.
- 2.2 The Audit Committee shall comprise not less than three members, all of whom shall be independent Non-Executive Directors. The quorum shall be two Committee members one of whom should be the Committee Chairman unless he/she is unable to attend. All members of the Committee shall be advised of the business to be transacted at any meeting even if they are unable to be present.
- 2.3 The Chairman of the Committee shall be an independent Non-Executive Director.
- 2.4 No one other than members of the Committee is entitled to be present at Committee meetings. The Company Chairman, Chief Executive Officer, Chief Financial Officer, Director of Internal Audit, Director of Group Finance and the external auditors shall normally be invited to attend meetings of the Committee. The Committee may invite any other relevant members of management to attend meetings. [Note from the completion of the Bank transaction, consider referring to the Bank Audit Committee Chairman]
- 2.5 The Company Secretary shall act as secretary to the Committee and shall produce such papers and minutes of the Committee's meetings as are appropriate, in a timely manner.
- 2.6 The Committee is authorised by the Board to obtain accounting, legal, or other professional advice from both inside and outside the Group as and when required, at the Company's expense, and to appoint and secure the attendance of external consultants and advisors if it considers this beneficial.

3. Frequency of meetings

- 3.1 Meetings of the Audit Committee shall be held as necessary but not less than four times a year, and at such other times as the Chairman of the Committee shall require. The external auditors and Director of Internal Audit may request a meeting if they consider that one is necessary.
- 3.2 The Audit Committee shall meet with the external auditors and internal auditors without management being present as the Committee deems necessary.
- 3.3 The Chairman of the Committee shall report to the Board after each meeting. The minutes of the meetings shall be circulated to all members of the Board and the Director of Internal Audit.

4. Duties

The Committee shall fulfil the following duties;

- 4.1 Financial Reporting
 - 4.1.1 The Committee shall monitor the integrity of the financial statements and any formal announcements relating to the Company's financial performance, reviewing significant financial reporting judgments contained in them, with particular focus on:
 - i) significant accounting policies and changes to them;
 - ii) significant estimates and judgments;
 - iii) significant issues and how these were addressed;
 - iv) significant adjustments resulting from the audit;
 - v) the going concern assumption; and
 - vi) compliance with accounting standards, Stock Exchange and legal requirements.
 - 4.1.2 The Committee shall review the annual report to assist the Board in making the decision that it is a "fair, balanced and understandable" annual report and financial statements and provides the information necessary for shareholders to assess the company's performance, business model and strategy.
- 4.2 Internal Controls and Risk Management Systems

The Committee shall review the effectiveness of the Company's internal financial controls and the internal control and risk management systems, and any required remedial action taken on any identified weaknesses.

4.3 Internal Audit

- 4.3.1 The Committee shall monitor and review the effectiveness of the Company's internal audit function and ensure its independence.
- 4.3.2 The Committee shall review and approve the internal audit function's remit, resources and access to information, and in so doing shall:
- i. ensure that the Director of Internal Audit has: unrestricted access to all functions, records, property and personnel; full and free access to the Committee; and the Company's Chairman;
 - ii. review and assess the annual Internal Audit work plan;
 - iii. receive reports on the results of Internal Audit's work; and
 - iv. review and monitor management's responsiveness to Internal Audit's findings and recommendations.
- 4.3.3 To facilitate and maintain independence, the Director of Internal Audit shall report to the Chairman of the Committee who will agree his/her targets, but functionally and administratively he/she shall report to the Chief Financial Officer. The Committee shall ratify the appointment or termination of appointment of the Director of Internal Audit.

4.4 External Audit

- 4.4.1 The Committee shall make recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditor and shall approve the remuneration and terms of engagement of the external auditor.
- 4.4.2 The Committee shall lead any tender process to appoint the external auditors and make recommendations to the Board relating thereto.

4.5 Independence of External Auditor including the provision of non-audit services

- 4.5.1 The Committee shall review and monitor on an annual basis the external auditor's independence and objectivity, and the effectiveness of the audit process. The Committee shall also review the relationship between the Company and the audit firm.
- 4.5.2 The Committee shall develop and implement the policy on the engagement of the external auditor to supply non-audit services, and shall explain to shareholders how auditor objectivity and independence is safeguarded.

4.6 Annual Audit Cycle

In relation to the annual audit cycle, the Committee shall review:

- i. the external auditor's overall work plan before the audit commences;
- ii. the results of the audit;
- iii. the performance of the external auditor;
- iv. the representation letter;
- v. the effectiveness of the audit process;
- vi. the management letter and shall monitor management's responses.

4.7 Other Duties

The Committee shall:

- 4.7.1 review arrangements by which colleagues of the Company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters;
- 4.7.2 review the Company's procedures for detecting fraud and receive an update at each meeting on any significant issues;
- 4.7.3 review the Company's systems and controls for the prevention of bribery and receive reports on non-compliance;
- 4.7.4 review the Company's compliance with the Groceries Supply Code of Practice (GSCOP), monitor the work of the Company's Code Compliance Officer and approve the annual compliance report;
- 4.7.5 approve the section within the Annual Report that describes the work of the Committee and its responsibilities, the statement on internal control and the attendance records of its members; and
- 4.7.6 monitor the effectiveness of the internal controls and risk management systems of Sainsbury's Bank.

5. *Other Matters*

- 5.1 The Chairman of the Committee shall be available to answer questions on the Committee's activities at the Annual General Meeting.

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- 5.2 The Committee is authorised by the Board to seek any information it requires from any colleague and all colleagues shall be directed to co-operate with any request made by the Committee.
 - 5.3 The Committee shall undertake any other related duties as directed by the Board.

These Terms of Reference were first adopted by the Board on 5 February 2004 and amended by the Audit Committee on 5 July 2006. Amendments were approved by the Board on 14 September 2006, 18 September 2008, 10 March 2011, 15 September 2011 and 12 September 2013.