This document comprises a prospectus (the "**Prospectus**") for the purposes of Article 3 of EU Directive 2003/71/EC, as amended (the "**Prospectus Directive**") relating to the New Sainsbury's Shares and has been prepared in accordance with the Prospectus Rules of the Financial Conduct Authority (the "**FCA**") made under section 73A of the Financial Services and Markets Act 2000 (the "**FSMA**"). The Prospectus will be made available to the public in accordance with the Prospectus Rules.

The directors of J Sainsbury plc ("**Sainsbury's**" or the "**Company**"), whose names appear on page 44 of this Prospectus, and the Company accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Company and the Sainsbury's Directors (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.

Investors are advised to examine all the risks that might be relevant in connection with the value of an investment in the New Sainsbury's Shares. Investors should read the entire Prospectus (including the documents, or parts thereof, incorporated by reference) and, in particular, the section headed "*Risk Factors*" for a discussion of certain factors that should be considered in connection with an investment in the Company, the Combined Group, the existing Sainsbury's Shares and the New Sainsbury's Shares.

J SAINSBURY PLC

(incorporated under the Companies Acts of 1908 to 1917 and registered in England and Wales with registered number 185647)

Proposed issue of up to 261,115,846 New Sainsbury's Shares of 28⁴⁄₇ pence each to be issued by the Company in connection with the proposed recommended acquisition of Home Retail Group plc by J Sainsbury plc to be implemented by way of a scheme of arrangement of Home Retail Group plc under Part 26 of the Companies Act 2006 and the steps contemplated by such scheme

and

Application for admission of the New Sainsbury's Shares to the premium listing segment of the Official List and to trading on the main market for listed securities of the London Stock Exchange

Joint Sponsors

Morgan Stanley **UBS Investment Bank**

Joint Financial Advisers

Morgan Stanley **UBS Investment Bank**

The existing Sainsbury's Shares are currently listed on the premium listing segment of the Official List and traded on the London Stock Exchange's main market for listed securities. Applications will be made to the FCA for the New Sainsbury's Shares to be issued in connection with the Acquisition to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for the New Sainsbury's Shares to be admitted to trading on its main market for listed securities. It is expected that Admission will become Effective and that dealings in the New Sainsbury's Shares will commence at 8.00 a.m. on or about 5 September 2016, being the Business Day following the completion of the Acquisition which, subject to the satisfaction or waiver (if capable of waiver) of certain Conditions (other than those Conditions which relate to Admission), is currently expected to occur on or about 2 September 2016. The New Sainsbury's Shares will, when issued, rank *pari passu* in all respects with the existing Sainsbury's Shares. No application will be made for the New Sainsbury's Shares to be admitted to listing or dealt with on any other exchange.

Investors should only rely on the information contained in this Prospectus and the documents (or parts thereof) incorporated herein by reference. No person has been authorised to give any information or make any representations other than those contained in this Prospectus and the documents (or parts thereof) incorporated by reference herein and, if given or made, such information or representation must not be relied upon as having been so authorised by the Company, the Sainsbury's Directors, Morgan Stanley (as defined below) or UBS (as defined below). In particular, the contents of the Company's and the Home Retail Group's websites do not form part of this Prospectus and investors should not rely on them. Without prejudice to any legal or regulatory obligation on the Company to publish a supplementary prospectus pursuant to section 87G of FSMA and Prospectus Rule 3.4, neither the delivery of this Prospectus nor Admission shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Sainsbury's Group or the Combined Group taken as a whole since the date of this Prospectus or that the information in it is correct as of any time after the date of this Prospectus. The Company will comply with its obligation to publish a supplementary prospectus containing further updated information if so required by law or by any regulatory authority but assumes no further obligation to publish additional information.

Morgan Stanley & Co. International plc ("**Morgan Stanley**"), which is authorised by the PRA and regulated by the FCA and the PRA in the United Kingdom, is acting as sponsor and financial adviser to Sainsbury's and no one else in connection with the Acquisition, Admission and the other matters described in this Prospectus. In connection with such matters Morgan Stanley, its affiliates and their respective directors, officers, employees and agents will not regard any other person as their client, nor will they be responsible to anyone other than Sainsbury's for providing the protections afforded to their clients or for providing advice in relation to the Acquisition, the contents of this Prospectus or any matter referred to in this Prospectus.

UBS Limited ("**UBS**"), which is authorised by the PRA and regulated by the FCA and the PRA in the United Kingdom, is acting as sponsor and financial adviser to Sainsbury's and no one else in connection with the Acquisition, Admission and the other matters described in this Prospectus. In connection with such matters UBS, its affiliates and their respective directors, officers, employees and agents will not regard any other person as their client, nor will they be responsible to anyone other than Sainsbury's for providing the protections afforded to their clients or for providing advice in relation to the Acquisition, the contents of this Prospectus or any matter referred to in this Prospectus.

Morgan Stanley, UBS and any of their affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services for, the Company for which they would have received customary fees. Morgan Stanley, UBS and their respective affiliates may provide such services to the Company and any of its affiliates in the future.

Apart from the responsibilities and liabilities, if any, which may be imposed on Morgan Stanley or UBS by FSMA or the regulatory regime established thereunder, or under the regulatory regime of any jurisdiction where the exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, Morgan Stanley and UBS and their respective affiliates, directors, officers, employees and advisers accept no responsibility or liability whatsoever for, and do not make any representation or warranty, express or implied, as to the contents of this Prospectus, including its accuracy, completeness or verification, or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the New Sainsbury's Shares or the Acquisition and nothing in this Prospectus is or shall be relied upon as a promise or representation in this respect, whether or not to the past or future. Morgan Stanley and UBS accordingly disclaims to the fullest extent permitted by law all and any responsibility or liability, whether arising in tort, contract or otherwise (save as referred to above), which it might otherwise have in respect of this Prospectus or any such statement.

Recipients of this Prospectus should use it solely for the purpose of considering the terms of the Acquisition and may not reproduce or distribute this Prospectus, in whole or in part, and may not disclose any of the contents of this Prospectus or use any information herein for any purpose other than considering the terms of the Acquisition or an investment in the New Sainsbury's Shares. Any recipients of this Prospectus agree to the foregoing by accepting delivery of this Prospectus.

Investors acknowledge that: (i) they have not relied on Morgan Stanley, UBS or any person affiliated with Morgan Stanley or UBS in connection with any investigation of the accuracy of any information contained in this Prospectus or their investment decision; and (ii) they have relied only on the information contained in this Prospectus and the documents (or parts thereof) incorporated herein by reference. No person has been authorised to give any information or make any representations other than those contained in this

Prospectus and, if given or made, such information or representations must not be relied on as having been so authorised.

Persons who come into possession of this Prospectus should inform themselves about and observe any applicable restrictions and legal, exchange control or regulatory requirements in relation to the distribution of this Prospectus and the Acquisition. Any failure to comply with such restrictions or requirements may constitute a violation of the securities laws of any such jurisdiction.

NEITHER THE CONTENTS OF THIS PROSPECTUS NOR ANY SUBSEQUENT COMMUNICATION FROM SAINSBURY'S, THE SAINSBURY'S DIRECTORS, THE SAINSBURY'S GROUP, MORGAN STANLEY, UBS OR ANY OTHER PERSON INVOLVED IN THE ACQUISITION OR ANY OF THEIR RESPECTIVE AFFILIATES, OFFICERS, DIRECTORS, EMPLOYEES OR AGENTS ARE TO BE CONSTRUED AS LEGAL, FINANCIAL OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT HIS, HER OR ITS OWN SOLICITOR, INDEPENDENT FINANCIAL ADVISER OR TAX ADVISER FOR LEGAL, FINANCIAL OR TAX ADVICE.

NONE OF THE COMPANY, MORGAN STANLEY, UBS OR ANY OF THEIR RESPECTIVE REPRESENTATIVES IS MAKING ANY REPRESENTATION TO ANY PROSPECTIVE INVESTOR OF THE NEW SAINSBURY'S SHARES REGARDING THE LEGALITY OF AN INVESTMENT IN THE NEW SAINSBURY'S SHARES BY SUCH PROSPECTIVE INVESTOR UNDER THE LAWS APPLICABLE TO SUCH PROSPECTIVE INVESTOR.

THIS PROSPECTUS DOES NOT CONSTITUTE OR FORM PART OF ANY OFFER OR INVITATION TO SELL OR ISSUE, OR ANY SOLICITATION OF ANY OFFER TO PURCHASE OR SUBSCRIBE FOR, ANY SECURITIES OTHER THAN THE SECURITIES TO WHICH IT RELATES OR ANY OFFER OR INVITATION TO SELL OR ISSUE, OR ANY SOLICITATION OF ANY OFFER TO PURCHASE OR SUBSCRIBE FOR, SUCH SECURITIES BY ANY PERSON IN ANY CIRCUMSTANCES IN WHICH SUCH OFFER OR SOLICITATION IS UNLAWFUL.

Notice to Overseas Shareholders

The release, publication or distribution of this Prospectus and the issue of the New Sainsbury's Shares pursuant to the Acquisition in certain jurisdictions may be restricted by law. No action has been or will be taken to permit the possession, issue or distribution of this Prospectus (or any other offering or publicity materials or application form(s) relating to the New Sainsbury's Shares) in any jurisdiction where action for that purpose may be required or doing so is restricted by law. Accordingly, neither this Prospectus nor any advertisement nor any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. To the fullest extent permitted by applicable law, the companies and persons involved in the Acquisition disclaim any responsibility or liability for the violation of such requirements by any person.

Unless an exemption applies under relevant securities laws is available, the Acquisition is not being, and will not be, made available, directly or indirectly, in or into or from a jurisdiction where to do so would violate the laws in that jurisdiction and no person may vote in favour of the Acquisition by any such use, means, instrumentality or facility or from within any jurisdiction if to do so would constitute a violation of the laws of that jurisdiction.

Accordingly, copies of this Prospectus and all documents relating to the Acquisition are not being, and must not be, directly or indirectly, mailed, transmitted or otherwise forwarded, distributed or sent in, into or from any a jurisdiction where to do so would violate the laws in that jurisdiction, and persons receiving this Prospectus (including, without limitation, agents, nominees, custodians and trustees) must not distribute, send or mail it in, into or from such jurisdiction where to do so would violate the laws of that jurisdiction. Any person (including, without limitation, any agent, nominee, custodian or trustee) who has a contractual or legal obligation, or may otherwise intend, to forward this Prospectus and/or any other related document to a jurisdiction outside the United Kingdom should inform themselves of, and observe, any applicable legal or regulatory requirements of such jurisdiction.

Notice to U.S. holders of Home Retail Group Shares

The New Sainsbury's Shares are expected to be issued in reliance upon the exemption from the registration requirements of the U.S. Securities Act provided by Section 3(a)(10) thereof. Home Retail Group Shareholders (whether or not US persons) who are or will be affiliates (within the meaning of the US Securities Act) of Sainsbury's or Home Retail Group plc prior to, or of Sainsbury's after, the Effective Date will be subject to certain US transfer restrictions relating to the New Sainsbury's Shares received pursuant to the Scheme (as described below).

The New Sainsbury's Shares have not been and will not be registered under the U.S. Securities Act or under the securities laws of any state or other jurisdiction of the United States. Accordingly, the New Sainsbury's Shares may not be offered, sold, resold, delivered, distributed or otherwise transferred, directly or indirectly, in or into the United States absent registration under the U.S. Securities Act or an exemption therefrom.

The New Sainsbury's Shares generally should not be treated as "restricted securities" within the meaning of Rule 144(a)(3) under the US Securities Act and persons who receive securities under the Scheme (other than "affiliates" as described in the paragraph below) may resell them without restriction under the US Securities Act.

Under US securities laws, persons who are or will be deemed to be affiliates (as defined under the US Securities Act) of Home Retail Group plc or Sainsbury's prior to, or of Sainsbury's after, the Effective Date may not resell the New Sainsbury's Shares received under the Scheme without registration under the US Securities Act, except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. Whether a person is an affiliate of a company for such purposes depends upon the circumstances, but affiliates of a company can include certain officers and directors and significant shareholders. Home Retail Group Shareholders who believe they may be affiliates for the purposes of the US Securities Act should consult their own legal advisers prior to any resale of New Sainsbury's Shares received under the Scheme.

For the purposes of qualifying for the exemption from the registration requirements of the US Securities Act afforded by Section 3(a)(10), Home Retail Group plc will advise the Court through Counsel that its sanctioning of the Scheme will be relied upon by Sainsbury's as an approval of the Scheme following a hearing on its fairness to Home Retail Group Shareholders, at which hearing all Home Retail Group Shareholders are entitled to attend in person or through Counsel to support or oppose the sanctioning of the Scheme and with respect to which notification has been given to all Home Retail Group Shareholders.

None of the securities referred to in this Prospectus have been approved or disapproved by the SEC, any state securities commission in the United States or any other U.S. regulatory authority, nor have such authorities passed upon or determined the adequacy or accuracy of the information contained in this Prospectus. Any representation to the contrary is a criminal offence in the United States.

The Acquisition relates to the securities of a UK-registered company with a listing on the London Stock Exchange and is proposed to be effected by means of a scheme of arrangement under the laws of the UK. A transaction effected by means of a scheme of arrangement is not subject to proxy solicitation or tender offer rules under the U.S. Exchange Act. The Acquisition is subject to UK disclosure requirements, which are different from certain United States disclosure requirements. The financial information included in this Prospectus has been or will be prepared in accordance with IFRS and may not be comparable to financial information of U.S. companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

Each US holder of Home Retail Group Shares is urged to consult his or her independent professional adviser immediately regarding the tax consequences of the Acquisition.

It may be difficult for US Home Retail Group Shareholders to enforce their rights and claims arising out of the US federal securities laws, since Newco, Sainsbury's and Home Retail Group plc are located in countries other than the United States, and some or all of their officers and directors may be residents of countries other than the United States. US Home Retail Group Shareholders may not be able to sue a non-US company or its officers or directors in a non-US court for violations of the US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgment.

CONTENTS

SUMMARY INFORMATION

Summaries are made up of disclosure requirements known as "Elements". These Elements are numbered in Sections A–E (A.1–E.7).

This summary contains all the Elements required to be included in a summary for this type of security and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of security and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of "not applicable".

Section A—Introductions and warnings		
Element	**Disclosure Requirement**	**Disclosure**
A.1	Warning	This summary should be read as an introduction to this Prospectus. Any decision to invest in the securities should be based on consideration of this Prospectus as a whole by the investor. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the member states of the European Economic Area ("**Member States**"), have to bear the costs of translating this document before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, and applied its notification, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus or it does not provide, when read together with the other parts of this Prospectus, key information in order to aid investors when considering whether to invest in such securities.
A.2	Subsequent resale or final placement of securities through financial intermediaries	Not applicable. No consent has been given by the Company or any person responsible for drawing up this Prospectus to the use of this Prospectus for subsequent resale or final placement of securities by financial intermediaries.

Section B—Issuer		
Element	**Disclosure Requirement**	**Disclosure**
B.1	Legal and commercial name	J Sainsbury plc (the "**Company**")
B.2	Domicile and legal form	The Company is a public limited company, incorporated on 10 November 1922 in the United Kingdom under the Companies Acts of 1908 to 1917 with its registered office situated in England and Wales. The Company operates under the 2006 Act.
B.3	Key factors affecting current operations and principal activities	The Sainsbury's Group trades principally in the UK food and grocery sector. This sector is characterised by strong competition from other large supermarket operators such as Tesco, Asda and Morrisons, limited assortment discounters such as Aldi and Lidl and pure play online operators such as Ocado.

Section B—Issuer		
Element	**Disclosure Requirement**	**Disclosure**
		Currently, given the high level of price competition in the food and grocery sector, the overall sector is undergoing a period of price deflation. Therefore the Sainsbury's Group is focused on price simplification (including, through reducing the levels of promotions) to ensure it is able to stay price competitive and drive volume through its improved value proposition. The Sainsbury's Group has reduced the number of new supermarkets that it opens each year and is focused on reinvesting in its existing proposition through investment in the quality of its products, growing clothing and general merchandise sales, improving the supermarket shopping experience and improving its grocery online proposition. The other area of focus for the Sainsbury's Group is on reducing costs and it has committed to delivering £500 million of cost reductions over the three years from March 2015.
B.4a	Significant trends affecting the Sainsbury's Group and the industry in which it operates	**The Sainsbury's Group** The Sainsbury's Group trades principally in the UK food and grocery sector. This sector is characterised by strong competition from other large supermarket operators such as Tesco, Asda and Morrisons, limited assortment discounters such as Aldi and Lidl and pure play online operators such as Ocado. The growth of discounters, convenience stores and online grocery ordering is putting pressure on larger out of town supermarkets as people do fewer big weekly shops in these locations. The Sainsbury's Directors believe that this trend will continue for the foreseeable future, although the supermarket channel will continue to be the largest food and grocery channel to market. There is a high degree of price competition in the current market which has pertained for the last three years. The Sainsbury's Directors expect the current level of price competition to persist. This will be driven by continued competition amongst retail operators and limited commodity price inflation. The latter could change as a result of harvest levels or other factors. Consumers continue to embrace online research and shopping across all the product sectors in which the Sainsbury's Group operates—food and grocery, clothing, general merchandise and financial services. As a result of this, it is becoming increasingly important for businesses to ensure that their proposition is available to browse and buy online in order to be competitive and drive growth. This trend will continue and this means that companies will need to continue to invest in the infrastructure and skills required to create these online propositions. Financial services in the UK has been under intense regulatory scrutiny since 2009. This has led to additional regulation and taxes that impact financial services operators. This is likely to continue and as such any changes will have an impact on the Sainsbury's Group's and, following completion of the Acquisition, the Combined Group's operations and potential growth.
B.5	Group description	The Company is currently the ultimate holding company of the Sainsbury's Group. If the Acquisition becomes Effective, the Company will become the ultimate holding company of the Combined Group.

Section B—Issuer

Element	Disclosure Requirement	Disclosure
B.6	Major shareholders	As at 1 July 2016 (being the last practicable date prior to the date of this Prospectus (the "**Last Practicable Date**")), insofar as is known to the Company (based on voteholder notifications made under the Disclosure and Transparency Rules and/or the Market Abuse Regulation), the following persons were interested directly or indirectly in three per cent. or more of the voting rights in respect of the issued ordinary share capital of the Company:

Name	As at the Last Practicable Date Number of Sainsbury's Shares	Percentage of Sainsbury's issued share capital
Qatar Holding LLC	481,746,132	25.02
Portrait (Judith Susan)	63,646,783	3.31

None of the Company's major shareholders set out above have or will have different voting rights attached to the Sainsbury's Shares they hold in the Company.

The Company is not aware of any person who, at the Last Practicable Date, exercises, or could exercise, directly or indirectly, jointly or severally, control over the Company.

Element	Disclosure Requirement	Disclosure
B.7	Key financial information and narrative description of significant changes to financial condition and operating results of the group during or subsequent to the period covered by the historical key financial information	Selected historical financial information which summarises the results of operations and financial condition of the Sainsbury's Group for the 52-week periods to 12 March 2016, 14 March 2015 and 15 March 2014, prepared in accordance with IFRS, is set out in the following tables.

This information is audited and has been extracted without material adjustment from Sainsbury's Annual Report and Accounts 2016, Sainsbury's Annual Report and Accounts 2015 and Sainsbury's Annual Report and Accounts 2014, respectively.

Historical Key Financial Information of the Sainsbury's Group

Summarised Group Income Statement

	For the 52 weeks to 12 March 2016	14 March 2015	15 March 2014
		(audited) £ (m)	
Revenue	23,506	23,775	23,949
Operating profit	707	81	1,009
Net finance costs	(148)	(161)	(139)
Share of post-tax (loss)/profit from joint ventures and associates	(11)	8	28
Profit/(loss) before tax	548	(72)	898
Income tax expense	(77)	(94)	(182)
Profit/(loss) for the financial period	471	(166)	716
Statutory results			
Underlying profit before tax	587	681	798
Total adjustments	(39)	(753)	100
Profit/(loss) before tax	548	(72)	898

Section B—Issuer		
Element	**Disclosure Requirement**	**Disclosure**

Summarised Group Balance Sheet

	As at 12 March 2016	As at 14 March 2015	As at 15 March 2014
		(audited) £ (m)	
Non-current assets	12,529	12,032	12,171
Current assets	4,413	4,421	4,362
Assets held for sale	31	84	7
Total assets	16,973	16,537	16,540
Total liabilities	(10,608)	(10,998)	(10,535)
Net assets	6,365	5,539	6,005
Total equity attributable to ordinary shareholders of the parent	5,869	5,539	6,003
Perpetual capital securities	248	—	—
Perpetual convertible bonds	248	—	—
Non-controlling interest	—	—	2
Total equity attributable to equity holders of the parent	6,365	5,539	6,005

Summarised Group Cash Flow Statement

	For the 52 weeks to		
	12 March 2016	14 March 2015	15 March 2014
		(audited) £ (m)	
Net cash generated from operating activities	392	911	939
Net cash (used in)/from investing activities	(400)	(900)	426
Net cash flows used in financing activities	(128)	(314)	(290)
(Decrease)/increase in cash and cash equivalents	(136)	(303)	1,075
Elimination of net increase/(decrease) in Sainsbury's Bank cash and cash equivalents	316	343	(1,225)
Decrease/(increase) in debt	353	(31)	(27)
Fair value and other non-cash movements	(16)	32	(45)
Movement in net debt	517	41	(222)

The following significant changes to the financial condition and operating results of the Sainsbury's Group occurred during these periods:

- Sainsbury's completed the purchase of the remaining 50 per cent. of Sainsbury's Bank on 31 January 2014. In the results for the 52-week period to 15 March 2014, Sainsbury's Bank has been equity accounted for the 46 weeks to 31 January 2014 and fully equity accounted for the four weeks to 28 February 2014. It has been fully equity accounted thereafter.

Section B—Issuer		
Element	**Disclosure Requirement**	**Disclosure**
		• As part of Sainsbury's strategic review announced in November 2014, it reassessed its store pipeline and the potential to achieve an appropriate return on capital. This resulted in a decision that some sites will no longer be developed, for which a charge of £287 million was recognised in the 52-week period ended 14 March 2015, during which period Sainsbury's also recognised a charge of £341 million in relation to unprofitable and marginally profitable trading stores. • In November 2014, Sainsbury's also made a commitment to invest £150 million into the retail price of products, of which it invested £40 million in the second half of the 52-week period ended 14 March 2015 and £110 million in the 52-week period ended 12 March 2016. • On 5 May 2015, the unsecured Revolving Credit Facility ("**RCF**") was refinanced with a new secured recourse £1,150 million RCF, with no financial covenants. On 30 July 2015, Sainsbury's issued £250 million perpetual subordinated capital securities and £250 million perpetual subordinated convertible bonds (together £500 million of 'perpetual securities'), enabling an initial £125 million contribution to Sainsbury's pension fund in the 52 weeks to 12 March 2016. These perpetual securities have been accounted for as equity at that date. • On 29 July 2015, Sainsbury's announced a strategic partnership that will see LloydsPharmacy acquire Sainsbury's pharmacy business for a consideration of around £125 million. This transaction is currently being reviewed by the CMA in a Phase 2 review of potential impacts on competition. The outcome of this review is expected by 8 August 2016. There has been no significant change in the financial condition or operating results of the Sainsbury's Group since 12 March 2016, being the end of the period for which the Sainsbury's Group's last audited consolidated accounts were published.
B.8	Key pro forma financial information	Selected key pro forma financial information is set out below. The unaudited consolidated pro forma income statement and the statement of net assets of the Combined Group have been prepared in a manner consistent with the accounting policies adopted by Sainsbury's in preparing the audited historical consolidated financial information for the 52 weeks ended 12 March 2016 on the basis set out in the notes to the pro forma income statement and statement of net assets. The information below has been extracted without adjustment from the unaudited pro forma financial information in Part 9 "*Unaudited Pro Forma Financial Information on the Combined Group*" of this Prospectus.

Section B—Issuer		
Element	**Disclosure Requirement**	**Disclosure**

Selected unaudited pro forma income statement

	Sainsbury's for the 52 weeks to 12 March 2016[(1)]	Home Retail Group for the 52 weeks to 27 February 2016[(2)]	Transaction Adjustments[(3)]	Pro forma for the Combined Group
		£ (m)		
Revenue	23,506	4,235	—	27,741
Operating profit/(loss)	707	(839)	(39)	(171)
Net finance costs	(148)	(1)	—	(149)
Negative goodwill on acquisition, before fair value adjustments	—	—	283	283
Share of post-tax loss from joint ventures and associates	(11)	—	—	(11)
Profit/(loss) before tax	548	(840)	244	(48)
Income tax expense	(77)	(9)	—	(86)
Profit/(loss) for the financial period	471	(849)	244	(134)
Underlying profit before tax[(5)]	587	72	—	659
Total adjustments	(39)	(912)	244	(707)
Profit/(loss) before tax	548	(840)	244	(48)
Underlying EBITDAR[(5)]	1,830	337	—	2,167

Notes:

(1) Sainsbury's financial information has been extracted, without material adjustment, from Sainsbury's audited financial statements for the 52 weeks ended 12 March 2016, which are incorporated into this Prospectus by reference, as set out in Part 6 "*Sainsbury's Financial Information*".

(2) Home Retail Group's financial information has been extracted, without material adjustment, from Home Retail Group's audited financial statements for the 52 weeks ended 27 February 2016, which are incorporated into this Prospectus by reference, as set out in Part 8 "*Home Retail Group Financial Information*", reflecting the results of continuing operations. Underlying profit before tax reflects Home Retail Group's benchmark profit before tax from continuing operations, excluding the benchmark profit before tax of discontinued operations.

(3) (a) The transaction adjustment to operating profit comprises the fees related to the Transaction for Sainsbury's, post the 52 weeks ended 12 March 2016 (£18 million), and for Home Retail Group, post the 52 weeks ended 27 February 2016 (£19 million), together with the portion of stamp duty on the non-share element of the offer consideration (£2 million).

Section B—Issuer		
Element	**Disclosure Requirement**	**Disclosure**

(b) The pro forma income statement does not reflect the fair value adjustments to the acquired assets and liabilities, as the fair value measurement of these items will only be performed subsequent to completion of the Acquisition. The pro forma income statement, in arriving at the pro forma loss before tax, reflects the excess of the acquired net assets, adjusted for accounting policy alignment, the de-recognition of acquired goodwill and the proposed capital return, over the offer consideration, as set out below:

	£(m)
Net assets as at 27 February 2016	1,838
Accounting policies alignment adjustments	35
Less: Goodwill de-recognised	(301)
Less: Proposed capital return	(226)
Pro forma net assets acquired	1,346
Less: Offer consideration—cash (55 pence per share × 813.4 million Home Retail Group Shares)	(447)
Less: Offer consideration—shares (0.321 New Sainsbury's Shares per share × 236.10 pence per share as at 1 July 2016 × 813.4 million Home Retail Group Shares)	(616)
Negative goodwill on acquisition	283

On apportionment of the purchase price, fair values ascribed to assets acquired or liabilities assumed may result in material changes to the negative goodwill and the net asset position as recorded in the pro forma financial information.

As part of this fair value exercise, the Combined Group will conduct its own assessment of Home Retail Group's post year-end increased estimate to c. £30 million for the Financial Services customer redress provision detailed in "*Risk Factors—The Home Retail Group and, following completion of the Acquisition, the Combined Group faces risks relating to redress issues in relation to the collection of late payment fees from customers of the Home Retail Group's Financial Services business. Existing provisions made in the Home Retail Group's financial statements for the 52 weeks ended 27 February 2016 for such issues are unlikely to cover all potential costs and losses*" of this Prospectus, which has not been included as an adjustment in the pro forma financial information.

(c) No adjustment has been made in respect of the reduction in the IAS 19 pension financing charge as this is considered to be immaterial. No adjustment has been made in respect of the impact on the tax charge of the remaining portion of the Home Retail Group contribution to the Home Retail Group Pension Scheme, pursuant to the disposal of Homebase and the capital return (£24 million), and the £50 million contribution to the Home Retail Group Pension Scheme related to the transaction, as there is no net impact on the income statement.

(d) These items are all treated as non-underlying in nature.

(4) There are no material adjustments required to Home Retail Group's income statement in order for the Home Retail Group's income statement to be prepared in accordance with Sainsbury's accounting policies. Specifically, no adjustment has been made in respect of the accounting policies adjustment reflecting the inclusion in inventories of the relevant portion of warehousing and distribution costs incurred in respect of closing inventories of Home Retail Group, as the year-on-year impact is considered to be immaterial.

(5) Certain non-IFRS measures have been presented in the pro forma financial information, as the Sainsbury's Directors believe that these provide important alternative measures with which to assess the Combined Group's performance. These measures include underlying profit before tax and underlying EBITDAR, which are key performance indicators.

Section B—Issuer		
Element	**Disclosure Requirement**	**Disclosure**

Selected unaudited pro forma net assets statement

	Sainsbury's as at 12 March 2016[(1)]	Home Retail Group as at 27 February 2016[(2)]	Adjustments: Accounting Policies Alignment Adjustments[(6)]	Adjustments: Transaction Adjustments[(7)]	Pro Forma for the Combined Group
			£(m)		
Non-current assets	12,529	826	—	(301)	13,054
Current assets	4,413	2,266	44	(789)	5,934
Assets held for resale	31	—	—	—	31
Total assets	16,973	3,092	44	(1,090)	19,019
Total liabilities	(10,608)	(1,254)	(9)	74	(11,797)
Net assets	6,365	1,838	35	(1,016)	7,222
Net debt/(cash)	1,826	(623)	—	789	1,992
Capitalised operating lease commitments[(8)]	5,500	677	—	—	6,177
Lease-adjusted net debt	7,326	54	—	789	8,169
Pro forma ratio of lease-adjusted net debt to underlying EBITDAR[(9)]	4.0x	0.2x			3.8x

Notes:

(6) The adjustments reflect the impact of the accounting policy alignment in respect of the inclusion in inventories of the relevant portion of warehousing and distribution costs incurred in respect of closing inventories of Home Retail Group as at 27 February 2016 and the related deferred tax liability effect. The impact on the income statement of adjusting for both opening and closing inventories, and tax thereon, are considered to be immaterial.

(7) (a) The pro forma net assets statement does not reflect the fair value adjustments to the acquired assets and liabilities, as the fair value measurement of these items will only be performed subsequent to completion of the Acquisition. However, the goodwill of £301 million within the net assets of Home Retail Group has been de-recognised as it does not meet the definition of an identifiable asset under IFRS 3. On apportionment of the purchase price, fair values ascribed to assets acquired or liabilities assumed, may result in material changes to the negative goodwill and the net asset position as recorded in the pro forma financial information.

As part of this fair value exercise, the Combined Group will conduct its own assessment of Home Retail Group's post year-end increased estimate to c. £30 million for the Financial Services customer redress provision detailed in "*Risk Factors—The Home Retail Group and, following completion of the Acquisition, the Combined Group faces risks relating to redress issues in relation to the collection of late payment fees from customers of the Home Retail Group's Financial Services business. Existing provisions made in the Home Retail Group's financial statements for the 52 weeks ended 27 February 2016 for such issues are unlikely to cover all potential costs and losses*" of this Prospectus, which has not been included as an adjustment in the pro forma financial information.

(b) The total consideration includes consideration in the form of cash and shares. The transaction adjustments to current assets reflect:

	£(m)
Offer consideration—cash (55 pence per share × 813.4 million Home Retail Group Shares)	(447)
Proposed capital return	(226)
Pension contribution on the transaction	(50)
Remaining pension contribution related to Homebase disposal	(24)
Sainsbury's transaction fees post 12 March 2016	(18)
Home Retail Group's transaction fees post 27 February 2016	(19)
Stamp duty	(5)
Total cash adjustment	(789)

Approximately £70 million is expected to be utilised by the Combined Group for future restructuring and separation costs, pursuant to the disposal of Homebase. However, these anticipated costs have not been included in the total cash adjustment above.

Section B—Issuer		
Element	**Disclosure Requirement**	**Disclosure**
		(c) Pension contributions, above, totalling £74 million, are shown as a reduction to the retirement benefit obligations. No adjustment has been made in respect of the impact of the pension contributions on current or deferred tax assets or liabilities as there is no impact on net assets. (8) The capitalised value of operating lease commitments for Sainsbury's have been discounted at its long-term borrowing rate of 5.5 per cent., whilst those of Home Retail Group have been discounted at its equivalent rate of 3.6 per cent. If Sainsbury's discount rate was applied to the commitments of Home Retail Group, this would reduce the value by £45 million, to £632 million. (9) The ratio of lease-adjusted net debt to underlying EBITDAR is calculated as the lease-adjusted net debt divided by the underlying EBITDAR.
B.9	Profit forecast/ estimate	Not applicable. There is no profit forecast or estimate included in this Prospectus.
B.10	Description of the nature of any qualifications in the audit report on the historical financial information	Not applicable. There are no qualifications included in any audit report on the historical financial information included in this Prospectus
B.11	Insufficient working capital	Not applicable. In the opinion of the Company, the working capital available to the Sainsbury's Group is sufficient for its present requirements, that is for at least the next 12 months following the date of this Prospectus.

Section C—Securities		
Element	**Disclosure Requirement**	**Disclosure**
C.1	Type and class of securities	The Company intends to issue up to 261,115,846 New Sainsbury's Shares pursuant to the Acquisition. When admitted to trading, the New Sainsbury's Shares will be registered with ISIN number GB00B019KW72 and SEDOL number B019KW7.
C.2	Currency	United Kingdom pounds sterling.
C.3	Number of securities to be issued	As at the Last Practicable Date, the issued share capital of the Company was £550,151,357.71 comprising 1,925,529,752 ordinary shares of 28$\frac{4}{7}$ pence each (all of which were fully paid or credited as fully paid).
C.4	Description of the rights attaching to the securities	The rights attaching to the existing Sainsbury's Shares and the New Sainsbury's Shares will be uniform in all respects, and they will form a single class for all purposes, including with respect to voting and for all dividends and other distributions thereafter declared, made or paid on the ordinary share capital of the Company. On a show of hands every holder of a New Sainsbury's Share who is present in person shall have one vote, and on a poll every holder of a New Sainsbury's Share present in person or by proxy shall have one vote per Share.
C.5	Restrictions on the free transferability of the securities	There are no restrictions on the free transferability of the New Sainsbury's Shares.

Section C—Securities		
Element	**Disclosure Requirement**	**Disclosure**
C.6	Admission	The existing Sainsbury's Shares are currently admitted to listing on the premium listing segment of the Official List and admitted to trading on the London Stock Exchange plc's (the "**London Stock Exchange**") main market for listed securities.
		Application has been made to the FCA for all of the New Sainsbury's Shares to be issued pursuant to the Acquisition to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for such New Sainsbury's Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. The London Stock Exchange's main market is a regulated market.
C.7	Dividend policy	The Sainsbury's Directors expect that, following Completion, the Combined Group will pay dividends in line with Sainsbury's existing dividend policy of two times cover.

Section D—Risks		
Element	**Disclosure Requirement**	**Disclosure**
D.1	Key information on the key risks specific to the issuer and its industry	• An adverse trading environment and a competitive landscape may materially and adversely impact the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's business performance and financial condition. • Economic conditions and other factors outside of the Sainsbury's Group's and the Home Retail Group's control may adversely affect consumer confidence and/or consumer spending decisions which can adversely impact the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses. • Interruptions in the availability or flow of inventory, or changes in price, from suppliers from whom the Sainsbury's Group's and the Home Retail Group's products are sourced could have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects. • Natural disasters, pandemic outbreaks, terrorist acts, global political events and other unforeseen circumstances could decrease customer traffic, cause permanent or temporary store closures, or impair the Sainsbury's Group's or the Home Retail Group's ability to purchase, receive or replenish inventory, any of which could result in lost revenue and otherwise materially and adversely affect the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects. • A failure to implement the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's stated business strategy, or if such strategy is not communicated or implemented effectively, could adversely affect the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses.

Section D—Risks		
Element	**Disclosure Requirement**	**Disclosure**
		• The Sainsbury's Group and the Home Retail Group are dependent upon senior management and other colleagues and the inability to attract and retain such management or colleagues, and for the Sainsbury's Group and the Home Retail Group to maintain good relations with their respective colleagues, could adversely affect the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses. • Confidential information breaches or system service disruptions could significantly impact the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's reputation and could give rise to litigation. • Each of the Sainsbury's Group and the Home Retail Group is, and, following completion of the Acquisition, the Combined Group will be, subject to extensive legislation and regulation, including in relation to its financial services business. • The failure to successfully transition Sainsbury's Bank into the Sainsbury's Group may have an adverse impact on the Sainsbury's Group's reputation, results of operations and financial condition. • In common with other financial services businesses, Sainsbury's Bank and the Home Retail Group's Financial Services business are each subject to ordinary course operational risks including those related to its respective management systems, counterparty and others' credit risk, systemic weaknesses, the availability of liquidity and macro-economic influences.
D.3	Key information on the key risks specific to the securities	• Completion is subject to a number of conditions which may not be satisfied or waived. • Substantial future sales by significant shareholders or issues by the Company of Combined Group Shares, or the possibility or perception of such future sales or issues, could impact their market price. • The value of the Combined Group Shares may fluctuate significantly. • Combined Group Shareholders may earn a negative or no return on their investment in the Combined Group.

Section E—Offer		
Element	**Disclosure Requirement**	**Disclosure**
E.1	Net proceeds and costs of the offer	No net proceeds will be receivable by the Company in connection with the Acquisition. The total costs and expenses relating to the issue of this Prospectus and to the negotiation, preparation and implementation of the Acquisition are estimated to amount to between £30.0 million and £30.6 million (excluding any applicable VAT and stamp duty) and are payable by the Company.

Section E—Offer		
Element	**Disclosure Requirement**	**Disclosure**
E.2a	Reasons for the offer and use of proceeds	There are no proceeds (and therefore no estimated net amount of the proceeds) receivable by the Company as a result of the Acquisition. The proposed issue of New Sainsbury's Shares by the Company to which this Prospectus relates is being made in connection with the proposed recommended offer by the Company for the entire issued and to be issued ordinary share capital of Home Retail Group plc. The Acquisition is to be implemented pursuant to a three step process involving: (i) a scheme of arrangement of Home Retail Group plc under Part 26 of the 2006 Act to introduce Sainsbury's Intermediate Holdings Limited ("**New TopCo**") as the new holding company of the Home Retail Group and issue New TopCo Shares to Home Retail Group Shareholders; (ii) a court-approved reduction of capital of New TopCo (which will then be held by Home Retail Group Shareholders) to Sainsbury's to effect the Capital Return; and (iii) the mandatory transfer of the New TopCo Shares (which will then be held by Home Retail Group Shareholders) to Sainsbury's pursuant to the NewTopCo Articles. The combination of the Sainsbury's Group and the Home Retail Group is an attractive proposition for the customers and shareholders of both companies, establishing a platform for long-term value creation. The combination is an opportunity to bring together two of the UK's leading retail businesses, with complementary product offers, focused on delivering quality products and services at fair prices, through an integrated, multi-channel proposition. Specifically, the combination of the Home Retail Group and the Sainsbury's Group will: • Create a food and non-food retailer of choice for customers, building on the strong heritages of both businesses whose brands are renowned for trust, quality, value and customer service; • Deliver profitable sales growth by offering customers the right combination of location, range, speed and flexibility, across a wide range of products; • Bring together multi-channel capabilities including digital, store and delivery networks to provide fast, flexible and reliable product fulfilment to store or to home across a wide range of food and non-food products; • Optimise the use of their combined retail space. The combined entity will have attractively located stores across the UK, with an enhanced supply and delivery network and a strong presence across food and grocery, clothing, homewares, toys, stationery, electrical, furniture and other general merchandise; • Create a financial services proposition that will provide a wider range of customer-centric services including credit cards, loans, deposits, insurance and ATMs; and • Deliver significant specified revenue and cost synergy potential.

<table>
<tr><th colspan="3">Section E—Offer</th></tr>
<tr><th>Element</th><th>Disclosure Requirement</th><th>Disclosure</th></tr>
<tr><td>E.3</td><td>Terms and conditions of the offer</td><td>
On 1 April 2016, the Sainsbury’s Board and the Home Retail Group Board announced that they had agreed the terms of a recommended cash and share offer for New TopCo by Sainsbury’s, to be implemented by way of a court-sanctioned scheme of arrangement of Home Retail Group plc under Part 26 of the 2006 Act establishing New TopCo as the new holding company of the Home Retail Group and the subsequent transfer of all the issued and to be issued share capital in New TopCo to Sainsbury’s pursuant to mandatory transfer provisions under the articles of association of New TopCo. Under the terms of the Acquisition, which will be on the terms and subject to the conditions set out in the Scheme Document, Home Retail Group Shareholders will be entitled to receive:
<table>
<tr><td>For each Home Retail Group Share</td><td>From Sainsbury’s:
0.321 New Sainsbury’s Shares
and
55 pence in cash
(the “Offer Consideration”)</td></tr>
</table>
In addition, Home Retail Group Shareholders will also be entitled to receive a payment of 27.8 pence per Home Retail Group Share from New TopCo, reflecting a return to shareholders following the reduction of capital of New TopCo (the “Capital Return”).
The Acquisition is conditional upon, amongst other things, (i) approval by the requisite majorities of Home Retail Group Shareholders at the Home Retail Group Meetings; (ii) regulatory clearances being received from the FCA, the GFSC and the CMA; (iii) the Scheme and the New TopCo Capital Reduction becoming Effective and all other Conditions being fulfilled or (if capable of waiver) waived by no later than the Long Stop Date. The GFSC confirmed on 24 May 2016 that it had no objection to the Acquisition.
</td></tr>
<tr><td>E.4</td><td>Material interests</td><td>
Immediately following Admission, insofar as is known to the Company (based on voteholder notifications made under the Disclosure and Transparency Rules and/or the Market Abuse Regulation), the following persons will be interested directly or indirectly in three per cent. or more of the voting rights in respect of the issued ordinary share capital of the Company and based on the assumption that the holdings of such persons in the Company or Home Retail Group plc (as relevant) as at the Last Practicable Date do not change, up to 261,115,846 New Sainsbury’s Shares are issued in connection with the Acquisition and that no other issues of Sainsbury’s Shares or Home Retail Group Shares occur between the date of this Prospectus and Admission:
<table>
<tr><th></th><th colspan="2">As at the Last Practicable Date</th><th colspan="2">Immediately following Admission</th></tr>
<tr><th>Name</th><th>Number of Sainsbury’s Shares</th><th>Percentage of Sainsbury’s issued share capital</th><th>Number of Sainsbury’s Shares</th><th>Percentage of Sainsbury’s issued share capital</th></tr>
<tr><td>Qatar Holding LLC . . . .</td><td>481,746,132</td><td>25.02</td><td>481,746,132</td><td>22.03</td></tr>
</table>
</td></tr>
</table>

Section E—Offer		
Element	**Disclosure Requirement**	**Disclosure**
		There are no conflicting interests material to the Acquisition.
E.5	Selling Shareholders and Lock-up	Not applicable.
E.6	Dilution	Assuming the issue of up to 261,115,846 New Sainsbury's Shares pursuant to the Acquisition, the existing Sainsbury's Shares will represent 88.06 per cent. of the total issued Combined Group Shares immediately following Admission.
E.7	Expenses charged to the investor	Not applicable. No expenses will be charged to investors by the Company.

RISK FACTORS

Acquiring and holding the New Sainsbury's Shares involves a number of financial and other risks. Prior to acquiring the New Sainsbury's Shares in accordance with the Acquisition, the Home Retail Group Shareholders should consider carefully the factors and risks associated with acquiring and holding the New Sainsbury's Shares, or investing in the Sainsbury's Group's business and the industry in which it operates, together with all other information contained in this Prospectus and the Scheme Document including, in particular, the risk factors described below. This section describes risk factors considered by the Company to be material in relation to the Sainsbury's Group and the Home Retail Group as discrete groups. These risks will, following completion of the Acquisition, be equally relevant to the Combined Group.

Prospective investors should note that the risks relating to the Sainsbury's Group, the Home Retail Group, the Combined Group, their industries, the New Sainsbury's Shares or the Acquisition summarised in the section of this Prospectus headed "Summary Information" are the risks that the Company believes to be the most essential to an assessment by a prospective investor of whether to consider acquiring the New Sainsbury's Shares in accordance with the Acquisition. However, as the risks which the Sainsbury's Group, the Home Retail Group and the Combined Group face relate to events and depend on circumstances that may or may not occur in the future, prospective investors should consider not only the information on the key risks summarised in the section of this Prospectus headed "Summary Information" but also, among other things, the risks and uncertainties described below.

The risk factors described below are not an exhaustive list or explanation of all risks which prospective investors may face and should be used as guidance only. Additional risks and uncertainties relating to the New Sainsbury's Shares, the Sainsbury's Group, the Home Retail Group, the Combined Group or the Acquisition that are not currently known to the Company, or that it currently deems immaterial, may individually or cumulatively also have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's, business, results of operations, financial condition and prospects and, if any such risk should occur, the price of the New Sainsbury's Shares may decline and holders of the Combined Group Shares could therefore lose all or part of their investment. Prospective investors should consider carefully whether acquiring and holding the New Sainsbury's Shares is suitable for them in light of the information in this Prospectus, the Scheme Document and their personal circumstances.

1. Risks Relating to the Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group and their industries

An adverse trading environment and a competitive landscape may materially and adversely impact the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's business performance and financial condition

Effective management of trading is key to the achievement of the Sainsbury's Group's and the Home Retail Group's respective businesses. The outlook for the sectors in which the Sainsbury's Group and the Home Retail Group respectively operate have been, and are set to remain, challenging. The challenging trading environment, food price deflation (in the case of the Sainsbury's Group) and the price reduction and price matching activity across the sectors in which the Sainsbury's Group and the Home Retail Group operate may adversely impact the performance of the Sainsbury's Group and the Home Retail Group, as the case may be, in terms of sales, gross margins, costs and operations, which could have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

The Sainsbury's Group and the Home Retail Group each competes with a wide variety of retailers of varying sizes and faces increased competition from established UK retailers as well as from fast-growing international low-cost operators in the UK who have gained significant market share growth in recent years and from retail competitors who offer online ordering with home delivery and/or "click and collect" services. Furthermore, the financial services businesses operated by the Sainsbury's Group and the Home Retail Group face competition from established providers of financial services, including banks and building societies and insurance providers, many of which have greater scale and financial resources, stronger brand recognition, broader product offerings and more extensive distribution networks than the Sainsbury's Group and/or the Home Retail Group, as applicable. Actions taken by the Sainsbury's Group's and the Home Retail Group's competitors, as well as actions taken by them to maintain their competitiveness and reputation may place pressure on their pricing strategies, margins and profitability. Failure to compete successfully with competitors on areas including price, product range, quality and service could have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

Economic conditions and other factors outside of the Sainsbury's Group's and the Home Retail Group's control may adversely affect consumer confidence and/or consumer spending decisions which can adversely impact the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses

The Sainsbury's Group's and the Home Retail Group's businesses and operating and financial performance are impacted by the prevailing UK and global economic climate, inflation, levels of employment, real disposable income, salaries, wage rates, interest rates, the availability of consumer credit, cost of food, fuel and energy, taxation, consumer confidence and consumer perception of economic conditions, each of which can influence customer spending decisions and demand for credit materially and adversely. In a period of economic uncertainty or downturn, there might be a decrease in higher priced discretionary purchases. Furthermore, each of the Sainsbury's Group and the Home Retail Group faces increased competition from discount retailers and online retailers, particularly under weak economic conditions, when consumers have less disposable income, which can result in reduction of market share and/or margin compression and impact the Sainsbury's Group's and the Home Retail Group's sales and profitability.

Furthermore, as the Sainsbury's Group's and the Home Retail Group's operations are based entirely in the UK (save in the case of the Home Retail Group which operates Argos stores in the Republic of Ireland) and, accordingly, their revenue is derived almost entirely from UK customers, the Sainsbury's Group and the Home Retail Group are each particularly exposed to macro-economic conditions in the UK. These conditions may be affected by a variety of domestic and international factors, including the decision by the UK in the referendum on 23 June 2016 to leave the European Union, which has caused and may continue to cause, market uncertainty and volatility. If the UK's economic condition weakens, or if financial markets continue to exhibit uncertainty and/or volatility, the ability of the Sainsbury's Group, the Home Retail Group or, following completion of the Acquisition, the Combined Group to grow their respective businesses could be materially adversely impacted and in relation to Sainsbury's Bank could lead to increased impairment losses and impact the cash flows of the Sainsbury's Bank's borrowers and the value of their collateral, including property. Furthermore, adverse macro-economic conditions in the UK could lead to greater numbers of customers of Sainsbury's Bank and the Home Retail Group's Financial Services business being unable to meet their financial commitments as they fall due. The failure of customers to meet their financial commitments as they fall due may result in higher impairment charges or a negative impact on the fair value of the respective loan books of Sainsbury's Bank and the Home Retail Group's Financial Services business, each of which could have a material adverse impact on the business and profitability of Sainsbury's Bank and the Home Retail Group's Financial Services business.

Global economic conditions and uncertainties may also impact the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's suppliers, including for example, supplier plant closures or increases in the cost of products and services.

Any of these trends or factors could have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

Interruptions in the availability or flow of inventory, or changes in price, from suppliers from whom the Sainsbury's Group's and the Home Retail Group's products are sourced could have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects

The Sainsbury's Group and the Home Retail Group sell products that are sourced from a wide variety of domestic and international suppliers. Nevertheless, if a key supplier fails to deliver on key commitments, the Sainsbury's Group and the Home Retail Group, as applicable, could experience product shortages, which could lead to lost sales. In addition, the Sainsbury's Group and the Home Retail Group, as applicable, may not be able to identify and develop relationships with suitable alternative suppliers who can satisfy its standards for price, quality, safety standards, quantity and other requirements, in a timely fashion or at all, particularly in relation to critical high-volume products where there could be a lack of capacity in the market in the event that a key supplier is lost. Neither the Sainsbury's Group nor the Home Retail Group, as the case may be, can provide any assurance that any of its relationships with its suppliers will continue, or continue at the same price, and its sales and inventory levels could suffer if it is unable to promptly replace a supplier who is unwilling or unable to satisfy its price, quality, safety standards or quantity and other requirements. The loss of, or substantial decrease in the availability of, products from its suppliers, any breakdown or change in relationships with product suppliers, or the loss of a key supplier, could lead to lost sales or increased product costs.

Some of the Sainsbury's Group's and the Home Retail Group's domestic suppliers also import their products or components of their products. Political and economic instability in the countries in which foreign suppliers or manufacturers are located, the financial instability of suppliers, suppliers' failure to meet the Sainsbury's Group's or the Home Retail Group's, as the case may be, standards, issues with labour practices of its suppliers or labour problems they may experience (such as strikes), the availability and cost of raw materials to suppliers, merchandise quality or safety issues, transport availability and cost, inflation, and other factors relating to the suppliers and the countries in which they are located or from which they import are beyond the Sainsbury's Group's or the Home Retail Group's, as the case may be, control and could have negative implications for the Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group.

Disruptions due to labour stoppages, strikes or slowdowns, or other disruptions involving the Sainsbury's Group's or the Home Retail Group's suppliers or the shipping, transportation and handling industries also may affect its ability to receive products in a timely manner and thus may negatively affect the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's sales and profitability. The Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group may in the future experience product shortages, due to any or all of the factors described above, which could have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

A failure to implement the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's stated business strategy, or if such strategy is not communicated or implemented effectively, could adversely affect the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses

The successful delivery of the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's business strategies and realisation of the benefits arising therefrom are based on a variety of assumptions and variables, including among other things, future economic conditions and the trading performance of the Sainsbury's Group, the Home Retail Group and/or the Combined Group. There can be no assurance that the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's assumptions underpinning plans for the future will prove correct, that benefits will be realised or that strategic goals will be achieved within the estimated costs or timeframes. Moreover, a challenging economic climate as well as the need to carry out any necessary significant supporting changes to support the strategy, for example, changes to digital and technological platforms or supply chain and distribution infrastructure, may make it more difficult than expected for the Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group to implement plans effectively or to achieve expected financial and operational benefits even if they are implemented effectively. Furthermore, if the Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group fail fully to implement their plans, or if the estimated and expected future financial and operational benefits are not achieved, the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects may be materially adversely affected.

The Sainsbury's Group's and the Home Retail Group's businesses are subject to seasonal peaks, with higher sales and operating profits generated during certain peak trading periods. Weak sales during such peak trading periods, or as a result of extreme or unseasonal weather conditions, could adversely impact the Sainsbury's Group and the Home Retail Group, as applicable, and, following completion of the Acquisition, the Combined Group

The Sainsbury's Group's and the Home Retail Group's businesses are subject to seasonal peaks, with higher sales and operating profits generated during their quarterly financial periods that include the Christmas and, in the case of the Sainsbury's Group only, Easter trading periods. In connection with these peak trading seasons, the Sainsbury's Group and the Home Retail Group incur additional expenses in anticipation of higher sales during such periods, including costs of sourcing additional inventory, increases in their respective advertising spends and, in the case of the Christmas trading period, costs associated with hiring additional employees. Procurement of inventory for these periods is done well in advance and must anticipate trends in consumer preferences and the level of likely demand for products in these periods to avoid an excess or a shortage of inventory.

If sales during peak trading periods prove to be significantly lower than expected for any reason, the Sainsbury's Group and the Home Retail Group, as applicable, may be unable to adjust their respective expenses in a timely fashion and may be left with substantial amounts of unsold inventory, especially in seasonal merchandise that is difficult to liquidate. In that event, the Sainsbury's Group and the Home Retail Group may be forced to rely on markdowns or promotional sales to dispose of excess inventory, which may not offset additional inventory and wage costs, and could have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

The Sainsbury's Group's and the Home Retail Group's sales are also sensitive to periods of extreme weather conditions. The Sainsbury's Group and the Home Retail Group may see a reduction of sales during periods of inclement weather due to reduced customer footfall. The number of customers visiting the Sainsbury's Group's or the Home Retail Group's stores may also decline during periods of extreme weather conditions affecting the relevant local catchment area. Extreme weather conditions may also result in orders placed online being unable to be delivered. Prolonged unseasonal weather conditions, and/or temporary severe weather during the Sainsbury's Group's and the Home Retail Group's peak trading periods, could have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

The Sainsbury's Group and the Home Retail Group are dependent upon senior management and other colleagues and the inability to attract and retain such management or colleagues, and to maintain good relations between the Sainsbury's Group and the Home Retail Group and their respective colleagues, could adversely affect the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses

The Sainsbury's Group and the Home Retail Group are each dependent upon key senior management colleagues who have extensive experience and knowledge of the UK retail industry. The successful implementation of the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's strategy depends on the continuing availability of suitable senior management and the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's ability to continue to attract, motivate and retain other highly qualified colleagues. If members of the Sainsbury's Group's, the Home Retail Group's or, following completion of the Acquisition, the Combined Group's senior management depart, it may prove difficult to replace those senior managers that are required to implement such identified strategies and/or prevent any adverse impact on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, in a timely manner, or at all, and the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses may be disrupted or damaged. In addition, the loss of key members of senior management to competitors could have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's competitive position.

As at 12 March 2016 the Sainsbury's Group employed approximately 165,100 colleagues, and in the 52-weeks to 27 February 2016 the Home Retail Group employed an average of 45,500 colleagues, of which 15,000 related to the Homebase business, leaving the Home Retail Group post completion of the Homebase Sale with the remaining 30,500 colleagues, who are critical to the success of the Sainsbury's Group's and the Home Retail Group's businesses, respectively. The Sainsbury's Group and the Home Retail Group face the challenge of attracting, developing, training and retaining the right calibre of colleagues for its stores, offices, distribution centres, transportation fleet and call centres while controlling their labour costs, as well as maintaining good relations with such colleagues. The turnover rate in the retail and distribution industry is relatively high, and individuals of the required quality and calibre to fill positions may be in short supply, particularly in certain geographies. The Sainsbury's Group's and the Home Retail Group's ability to support its strategy, including the development of any new business and to progress its multi-channel and digital offerings, may also be limited by its ability to employ, train, motivate and retain sufficient colleagues of the right calibre and capability for the particular needs of the Sainsbury's Group or the Home Retail Group. There can be no assurance that the Sainsbury's Group or the Home

Retail Group will be able to attract and retain colleagues in the future. The Sainsbury's Group's and the Home Retail Group's ability to meet its labour needs, while controlling its labour costs, is subject to many external factors, including competition for and availability of colleagues, unemployment levels, prevailing wage rates, minimum wage laws, health and other insurance costs, union membership levels and activity among its employees and changes in employment and labour laws or other workplace regulation.

The failure to recruit and retain key senior management and other skilled or unskilled colleagues could adversely impact the Sainsbury's Group's or the Home Retail Group's sales performance, increase their wage costs, and adversely affect the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

Maintaining positive relations with colleagues is of great importance to the Sainsbury's Group and the Home Retail Group. Certain of the Sainsbury's Group's and the Home Retail Group's colleagues are members of Unite, the UK and Ireland's largest trade union, and Usdaw, the retail, distributive, manufacturing and service sectors trade union. The Sainsbury's Group engages with representatives of each of these trade unions on a non-binding consultation basis. The Home Retail Group's colleagues are also members of Mandate (the union of retail, bar and administrative workers) and the Home Retail Group engages with representatives of each of the unions of which its colleagues are members pursuant to negotiation rights granted to such unions. From time to time, Sainsbury's and Home Retail Group enter into discussions with these unions in relation to the terms of its members' employment with Sainsbury's and Home Retail Group, as applicable. Whilst each of the Sainsbury's Directors and the Home Retail Group believes that its relations with its respective colleagues is good, any dispute or deterioration of such relations, whether or not involving any trade unions, could interrupt the Sainsbury's Group's or the Home Retail Group's business and/or lead to increases to labour costs, each of which could have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's or, following completion of the Acquisition, the Combined Group's competitive position.

In addition, the challenging trading environment requires a focus on efficient operations which may include change initiatives impacting colleagues and their employment, presenting a risk of loss of colleague trust or engagement. Such factors could have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

Confidential information breaches or system service disruptions could significantly impact the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's reputation and could give rise to litigation

Maintaining the security of customer, colleague, supplier, financial, intellectual property and Sainsbury's Group and Home Retail Group confidential and sensitive data is essential to the Sainsbury's Group's and the Home Retail Group's business. The Sainsbury's Group and the Home Retail Group must comply with restrictions on the use of customer and colleague data and ensure that confidential information (including financial and personal data) is transmitted in a secure manner over public networks. Despite controls to ensure the confidentiality, availability and integrity of customer, colleague and supplier data, the Sainsbury's Group and the Home Retail Group may breach restrictions or may be subject to internal or external fraud or to attack from computer programmes that attempt to penetrate the network security and misappropriate confidential information and/or interfere with the Sainsbury's Group's and the Home Retail Group's ability to connect with their customers. Furthermore, the Sainsbury's Group's and the Home Retail Group's suppliers may also hold Sainsbury's and Home Retail Group customer data. There is a risk that, as a result of a breach in security, such data becomes public. In addition, the Sainsbury's Group and the Home Retail Group may be subject to denial of service or other coordinated attacks that may cause company websites or other systems to experience service outages or other interruptions. In common with other high-profile businesses which are targeted for cyber attack, attempts to infiltrate the Sainsbury's Group's and the Home Retail Group's networks and systems have been made in the past and may continue to occur in the future.

Due to the increasing sophistication and proliferation of cyber criminality and both internal and external threats, no assurance can be given that the Sainsbury's Group's and the Home Retail Group's security measures or those of any suppliers to the Sainsbury's Group or the Home Retail Group who hold Sainsbury's and Home Retail Group customer, colleague or other confidential or sensitive data will be sufficient to prevent breaches.

Any such breach or compromise of security could materially and adversely impact the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's reputation with current and potential customers, colleagues and suppliers and lead to litigation, fines or the loss of competitive advantage, and as a result or otherwise, have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

The failure of, or any disruption to, the Sainsbury's Group's or the Home Retail Group's online sales channels could have a material adverse impact on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses and prospects

The Sainsbury's Group and the Home Retail Group each operates online sales channels via dedicated websites allowing their respective customers to order and purchase products online. The Sainsbury's Group's online channels represent a growing part of its business, with growth of nearly 9 per cent. for its online grocery business during the 52-week period ended 12 March 2016 and the Home Retail Group's online channels represented 49 per cent of Argos' total sales for the 52 weeks ended 27 February 2016. Any failure or inadequacy in the Sainsbury's Group's or the Home Retail Group's systems resulting in their respective websites not properly performing the functions that are required of them could lead to an inability to process customer orders or a disruption to the availability of the website. Furthermore, the effective use of such online sales channels are dependent on their connectivity with the Sainsbury's Group's or the Home Retail Group's, as applicable, other IT and operational systems to ensure that once orders are taken they are then fulfilled. Any failure of, or disruption to the availability of, any online sales channel of the Sainsbury's Group or the Home Retail Group, or in their connectivity with applicable IT and other operational systems resulting in a customer's order not being fulfilled, could also result in customers being less willing to use those online channels in the future which could adversely impact the Sainsbury's Group's and the Home Retail Group's, as the case may be, online businesses. Accordingly, any such failure of, or disruption to, the Sainsbury's Group's or the Home Retail Group's online sales channels, or in their connectivity with applicable IT and other operational systems resulting in a customer's order not being fulfilled, could have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

The Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses depend on key software applications and hardware, some of which are supplied by third parties. Any information technology systems failure or disruption could impact the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's day-to-day operations which could adversely affect the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects

Each of the Sainsbury's Group and the Home Retail Group relies heavily on information technology systems for the efficient functioning of its respective businesses. Any failure of, or disruption to, IT systems whether caused by failings in key software applications, of underlying equipment or of communication networks or otherwise could delay or otherwise affect the Sainsbury's Group's and the Home Retail Group's businesses' ability to take and fulfil orders; to provide customer support; to manage their sales, warehousing, distribution and logistics, product buying, planning and replenishment, financial reporting and payroll functions and to maintain in-stock positions; or otherwise impact on day-to-day decision-making and could have a material and adverse effect on business continuity and the performance of the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, respectively. Notwithstanding efforts to prevent information technology failure or disruption, systems may be vulnerable to damage or interruption from fire, telecommunications failures, floods, physical or electronic break-ins, computer viruses, power outages and other malfunctions or disruptions.

The Sainsbury's Group and the Home Retail Group outsource the maintenance of some of their core information technology systems and some applications and hardware are provided by third parties, including in relation to Sainsbury's Bank where a number of its underlying customer-facing activities and support operations (including provision and support of IT platforms to support the operation of Sainsbury's Bank's ATM application and personal loans, credit cards, mortgages and savings products, and the provision of call centre colleagues and operations) are currently outsourced to or provided by Lloyds Banking Group ("**LBG**") through a Transitional Services Agreement (the "**Transitional Services**

Agreement"), and its insurance sales operations which are outsourced to third parties. Such outsourced maintenance arrangements, applications, hardware and support operations may not be carried out to the satisfaction of the Sainsbury's Group, operate as expected, may not fulfil their intended purpose or may not be of requisite quality.

Any disruption to, or unavailability of, the systems, applications or hardware, could also lead to a loss of critical data and prevent the Sainsbury's Group and/or the Home Retail Group from accepting and fulfilling customer orders as well as disrupting operations and management of their respective businesses, as well as giving rise to additional costs being incurred to rectify the problems, each of which could have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects. Furthermore, there can be no certainty that the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's recovery and contingency plans will be effective or sufficient in the event that they need to be activated.

The Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group may fail to invest adequately and appropriately in operational systems and processes to keep pace with technological changes, consumer trends and behaviour and may also fail to anticipate and introduce new products, content, services and technologies to consumers

To achieve strategic priorities and remain competitive, the Sainsbury's Group and the Home Retail Group must continue to develop and enhance their operating systems and processes. This may require the acquisition and development of new software, knowledge or expertise. No assurance can be given that the Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group can continue to successfully design, develop, implement and utilise new information systems and processes that will allow them to compete effectively. Failure to adapt quickly may adversely impact the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's competitive advantage, businesses, financial condition, results of operations or prospects.

In addition, the Sainsbury's Group's and the Home Retail Group's success largely depends on their ability to anticipate and introduce new products, content, services and technologies to consumers, as well as on the frequency and timeliness of such introductions, the level of consumer acceptance in relation to them, and the related impact on the demand for existing products, content, services and technologies. There can be no assurance that the Sainsbury's Group, the Home Retail Group or following completion of the Acquisition, the Combined Group will successfully anticipate technological changes and consumer demands in the future or that they will be able to obtain adequate supplies of popular new products. Failure to adequately manage inventory or predict accurately the constant changing of technology, consumer tastes, preferences, spending patterns and other lifestyle decisions could have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

Natural disasters, pandemic outbreaks, terrorist acts, global political events and other unforeseen circumstances could decrease customer traffic, cause permanent or temporary store closures, or impair the Sainsbury's Group's or the Home Retail Group's ability to purchase, receive or replenish inventory, any of which could result in lost revenue and otherwise materially and adversely affect the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects

The occurrence of one or more natural disasters, such as floods, pandemic outbreaks, weather conditions, such as major or extended winter storms, terrorist acts or disruptive global political events, in the UK or in countries in which the Sainsbury's Group's or the Home Retail Group's suppliers are located, or other disruptions, could materially and adversely affect the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's business, results of operations, financial condition or prospects. Such events could result in physical damage to, or the complete loss of, one or more of the Sainsbury's Group's or the Home Retail Group's properties, the closure of one or more of the Sainsbury's Group's or the Home Retail Group's stores, offices and distribution centres, the lack of an adequate work force available for a particular store, office or distribution centre, the inability of customers and colleagues to reach or have transportation to the Sainsbury's Group's or the Home Retail Group's stores, offices or distribution centres directly affected by such events, the evacuation of the populace from areas in which the Sainsbury's Group's and/or the Home Retail Group's stores are located, changes in the purchasing patterns of consumers and in consumers' disposable income, the temporary or long-term disruption in the Sainsbury's Group's or the Home Retail Group's supply chain, the reduction in the availability of certain products in the Sainsbury's Group's or the Home Retail Group's stores, the disruption of utility services to the Sainsbury's Group's or the Home Retail Group's stores, offices and distribution centres, and disruption in the Sainsbury's Group's or the Home Retail Group's communications with its stores, offices and distribution centres and to its IT systems. In addition, these events can have indirect consequences such as increases in the cost of insurance if they result in significant loss of, or damage to property or other insurable damage. Such activities may cause disruption, adversely affect the Sainsbury's Group's or the Home Retail Group's operations in the areas in which these events occur and/or give rise to a reduction of customer footfall at the Sainsbury's Group's and the Home Retail Group's stores and could therefore adversely affect the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

The loss of important intellectual property rights as well as third party claims that the Sainsbury's Group or the Home Retail Group has infringed on their intellectual property rights could significantly harm the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects

The Sainsbury's Group's and the Home Retail Group's key trademarks and design rights are important to the Sainsbury's Group's and the Home Retail Group's businesses. While the Sainsbury's Group and the Home Retail Group seek to establish and protect, respectively, the Sainsbury's Group's and Home Retail Group's intellectual property rights, third parties may in the future try to challenge their ownership and/or the validity of these intellectual property rights. The Sainsbury's Group and the Home Retail Group may not always be successful in securing protection for or stopping infringements of their respective intellectual property rights. Any litigation to enforce their intellectual property could result in substantial costs and a diversion of resources. The Sainsbury's Group's and the Home Retail Group's failure to protect and enforce their respective intellectual property rights could have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

The Sainsbury's Group and the Home Retail Group may not adequately identify third party intellectual property rights or assess the scope and validity of these third party rights, which may lead to claims that the Sainsbury's Group or the Home Retail Group, as applicable, has infringed intellectual property rights owned by third parties, who may challenge the Sainsbury's Group's or the Home Retail Group's, as the case may be, right to continue to sell certain products and/or may seek damages. No assurance can be given that the Sainsbury's Group or the Home Retail Group would prevail in any such litigation. Any such claims could be expensive and time-consuming and could cause the Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group to cease offering products that incorporate the challenged intellectual property or be required to pay significant damages or obtain licenses from the holders of such intellectual property which may not be available on commercially reasonable terms, any of which could materially adversely affect the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

The Sainsbury's Group is subject to risks relating to its debt service obligations

As at 12 March 2016, the Sainsbury's Group had drawn debt facilities of approximately £2.9 billion (audited) including its perpetual securities, and total facilities of £4.1 billion (comprising additionally £1.2 billion undrawn but committed revolving credit facilities). The Sainsbury's Group's ability to meet its obligations under its indebtedness, including making principal, interest and other payments when due, as well as its ability to fund its ongoing business operations, will depend upon its future operating performance and ability to generate cash, which, in turn, will be affected to some extent by general economic conditions and by financial, competitive, legislative, regulatory and other factors, including those factors discussed in this Part "*Risk Factors*", many of which are beyond the Sainsbury's Group's control.

The Sainsbury's Group's core current indebtedness is due for principal repayment or refinancing from 19 April 2018. If, on the maturity date of any of the Sainsbury's Group's indebtedness, it does not have sufficient cash flows from operations and other capital resources to repay and redeem such indebtedness in full or pay its other debt obligations, as the case may be, the Sainsbury's Group may be required to undertake alternative financing plans, such as refinancing or restructuring its debt, selling assets, reducing or delaying capital investments or raising additional debt or equity financing in amounts that could be substantial or on unfavourable terms. Furthermore, given that a significant portion of the Sainsbury's Group's indebtedness is provided on a secured funding basis, any material decline in the value of the Sainsbury's Group's property portfolio could inhibit the Sainsbury's Group's ability to arrange secured finance.

The Sainsbury's Group's and, following completion of the Acquisition, the Combined Group's access to debt, equity and other financing as a source of funding for its operations and for refinancing maturing debt will also be subject to many factors, including commitments given to the trustee of the Sainsbury's defined benefit Pension Scheme (the "**Sainsbury's Pension Scheme**") regarding levels of secured indebtedness over the period to 2020 among other factors, many of which are beyond the Sainsbury's Group's control. The type, timing and terms of any future financing will depend on the Sainsbury's Group's cash needs and the then prevailing conditions in the financial markets, including in the corporate bond, term loan and equity markets. No assurance can be given that these conditions will be favourable at the time any refinancing is required to be undertaken or that we will be able to complete any such refinancing in a timely manner or on favourable terms, if at all.

In the longer term, that is more than 12 months from the date of this Prospectus, if the Sainsbury's Group is unable to generate sufficient cash flows to satisfy its debt obligations or to refinance its indebtedness on acceptable terms, or at all, it would materially and adversely affect the Sainsbury's Group's and, following completion of the Acquisition, the Combined Group's businesses, financial condition, results of operations or prospects, as well as the ability to pay the principal and interest on its indebtedness. Any failure to refinance the Sainsbury's Group's indebtedness, on or prior to the applicable maturity date, may result in the Sainsbury's Group defaulting on such indebtedness.

The Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group are exposed to fluctuations in interest rates

As at 12 March 2016, approximately 20 per cent. of the Sainsbury's Group's indebtedness (excluding its perpetual securities) was exposed to a variable rate of interest linked to the sterling London Interbank Offered Rate ("**LIBOR**"), and the Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group are therefore exposed to movements in interest rates. In addition, interest rate fluctuations affect the return on the Sainsbury's Group's and the Home Retail Group's cash and other short-term investments. There can be no guarantee that future interest rate fluctuations will be effectively hedged by the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's use of interest rate swaps or other hedging instruments to manage interest rate exposure on its respective borrowings. Furthermore, such hedging instruments may result in the Sainsbury's Group or the Home Retail Group, as applicable, paying higher interest rates than the prevailing variable interest rates from time to time. Movements in interest rates could have a material adverse effect on any un-hedged borrowing exposure or on the returns generated by the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's investments, either of which could adversely affect the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

Currency fluctuations and hedging risks could materially adversely affect the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's results of operations

Each of the Sainsbury's Group and the Home Retail Group is subject to certain transactional currency exposures, principally to the U.S. dollar and the euro. The Sainsbury's Group's and the Home Retail Group's sales are each primarily denominated in pounds sterling and the Sainsbury's Group and the Home Retail Group each reports its consolidated financial results in pounds sterling, save that in the case of the Home Retail Group, it operates Argos stores in the Republic of Ireland where sales are generated and reported in euros thereby exposing the Home Retail Group to currency translation risks in relation to such Irish operations. The exchange rates between U.S. dollars and pounds sterling and between euro and pounds sterling have fluctuated in recent years and may fluctuate significantly in the future. The Sainsbury's Group and the Home Retail Group could each be adversely affected by future unfavourable shifts in currency exchange rates, particularly by a strengthening of the U.S. dollar or the euro compared to the pound sterling. Although it is the Sainsbury's Group's and the Home Retail Group's policy to manage their respective currency exposures as they consider appropriate, through the use of hedging instruments such as forward foreign exchange contracts and other derivative instruments, there can be no assurance that such hedging or other derivative arrangements will be effective or that all of the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's currency exposure will be hedged.

Certain of the Sainsbury's Group's assets are encumbered

The Sainsbury's Group has granted security interests over certain of its assets as part of securitisation, financing and other transactions which it has undertaken (including by Sainsbury's Bank as part of its routine funding programme or as part of its participation in any Bank of England funding schemes; as part of the arrangements agreed between Sainsbury's and the trustee of the Sainsbury's Pension Scheme; and following completion of the Acquisition, as part of the arrangements agreed between Sainsbury's and the Home Retail Group Trustee under the terms of the Pensions Letter (as defined in paragraph 12 of Part 1 "*Details of the Acquisition*")). Such assets may not be available to meet other liabilities of the Sainsbury's Group and may not be readily realisable. Accordingly, such assets may offer the Sainsbury's Group little or no liquidity in circumstances where it is needed (including, for instance, in a Sainsbury's Bank stress scenario). Any failure by the Sainsbury's Group (including Sainsbury's Bank) to maintain sufficient liquidity could have a material adverse effect on the Sainsbury's Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects. See "*—The Sainsbury's Group is subject to risks relating to its debt service obligations*" for a description of the risks around the ability of the Sainsbury's Group to arrange secured finance.

The Sainsbury's Group and the Home Retail Group are, and following completion of the Acquisition, the Combined Group may be, subject to product liability claims and adverse publicity, including claims and adverse publicity concerning food and prepared food products and other non-food products

The Sainsbury's Group and the Home Retail Group may be subject to product liability claims and/or adverse publicity with respect to the sale of food and prepared food products (in the case of the Sainsbury's Group only) and other non-food products that are recalled, defective or otherwise alleged to be harmful or do not conform to the descriptions provided. Injuries may result from tampering by unauthorised third parties, product contamination or spoilage, including the presence of foreign objects, substances, chemicals, other agents, or residues introduced during the growing, storage, handling, packaging and transportation phases. While the Sainsbury's Directors believe, and the Home Retail Group believes, that the Sainsbury's Group's and the Home Retail Group's respective products comply in all material respects with all applicable laws and regulations, no assurance can be given that the consumption or use of products sold by the Sainsbury's Group or by the Home Retail Group will not cause a health-related illness or injury in the future or that the Sainsbury's Group or the Home Retail Group will not be subject to claims or lawsuits relating to such matters. Although each of the Sainsbury's Group and the Home Retail Group generally seeks contractual indemnification and insurance coverage from its suppliers and carries product liability insurance, it may not have adequate contractual indemnification and/or insurance available, which in certain cases may require it to respond to claims or complaints from customers as if it were the manufacturer. Even if a product liability claim is unsuccessful or is not fully pursued and covered with adequate insurance and indemnification, the negative publicity surrounding such claims could adversely affect the Sainsbury's Group's or the Home Retail Group's, as applicable, reputation with existing and potential customers.

Furthermore, allegations, whether unfounded or true, relating to concerns around the quality or safety of food products and the tracing of supply chains used in the preparation of such food products sold by the Sainsbury's Group, could cause customers to avoid purchasing certain products from the Sainsbury's Group, or to seek alternative sources of supply for all of their food and non-food needs, even if the basis for the concern is outside of the Sainsbury's Group's control. Any lost confidence on the part of the Sainsbury's Group's customers would be difficult and costly to re-establish.

As such, any such issue regarding the safety or quality of any food items or non-food items sold by the Sainsbury's Group, regardless of the cause, and any such issue regarding the safety or quality of any products sold by the Home Retail Group, regardless of the cause, could adversely affect the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

Any events that negatively impact the reputation of, or value associated with the brands of, the Sainsbury's Group and the Home Retail Group could adversely affect the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses

The Sainsbury's and Argos brands and their sub-brands are important assets of the Sainsbury's Group's and the Home Retail Group's businesses. Maintaining the reputation of and value associated with the brands is central to the success of their respective businesses and the Sainsbury's Group and the Home Retail Group could be adversely affected if customers lose confidence in the safety or quality of the products sold or provided and the quality of the services provided by the Sainsbury's Group and the Home Retail Group or in the way that the Sainsbury's Group and the Home Retail Group conduct and carry out their business practices.

Each of the Sainsbury's Group and the Home Retail Group also depends on its respective suppliers to comply with applicable employment, environmental and other laws and standards so as not to negatively impact the Sainsbury's and Home Retail Group brands. However, no assurance can be given that suppliers are or will remain in compliance with such laws.

The Sainsbury's Group's and the Home Retail Group's businesses also comprise a range of food (in the case of the Sainsbury's Group only) and non-food (in the case of both the Sainsbury's Group and the Home Retail Group) private label items. While the Sainsbury's Group's and the Home Retail Group's policies set out standards for ethical business practices, and their respective auditing practices seek to confirm compliance with such policies, they do not control these manufacturers or their labour or other business practices. Maintaining broad market acceptance of their private label items depends on many factors, including pricing, costs, quality and customer perception, and the Sainsbury's Group and the Home Retail Group may not achieve or maintain expected sales for their private label items.

In light of the increased public focus on employment, health and safety and environmental matters, a violation, or allegations of a violation of such laws or regulations, or a failure to achieve particular standards by any of the Sainsbury's Group's or the Home Retail Group's suppliers or manufacturers, could lead to unfavourable publicity and a decline in public demand for the Sainsbury's Group's or the Home Retail Group's products, or require the Sainsbury's Group or the Home Retail Group to incur expenditure or make changes to its supply chain and other business arrangements to ensure compliance and/or rectify any reputational damage. Any such events concerning the Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group, or any of the manufacturers or suppliers that supply products to it or them could create substantial erosion in the reputation of, or value associated with, the Sainsbury's and the Home Retail Group brands, as applicable, and could result in a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

Failure to implement measures to reduce the Sainsbury's Group's and the Home Retail Group's respective impact on the environment and to promote sustainability could give rise to greater costs and damage the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's reputation

Each of the Sainsbury's Group and the Home Retail Group faces risks relating to reducing the environmental impact of its business, in particular with regard to reducing packaging and implementing new methods of reducing waste and energy usage across stores, depots and offices. Failure to implement these measures successfully could lead to increased costs for the Sainsbury's Group and the Home Retail Group, as applicable, and damage to the Sainsbury's Group's and the Home Retail Group's reputation, each of which could have an adverse impact on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

The Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's performance may be affected by their respective store portfolios

The quality and location of the Sainsbury's Group's and the Home Retail Group's respective store portfolios are a key contributor to performance. The location of stores, their design (both internally and externally), store surroundings and the type of other retailers adjacent to the store locations are among the variety of factors that impact the quality of the store portfolio in the eyes of their customers and thus their performance.

In order to implement Sainsbury's convenience store opening programme, the Sainsbury's Group is dependent on its dedicated property acquisition team identifying and securing favourable new sites. The ability to secure new sites for the Sainsbury's Group's convenience stores is affected by the level of competition from other retailers, local land use and planning regulations, environmental regulations and the cost of leasing stores. If the Sainsbury's Group and, following completion of the Acquisition, the Combined Group, are unable to obtain the targeted volume of new convenience stores in appropriate locations and operate such sites in line with targeted levels of profitability, this could have a material adverse effect on the Sainsbury's Group's, and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

A significant proportion in number of the Sainsbury's Group's, and all of the Home Retail Group's, respective store portfolios are held through leasehold interests, which are generally subject to periodic rent review, lease expiry and renegotiation. As a result, each of the Sainsbury's Group and the Home Retail Group is susceptible to changes in the property rental market, such as increases in market rents. In addition, the Sainsbury's Group and the Home Retail Group may not be able to renew its respective existing store leases where, for example, the landlord is able to establish statutory grounds for nonrenewal or if the leases do not have the benefit of statutory or contractual rights of renewal. Any inability to renew existing leases may result in, among other things, significant alterations to rental terms (including increasing rental rates), the closure of stores in desirable locations, incurring significant dilapidation expenditure, increased costs to fit out replacement locations or failure to secure replacement sites in attractive locations. The manifestation of any of these risks could have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition, or prospects.

The Sainsbury's Group and the Home Retail Group also monitor the quality and profitability of their stores and may decide to reformat existing stores at an acceptable return on investment and/or assign, sublease or terminate lease obligations at an acceptable cost for those stores they no longer wish to operate. In modernising or refurbishing or in changing the layout of a store (for example to change a product mix or to allow the introduction of a concession partner) in its existing store portfolio the Sainsbury's Group or the Home Retail Group may require consents from its respective landlords or local authorities. Such landlord or local authority consents may not be forthcoming or, in the case of landlord consents, may not be given on terms that are commercially acceptable to the Sainsbury's Group or the Home Retail Group, as the case may be, which might impact the Sainsbury's Group or the Home Retail Group from maximising the use of the store in the way that it had wished. In particular, following completion of the Acquisition, the Combined Group will consider converting existing Argos stores into Sainsbury's stores and/or opening new Argos concession stores within existing Sainsbury's stores. Any failure by the Combined Group to implement this conversion and new opening strategy could have a material adverse effect on the Combined Group's businesses, results of operations, financial condition or prospects. If any works are carried out, or have been carried out, without required consents, disputes may arise which may result in the Sainsbury's Group or the Home Retail Group, as applicable, having to undertake reinstatement works or face liability for dilapidations, or the landlord may seek forfeiture of the relevant lease. The costs incurred in modernising or refurbishing or changing the layout of the Sainsbury's Group's and the Home Retail Group's existing store portfolio can also be significant.

From time to time, each of the Home Retail Group and the Sainsbury's Group may seek to dispose of, or close, certain of its stores whether in response to any reduction in the profitability of a store, a shift in sales to other distribution channels or as part of a restructuring or change in strategy of its respective businesses or otherwise. In such circumstances, no assurance can be given that the Sainsbury's Group or the Home Retail Group, as the case may be, will be successful in finding purchasers for the identified stores on commercially acceptable terms or at all or that any termination or modification of a lease over any such property will be obtained on commercially acceptable grounds or at all or will not include the incurrence of significant dilapidation expenditure. Any failure to find purchasers for such stores or a failure to dispose of the required number or the incurrence of any significant expenditure in connection with any termination or exit of a lease (including in relation to dilapidation expenditure), could each have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, strategy, results or operations, financial condition or prospects. To the extent the Sainsbury's Group or the Home Retail Group are unable to realise the sale or disposal of any unprofitable or unwanted stores or remains obligated under leases for unprofitable or vacant stores, or to the extent that the termination or modification of leases results in significant costs, the Sainsbury's Group's or the Home Retail Group's and, following completion of the Acquisition, the Combined Group's ability to manage its costs will be impacted and its businesses, results of operations, financial condition, or prospects may be adversely affected.

The Sainsbury's Group and the Home Retail Group are subject to various environmental and health and safety laws, regulations and standards. Failure to comply with such laws, regulations or standards or failure to maintain regulatory permissions or approvals could adversely affect the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operation, financial condition or prospects

The Sainsbury's Group and the Home Retail Group are subject to a broad and stringent range of environmental and health and safety laws, regulations and standards, relating to its customers, colleagues and products. New regulations could require the Sainsbury's Group or the Home Retail Group to refit existing stores, redesign products or incur other significant costs in order to be in compliance. These laws, regulations and standards may also result in increased exposure to substantial legal liability for non-compliance. Any additional costs incurred by the Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group in order to comply with new or more stringent laws, regulations or standards or any penalties imposed upon the Sainsbury's Group or the Home Retail Group, as the case may be, for failure to comply with such laws, regulations or standards could have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

Specifically, the Sainsbury's Group is subject to extensive laws and regulations relating to the storage, handling, transportation and distribution of fuel sold at its petrol stations. Permits are required for these operations, and these permits are subject to modification and renewal by issuing authorities. Government authorities have the power to enforce compliance with their regulations, and violations may result in the payment of fines, injunctive orders, or both. A significant regulatory action against the Sainsbury's Group or, following completion of the Acquisition, the Combined Group in relation to its storage, handling, transportation or distribution of fuel, or any adverse publicity in relation to the safety of the processes involved, could have a material adverse effect on the Sainsbury's Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

Complaints and litigation could damage the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's brand and reputation and divert management resources.

From time to time, the Sainsbury's Group and the Home Retail Group may be the subject of complaints and litigation from its customers, employees, suppliers and other third parties, alleging product, injury, health, environmental, safety, data protection, or operational concerns, nuisance, negligence or failure to comply with applicable laws and regulations (including, in the case of colleagues, in relation to equal pay, discrimination and unfair/wrongful dismissal). Any such complaints and claims could become publicly known and could result in costs to the Sainsbury's Group and the Home Retail Group and even if successfully resolved without direct adverse financial effect, could have a material adverse effect on the Sainsbury's Group's or the Home Retail Group's brand and reputation and divert its financial and management resources from more beneficial uses. If the Sainsbury's Group or the Home Retail Group, as applicable, were to be found liable under any such complaints and claims, the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition, or prospects could be materially adversely affected.

The Home Retail Group and, following completion of the Acquisition, the Combined Group face certain risks relating or consequential to the completion of the Homebase Sale

In connection with the Homebase Sale, Home Retail Group plc and a wholly owned subsidiary of it, Home Retail Group (UK) Limited (the "**Seller**"), entered into a share purchase agreement on 17 January 2016 with Bunnings (UK&I) Holdings Limited (the "**Purchaser**") and Bunnings Group Limited (the "**Purchaser Guarantor**") (the "**Homebase Share Purchase Agreement**"). The Homebase Share Purchase Agreement contains indemnities from the Seller in favour of the Purchaser, including indemnities in relation to (i) the Home Retail Group reorganisation effected in advance of the completion of the Homebase Sale, (ii) environmental liabilities relating to hazardous substances, (iii) liabilities arising as a result of employees transferring to or from the Purchaser's Group, (iv) the closure of certain Homebase stores and a distribution centre, (v) funding any deficit of the Hampden Group plc Pension Scheme in excess of £1.5 million (calculated on an IAS 19 basis) and (vi) any exercise of power by the Pensions Regulator under the Pensions Act 2004 in relation to the Home Retail Group Pension Scheme.

As a result of these indemnities, the Seller is, and consequently the Combined Group following completion of the Acquisition will be, exposed to certain liabilities, the full extent of which may not have been known at the time of completion of the Homebase Sale. If the Seller (or, following completion of the Acquisition, the Combined Group) is required to make a payment to the Purchaser pursuant to any indemnity in the Homebase Share Purchase Agreement, such payment could have a material adverse effect on the Home Retail Group and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

In addition, the Homebase Share Purchase Agreement also contains a customary package of warranties given by the Seller in favour of the Purchaser. Any liability to make a payment arising from a successful claim under these warranties could have a material adverse effect on the Home Retail Group and, following completion of the Acquisition, the Combined Group's business, results of operations, financial condition and prospects.

The process of separating Homebase from the Home Retail Group following the completion of the Homebase Sale will be complex. In connection with the Homebase Share Purchase Agreement, the Seller entered into a transitional services agreement with Bunnings (UK&I) Holdings Limited, a subsidiary of Wesfarmers Limited ("**Wesfarmers**") and Homebase Limited (the "**Homebase Transitional Services Agreement**"), pursuant to which the Home Retail Group and Homebase Limited's group will provide certain services to each other for a period of time to assist the transition of the Homebase Group into Wesfarmers' ownership and to ensure an orderly separation of the two businesses. The Home Retail Group, and consequently the Combined Group following completion of the Acquisition, will continue to provide shared services functions to Homebase, including services relating to information systems, home delivery, distribution, customer contact centres, product sourcing, property, facilities, transport, legal, human resources and tax, and Homebase will provide to the Home Retail Group, and consequently the Combined Group following completion of the Acquisition, certain reverse services, including information systems, finance and home delivery services, along with the right to continue the operation of certain Argos concessions in Homebase stores.

The Home Retail Group and, following completion of the Acquisition, the Combined Group could incur unexpected additional or unforeseen costs, including in connection with the implementation of corporate reorganisations and systems separations required in connection with the Homebase Sale, and/or impacts on the functioning of its business as a result of the Home Retail Group and Homebase separation process and/or the fulfilment of its obligations under the Homebase Transitional Services Agreement. Any such failure or alleged failure by the Home Retail Group and, following completion of the Acquisition, the Combined Group to provide the services in accordance with the terms of the Homebase Transitional Services Agreement could expose the Home Retail Group and, following completion of the Acquisition, the Combined Group to legal disputes with Wesfarmers and Homebase, which could divert management attention away from the core operations of the Home Retail Group and, following completion of the Acquisition, the Combined Group and could result in legal costs being incurred and contractual remedies being awarded against the Home Retail Group and, following completion of the Acquisition, the Combined Group, including damages, each of which could have a material adverse effect on the Home Retail Group and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

Risks relating to the pension schemes of the Sainsbury's Group and the Home Retail Group

The Sainsbury's Group and the Home Retail Group each sponsors a defined benefit pension scheme namely the Sainsbury's Pension Scheme and the Home Retail Group Pension Scheme (the "**Home Retail Group Pension Scheme**"). Assets of each scheme are held in a trust fund by a trustee separate from the assets of the sponsor group. The trustee of the Sainsbury's Pension Scheme (the "**Sainsbury's Trustee**") is a corporate trustee whose board members comprise five company nominated directors, five member nominated directors and an independent chairman. The trustee of the Home Retail Group Pension Scheme (the "**Home Retail Group Trustee**") is a corporate trustee whose board members comprise three company nominated directors, two member nominated directors and an independent chairperson.

Risk arises for the Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group from these schemes because from time to time there may be insufficient assets to cover the defined benefit liabilities of the scheme (i.e. there is a deficit in the scheme) and the participating employers in the Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group, as the case may be, for each scheme are obliged by legislation and the governing documents of the scheme to fund the liabilities. The deficit in either scheme may increase as a result of factors a number of which are outside the control of the participating employers, such as increases in life expectancy, inflation, the value of investments and the returns derived from such investments.

A significant future requirement to fund such liabilities might require funding from external sources and/or might conflict with cash available from operational activities and operational or strategic financing requirements. Such a funding requirement could have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's business, results of operations and financial condition.

The Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group may be required to increase employer contributions to either or both of the Sainsbury's Pension Scheme and the Home Retail Group Pension Scheme to fund deficits

The actuarial funding position of the Sainsbury's Pension Scheme and the Home Retail Group Pension Scheme and the financial commitments of the participating employers to those schemes are assessed at regular actuarial valuations. The assumptions used for such valuations would generally need to be agreed between the participating employers in the Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group, as applicable, and the trustees of the respective scheme (although the UK Pensions Regulator ("**TPR**") has the power to set these in certain circumstances).

Both schemes are undergoing a regular statutory valuation with effective dates in March 2015. Sainsbury's and the Sainsbury's Trustee are in the course of discussing the outcome of this latest valuation in relation to the Sainsbury's Pension Scheme. Sainsbury's has agreed with the Home Retail Group Trustee that the valuation in relation to the Home Retail Group Pension Scheme as at 31 March 2015 shall, conditional on completion of the Acquisition, be completed on the agreed basis set out in the Pensions Letter.

The actuarial funding deficit for the Sainsbury's Pension Scheme was £592 million as at the last regular statutory valuation which has an effective date of 17 March 2012 but the actuarial deficit actually disclosed in the next regulatory statutory valuation, as at March 2015 could be higher or lower. The most recent available estimate of the actuarial funding deficit as at 31 March 2012 for the Home Retail Group Pension Scheme was £158 million. In accordance with the terms of the Pensions Letter, it was agreed that the actuarial funding deficit of the Home Retail Group Pension Scheme as at 31 March 2015 is £215 million (after taking account of £50 million cash payments to the Home Retail Group Pension Scheme agreed in connection with the Homebase Sale and the additional £50 million payable following completion of the Acquisition, in accordance with the Pensions Letter).

The actuarial funding deficit in either or both schemes could increase as a result of factors, a number of which are outside the control of the participating employers, such as increases in life expectancy, inflation, the value of investment and the returns derived from such investments. In addition the view of the relevant scheme trustee of the strength of the employer covenant supporting the scheme is a key factor in the setting of the assumptions for a valuation and hence determining any actuarial funding deficit.

If the actuarial funding deficit in either scheme increases, the sponsoring employers could be obliged to make additional contributions to the scheme over and above the level of contributions already agreed, and/or pay in lump sums. This could have a material adverse effect on the Combined Group's business, financial condition, results of operations and prospects.

The reported accounts of the Combined Group may be adversely impacted by changes to the funding position of the Sainsbury's Pension Scheme and/or the Home Retail Group Pension Scheme

In addition to the regular actuarial valuation referred to above, the Combined Group will be required to make an assessment of the financial position of the Sainsbury's Pension Scheme and the Home Retail Group Pension Scheme (including assessing the deficit for accounting reporting purposes—the "accounting deficit") for the purposes of its year end accounts and associated disclosures, in accordance with accounting requirements. As with the actuarial valuation referred to above many of the factors that influence the accounting deficit are outside the control of the Combined Group and may lead to increased liabilities being shown in the accounts.

Members of the Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group may be required to make contributions to the Sainsbury's Pension Scheme and/or the Home Retail Group Pension Scheme, as applicable, based on a more onerous "buy out" funding basis

While the actuarial funding deficit will usually set the cash funding demands placed on the participating employers in the Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group, in respect of the Sainsbury's Pension Scheme and the Home Retail Group Pension Scheme, in some cases the cash demands can be based on the deficit in such a scheme calculated by reference to the cost of buying out the scheme's liabilities in the insurance market i.e. the buy-out basis deficit. The deficit on this basis can be significantly higher than on an actuarial funding basis. Cash demands on this basis can be made in the circumstances set out in legislation including in the event of the wind up of the pension scheme, insolvency of an employer, or in certain circumstances an employer leaving the scheme. The Home Retail Group Trustee has the ability to trigger a wind up of the Home Retail Group Pension Scheme under the terms of the trust deed and rules of the scheme which would result in the buy-out deficit of the scheme becoming payable by Argos Limited. The deficit of the Home Retail Group Pension Scheme on a buy-out basis was estimated to be £873.8 million as at 31 March 2015. However, if the Home Retail Group Trustee exercised this wind up power prior to the insolvency of, or a further change of control (other than as a result of an internal restructuring) in relation to, Argos Limited, Sainsbury's commitments to stand behind Argos' obligations to make payments to the Home Retail Group Pension Scheme under the statutory schedule of contributions and to make a lump sum payment to the Home Retail Group Pension Scheme (of up to £470 million) if there is an insolvency of Sainsbury's or Argos would automatically terminate.

TPR also has the power to require a participating employer of a UK funded defined benefit scheme or a person who is or was connected or associated with such an employer to make a contribution to or provide financial support for or contributions to that scheme in certain circumstances. As a result any member of the Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group, including those that are not employers in either scheme, could be required to provide financial support or contributions to either or both schemes.

Impact of material pension schemes on future business activity

The strength of the employer covenant supporting a pension scheme is a key consideration for the trustees of that scheme when determining the approach to take in valuing, funding and investing the scheme. In accordance with current regulatory guidance issued by the UK Pensions Regulator, if changes to the business of the Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group (such as disposals, acquisitions (including, for example, the Acquisition), financing arrangements, or restructurings) have a materially detrimental impact on the employer covenant supporting either or both the Sainsbury's Pension Scheme and the Home Retail Group Pension Scheme, as applicable, members of the Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group, as the case may be, may be required to provide suitable mitigation for such detriment and/or face increased funding requirements.

Strengthening of the regulatory regime for pensions could impose additional requirements

Pension schemes like the Sainsbury's Pension Scheme and the Home Retail Group Pension Scheme are subject to extensive regulation as a result of local law and European law. Changes to the regulatory environment could lead to additional liabilities and/or costs for the Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group, as the case may be. This could have a material adverse effect on the Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group's businesses, financial condition, results of operations and prospects.

Each of the Sainsbury's Group and the Home Retail Group is, and, following completion of the Acquisition, the Combined Group will be, subject to extensive legislation

The Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's operations are subject to a broad spectrum of regulatory requirements and legislation. Key areas subject to regulation include planning, competition, pricing and advertising, environmental, employment, anti-corruption and bribery (including the UK Bribery Act 2010), minimum/national living wage, health and safety, the apprenticeship levy, business rates, financial services, pensions and tax laws and regulations over the Sainsbury's Group's and the Home Retail Group's products and services. In addition, the Sainsbury's Bank and the Home Retail Group Financial Services business are subject to legal and regulatory requirements which give rise to conduct risk which is the risk that Sainsbury's Bank's or the Home Retail Group Financial Services business' actions or decisions could result in an unfair outcome for, causing loss or inconvenience to, customers of Sainsbury's Bank or the Home Retail Group respectively.

The Sainsbury's Group is, and following completion of the Acquisition, the Combined Group (in relation to the sale of its grocery products) will be, required to manage its relationship with suppliers in accordance with the Groceries Supply Code of Practice ("**GSCOP**") and the Groceries (Supply Chain Practices) Market Investigation Order 2009 (the "**Order**"). In connection with the GSCOP, in June 2013 the Groceries Adjudicator Act came into force creating the role of the Groceries Code Adjudicator (the "**Adjudicator**"), who oversees the relationship between supermarkets and their direct suppliers and has powers to enforce the GSCOP, investigate complaints and arbitrate disputes. Should an investigation find that a retailer has breached the GSCOP; the Adjudicator can implement sanctions, which may include issuing recommendations against a retailer, requiring a retailer to publish details of a breach and, in more severe cases, imposing a fine on the retailer. For more information in relation to GSCOP see "*—Food and Grocery Sourcing and Purchasing*" in Part 2 "*Information on the Sainsbury's Group*".

A change, development in or non-compliance with any of these laws or regulations could have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's (where applicable) and, following completion of the Acquisition, the Combined Group's reputation, businesses, results of operations, financial condition or prospects.

Failures in risk management processes and internal controls

The Sainsbury's Group and the Home Retail Group have risk management processes and internal controls in place in order to identify key risks, to provide assurance that the risks are fully understood and managed and to ensure that controls are in place in relation to financial reporting processes, operational and compliance controls and risk management processes. A failure in the risk management processes and internal controls may have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

The Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group is exposed to changes in tax legislation and its interpretation and to increased rates of taxation

Each of the Sainsbury's Group's and the Home Retail Group's activities are conducted in the UK and are, therefore, subject to a range of UK taxes at various rates. Future actions by the UK Government to increase tax rates or to impose additional taxes and levies could negatively impact the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's profitability. Revisions to tax legislation or to its interpretation could also affect the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's financial condition in the future. In addition, each of the Sainsbury's Group and the Home Retail Group is subject to periodic tax audits which could result in additional tax assessments relating to past periods of up to six years being made. Any such assessments could have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, financial condition, results of operations or prospects.

2. Risks relating to Sainsbury's Bank and the Home Retail Group's Financial Services business

The Sainsbury's Group is, and, following completion of the Acquisition, the Combined Group will be, exposed to the impact of any material adverse change in the business, results of operations, financial condition, or prospects of Sainsbury's Bank whether as a result of any of the risks relating to Sainsbury's Bank described below or otherwise. The Home Retail Group is, and, following completion of the Acquisition, the Combined Group will be, exposed to the impact of any material adverse change in the business, results of operations, financial condition, or prospects of the Home Retail Group's Financial Services business whether as a result of any of the risks relating to the Home Retail Group's Financial Services business described below or otherwise.

The failure to successfully transition Sainsbury's Bank into the Sainsbury's Group may have an adverse impact on the Sainsbury's Group's reputation, results of operations and financial condition

The Sainsbury's Group acquired full ownership of Sainsbury's Bank in January 2014 thereby separating Sainsbury's Bank from LBG entirely (save in respect of certain transitional services). As a result of such acquisition, Sainsbury's Bank is undertaking a transition programme to migrate to a standalone operating model from the previous joint venture model which derives from the period when Sainsbury's Bank was a joint venture between Sainsbury's and LBG. This transition involves developing new IT platforms and operational processes, including the opening of a new dedicated contact centre. Sainsbury's Bank has also developed its own risk management framework and organisation structure and made a number of key colleague appointments enabling it to operate effectively as a standalone bank. Throughout this transitional phase, known as the New Bank Programme ("**NBP**"), on-going services continue to be provided by LBG under the Transitional Services Agreement.

Following the acquisition of full ownership of Sainsbury's Bank, the Sainsbury's Group's financial performance and position may be negatively impacted if the Sainsbury's Bank transition and performance is not delivered as envisaged or if the new strategic direction of Sainsbury's Bank is not successful or is not capable of being implemented in a timely fashion or at all. In addition, certain employees associated with the legacy LBG who remain at Sainsbury's Bank may choose to depart either during or following the transition period, which could have an adverse impact on Sainsbury's Bank. Furthermore, Sainsbury's Bank will develop new systems and platforms and risk management policies to better suit the Sainsbury's Group's strategy for the bank as part of its transition away from a dependency on legacy systems, platforms and policies. No assurance can be given that the development of such new systems and platforms will be completed in a timely manner or will be successfully implemented in such a way that will not have any impact on the management and operations of the Sainsbury's Bank and could exceed cost estimates which could have a material adverse effect on the Sainsbury's Group's and, following completion of the Acquisition, the Combined Group's results of operations.

Furthermore, in the event of an unsuccessful systems transition (including as a result of a failure to implement new systems or platforms), Sainsbury's Bank could face significant operational risks and impediments, including, among other things, system shut-downs or disruptions, customers not being able to access accounts and potential loss of customer data. The occurrence of any of these events could materially and adversely impact Sainsbury's Bank's reputation, which could lead to a reduction in existing and future customers and deposits, result in additional costs being incurred and/or attract regulatory scrutiny, any of which could have a material adverse effect on the Sainsbury's Group's and, following completion of the Acquisition, the Combined Group's results of operations, financial condition or prospects.

The transitional risks described above could have an adverse impact on the people, processes, regulatory compliance, technical infrastructure and reputation of Sainsbury's Bank and divert management's attention away from the day to day operations of Sainsbury's Bank. Failure to transition successfully may have an adverse impact on the Sainsbury's Group's brand and could have a material adverse effect on the Sainsbury's Group's and, following completion of the Acquisition, the Combined Group's results of operations and financial condition.

Additionally, a number of Sainsbury's Bank's underlying customer-facing activities and support operations (including provision and support of IT platforms to support the operation of Sainsbury's Bank's ATM application and personal loans, credit cards, mortgages and savings products, and the provision of call centre colleagues and operations) are currently outsourced to or provided by LBG pursuant to the Transitional Services Agreement, and its insurance sales operations are outsourced to third parties, and certain activities and support operations are outsourced by the Home Retail Group's Financial Services business to third parties. Such outsourced maintenance arrangements, applications, hardware and support operations may not be carried out to the satisfaction of the Sainsbury's Group or the Home Retail Group, as applicable, operate as expected, may not fulfil their intended purpose or may not be of requisite quality. Any interruption to, or inadequacy of, the services provided by LBG under the Transitional Services Agreement or by other third parties to Sainsbury's Bank or the Home Retail Group's Financial Services business could materially adversely affect Sainsbury's Bank's or the Home Retail Group's Financial Services' business and reputation, and could cause it to incur higher administrative and other costs, each of which could have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's business, results of operations, financial condition or prospects.

The risk management systems, processes, guidelines and policies of Sainsbury's Bank and the Home Retail Group's Financial Services business, respectively, may prove inadequate for the risks faced by it

Each of Sainsbury's Bank and the Home Retail Group's Financial Services business is exposed to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. In addition, each of Sainsbury's Bank and the Home Retail Group's Financial Services business is exposed to operational risks relating to financial crime and/or internal and external fraud. The FCA looks at the measures a firm takes to monitor, detect, and prevent financial crime. These include measures in respect of money laundering, terrorist financing, data security, bribery and corruption, fraud and sanctions breaches. Additional key potential sources of operational risk include those arising from: outsourcing, failure of systems and processes, inadequate change management and cyber-attacks.

Sainsbury's Bank and the Home Retail Group's Financial Services business each identifies, evaluates and monitors operational risks against its respective defined risk appetite through a number of core processes such as operational risk profiling, loss event reporting, the use of key risk indicators and control self-assessment. Regular reports are provided to key governance bodies to ensure regular, effective review of operational risks both within Sainsbury's and the Home Retail Group, as applicable, and its respective extensive supplier base. Sainsbury's Bank is also currently managing through a transitional period during the implementation of the NBP. During such period, Sainsbury's Bank is exposed to additional operational risks relating to the effectiveness of the transition.

There can be no assurance that Sainsbury's Bank and/or the Home Retail Group's Financial Services business will be able successfully to identify and manage its respective operational risks and any failure to do so could have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's Financial Services business' and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

Furthermore, each of Sainsbury's Bank and the Home Retail Group's Financial Services business faces risks associated with the alignment of its respective risk appetite with its business strategy. In setting its risk appetite, Sainsbury's Bank's and the Home Retail Group's Financial Services business' senior management are required to make complex judgements, including decisions (based on assumptions about economic factors) about the level and types of risk that Sainsbury's Bank and the Home Retail Group's Financial Services business, as applicable, is willing to accept in order to achieve its business objectives and the maximum level of risk it can assume before breaching constraints determined by regulatory capital and liquidity needs and its regulatory and legal obligations, including, among others, from a conduct and prudential perspective.

Any failure by Sainsbury's Bank's board, or the Home Retail Group's Financial Services business' management, successfully to set, and subsequently monitor, risk appetite for Sainsbury's Bank or the Home Retail Group's Financial Services business (and oversee compliance thereafter), as applicable, would have a material adverse effect on Sainsbury's Bank's and the Home Retail Group's Financial Services' business, financial condition, results of operations and prospects which could in turn have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

Sainsbury's Bank and the Home Retail Group's Financial Services business have exposures to a range of products, counterparties and obligors whose credit quality could have a significant adverse impact on Sainsbury's Bank's or the Home Retail Group's Financial Services business' earnings and the value of assets

Each of Sainsbury's Bank and the Home Retail Group's Financial Services business has exposures to a range of products, counterparties and obligors whose credit quality can have a significant adverse impact on its earnings and the value of assets on its balance sheet.

As part of the ordinary course of its respective operations, Sainsbury's and the Home Retail Group estimates and establishes provisions for credit risks and the potential credit losses inherent in these exposures, monitors external economic indicators to identify changes to the external environment and accesses customer credit quality using data from Sainsbury's and the Home Retail Group's Financial Services business' own credit portfolios supplemented by data from credit bureaux.

There is a risk that, despite completion by Sainsbury's Bank and the Home Retail Group's Financial Services business of its respective assessment of customer credit quality, customers are unable to meet their commitments as they fall due as a result of customer-specific circumstances, macro-economic disruptions or other external factors. The failure of customers to meet their commitments as they fall due may result in higher impairment charges or a negative impact on fair value in the Sainsbury's Bank's or the Home Retail Group's Financial Services business' lending portfolio, as the case may be. Accordingly, any deterioration in customers' credit quality and the consequent increase in impairments could have a material adverse impact on the Sainsbury's Bank's or the Home Retail Group's Financial Services' business, financial condition and results of operations which could in turn have a material adverse impact on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations or financial condition.

Sainsbury's Bank may be impacted by the commercial and financial soundness, or perceived soundness, of other financial services institutions

Given the high level of interdependence between financial institutions, Sainsbury's Bank is, and will continue to be, subject to the risk of deterioration of the commercial and financial soundness, or perceived soundness, of other financial services institutions.

Within the financial services industry, the default of any one institution could lead to defaults by other institutions. Concerns about, or a default by, or a governmental "bail out" of, or "bail in" of, one institution could lead to significant liquidity problems, including increases in the cost of liquidity, losses or defaults by other institutions due to financial institutions having close credit, trading, clearing or other relationships. Even the perceived lack of creditworthiness of, or concerns about, a counterparty may lead to market wide liquidity problems and losses or defaults by Sainsbury's Bank or by other institutions. This "systemic risk" may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with whom Sainsbury's Bank interacts on a daily basis. Any inability of Sainsbury's Bank to raise new funding due to perceived lack of creditworthiness could impact its business, financial condition, results of operations, liquidity and/or prospects which could in turn have a material adverse impact on the Sainsbury's Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects. Equivalent risks may also apply to the Home Retail Group's Financial Services business following completion of the Acquisition.

Sainsbury's Bank's business is subject to inherent risks concerning liquidity, particularly if the availability of traditional sources of funding, such as retail deposits, or its access to wholesale funding markets becomes limited and/or more expensive

Financial institutions, such as Sainsbury's Bank, are subject to liquidity risk as an inherent part of their business. Whilst Sainsbury's Bank raises funds principally from UK retail deposits, its funding needs may increase and/or its funding structure may not continue to be efficient, giving rise, in both cases, to a requirement to change its funding sources and structures.

The availability of retail deposit funding may be impacted by increased competition from other deposit takers or factors that constrain the volume of liquidity in the market. In addition, Sainsbury's ability to gain access to retail funding sources on satisfactory economic terms is subject to a variety of factors, a number of which are outside its control, including, among others, liquidity constraints, general market conditions, increased competition, regulatory requirements and a loss of confidence in the UK banking system. In addition, if access to wholesale funding markets were also to be fully or partially closed, Sainsbury's Bank's cost of funding could increase and it may prove difficult to obtain funding on commercially attractive terms. Both these factors could have a negative impact on Sainsbury's ability to grow and impact its margins and profit, materially adversely affecting its business, financial condition, results of operations and prospects. Equivalent risks may also apply to the Home Retail Group's Financial Services business following completion of the Acquisition.

Whilst Sainsbury's Bank has established processes to manage its liquidity risk and to ensure that it maintains sufficient liquidity to meet its liabilities when they are expected to fall due (including through holding sufficient liquidity to meet its asset funding needs and operational requirements, holding a minimum level of liquidity in the form of high quality liquid assets which can be readily sold to meet unexpected outflows to Sainsbury's Bank's depositors and other creditors and access to the Bank of England's Sterling Monetary Framework facilities (which allows Sainsbury's Bank to utilise its pre-positioned assets at the Bank of England in the event of a liquidity stress)), and has a high degree of confidence in the effectiveness of such processes, no assurance can be given that these sources of funding and liquidity will be available and/or adequate at all times. Obligations of the Sainsbury's Bank that could be impacted by a failure to maintain sufficient liquidity, include the repayment of deposits on demand or at their contractual maturity, the repayment of borrowings and capital instruments as they mature, the availability of funds to be drawn-down by customers under credit card arrangements, the payment of interest on borrowings and deposits and the payment of operating expenses and taxes. Whilst the Sainsbury's Directors currently believe that it is unlikely that such a risk will materialise, were Sainsbury's Bank to fail to maintain sufficient liquidity, it would have a material adverse effect on Sainsbury's Bank's business, financial condition and prospects and which could in turn have a material adverse impact on the Sainsbury's Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects. Equivalent risks may also apply to the Home Retail Group's Financial Services business following completion of the Acquisition.

Sainsbury's Bank's business is sensitive to interest rates

Fluctuations in interest rates are influenced by factors outside Sainsbury's Bank's control (such as the fiscal and monetary policies of governments and central banks and UK and international political and economic conditions) and can affect Sainsbury's Bank's results and profitability in a number of ways. Sustained low interest rates and high inflation, particularly in a weak growth environment, can reduce incentives for consumers to save and Sainsbury's Bank may be required to increase the interest rate payable on customer accounts to attract additional deposits.

The main sources of interest rate risk faced by Sainsbury's Bank are:

- Re-pricing risk: the risk arising from timing differences in the re-pricing and maturity of Sainsbury's Bank's assets and liabilities (for example, fixed rate personal loans and instant access savings accounts);
- Yield curve risk: the risk arising from changes in the slope and shape of the yield curve;
- Basis risk: risk arising from imperfect correlation between rates earned and paid on instruments with similar re-pricing characteristics (for example, administered savings products and LIBOR or Bank of England Base Rate linked assets);
- Prepayment risk: the risk arising from the timing of customer prepayments which differ from Sainsbury's Bank's planning and hedging assumptions;
- Pipeline risk: the risk of a customer drawing down, or not, a product at a rate which is unfavourable for Sainsbury's Bank; and
- Behavioural risk: the risk of changes in customer behaviour which are not in line with Sainsbury's Bank's original hedging assumptions including arrears and defaults.

Sainsbury's Bank's net interest margin and revenue may be adversely impacted by changes in interest rates if it is unable to change or refinance its products in response to increased costs or declining revenue, whether driven by underlying benchmark rates or competitive pressures in particular product types. Any fluctuations in interest rates could materially adversely affect Sainsbury's Bank's business, financial condition, results of operations or prospects which could in turn have a material adverse impact on the Sainsbury's Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects. Equivalent risks may also apply to the Home Retail Group's Financial Services business following completion of the Acquisition.

Concentration of risks could increase Sainsbury's Bank's and the Home Retail Group's Financial Services business' potential for significant losses

Concentrations arise when a number of counterparties, either borrowers or depositors, are engaged in similar business activities, or activities in the geographic region, or have similar economic features that would cause the ability to meet contractual obligations or normal behaviour to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of Sainsbury's Bank's performance to developments affecting a particular industry or geographical location or, in the case of the Home Retail Group's Financial Services business, its sensitivity to developments affecting its store-card operation.

Sainsbury's Bank's business and the Home Retail Group's Financial Services business are each almost entirely conducted with customers in the UK (and, in the case of the Home Retail Group's Financial Services business, to a much lesser extent in the Republic of Ireland). In the event of a disruption to the UK credit markets or general economic conditions in the UK or macro-economic conditions generally (including increased interest rates and/or unemployment in regions where Sainsbury's Bank and/or the

Home Retail Group has significant presence), this concentration of credit risk could cause Sainsbury's Bank and/or the Home Retail Group's Financial Services business, as the case may be, to experience significant losses.

In order to seek to avoid excessive concentrations of risk, Sainsbury's Bank's and the Home Retail Group's Financial Services business' policies and procedures include specific guidelines to focus on maintaining a diversified portfolio and identified concentrations of credit and liquidity risks are controlled and managed according to client or counterparty (and their respective credit qualities). Consideration is also given to geographical sector and, in the case of wholesale credit risk, the strength of the relevant sovereign. However, there can be no assurance that such monitoring and efforts to divest, diversify or manage Sainsbury's Bank's or the Home Retail Group's Financial Services business' credit portfolio to mitigate concentration risks will be successful, and, if not, any such resultant concentration could have a material adverse impact on Sainsbury's Bank's and/or the Home Retail Group's Financial Services' business, financial condition, results of operations or prospects which could in turn have a material adverse impact on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

Sainsbury's Bank is subject to capital adequacy requirements

Sainsbury's Bank is subject to capital adequacy requirements implemented by the PRA. If Sainsbury's Bank fails to meet its minimum regulatory capital requirements, this may result in administrative actions or sanctions against it which could, in turn, adversely impact its business and, in particular, its reputation. Sainsbury's Bank may also experience increased requirements for capital as a result of new regulation.

If regulatory requirements relating to capital levels increase, driven by, for example, new regulatory requirements or expectations, Sainsbury's Bank may be required to increase its capital ratios. Sainsbury's Bank may also need to increase its capital levels in response to changing market conditions or expectations.

Currently, the only source of Sainsbury's Bank's capital is from the Sainsbury's Group and therefore the Sainsbury's Bank is dependent on the Sainsbury's Group's ability to satisfy Sainsbury's Bank's capital requirements. In the event that Sainsbury's Bank seeks, or is required, to raise capital itself, no assurance can be given that such capital will be available on commercially acceptable terms or at all. Whilst the Sainsbury's Directors currently believe that it is unlikely that such a risk will materialise, were Sainsbury's Bank to be unable to increase its capital due to the failure of its compliance policies or for any other reason, it may no longer comply with regulatory requirements or satisfy expectations related to its capital strength and, as a result, its business, financial condition and results of operations and prospects may be adversely impacted which could in turn have a material adverse impact on the Sainsbury's Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects. Equivalent risks may also apply to the Home Retail Group's Financial Services business following completion of the Acquisition.

Any change that limits Sainsbury's Bank's ability to manage effectively its capital (including, for example, reductions in profits and retained earnings as a result of credit losses, write downs or otherwise, increases in risk weighted assets, delays in the disposal of certain assets or the inability to raise capital or funding from the Sainsbury's Group or through wholesale markets as a result of market conditions or otherwise (of which the Sainsbury's Directors currently believe there to be a low likelihood)) could have a material adverse effect on its business, financial condition, results of operations, liquidity and/or prospects which could in turn have a material adverse impact on the Sainsbury's Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects. Equivalent risks may also apply to the Home Retail Group's Financial Services business following completion of the Acquisition.

Sainsbury's Bank and the Home Retail Group's Financial Services business are each subject to regulatory risk which could impose operational restrictions on it

In recent years, there has been an increased focus by regulators on the appropriateness and sustainability of the business models and growth strategies of regulated firms, with regulators having the power to restrict such firms' ability to develop product areas or make material acquisitions. Regulators no longer focus exclusively on the financial strength of a regulated firm but also consider non-financial resources, including governance and infrastructure, available to the firm in assessing sustainability of the business model and whether it continues to meet certain regulatory conditions. If regulators believe that a firm does not have a sustainable business model or does not meet any of the regulatory conditions, they can remove or restrict such firm's operating licences. Furthermore, regulators and other bodies in the UK and worldwide have proposed and, in many cases, have adopted a range of legislative and regulatory proposals and changes which have imposed, and could impose, operational restrictions on Sainsbury's Bank and/or the Home Retail Group in the future, requiring Sainsbury's Bank and/or the Home Retail Group's Financial Services business, as applicable, to raise further capital, increase Sainsbury's Bank's and the Home Retail Group's Financial Services business' expenses and/or otherwise adversely affect its respective business, financial condition, results of operations or prospects. In particular, future actions by the UK Government and the European Union could result in higher additional capital, liquidity and regulatory burden being imposed on Sainsbury's Bank and/or the Home Retail Group's Financial Services business.

Failure to comply with any of the above requirements could result in penalties, sanctions or restrictions on Sainsbury's Bank's and/or the Home Retail Group's Financial Services business' respective activities, increasing Sainsbury's Bank's and the Home Retail Group's Financial Services business', as the case may be, expenses which could adversely affect the financial condition, results of operations or prospects of Sainsbury's Bank or the Home Retail Group's Financial Services business, as applicable, which could in turn have a material adverse impact on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

Sainsbury's Bank is subject to extensive legislation and regulation

Risk arises around Sainsbury's Bank and the Home Retail Group's Financial Services business failing to meet the requirements of legislation and regulatory requirements of the PRA (in the case of Sainsbury's Bank only), FCA and any other relevant regulatory bodies. Failure to comply with such laws and regulations could lead to civil and/or criminal legal prosecution and fines or imprisonment imposed on the Sainsbury's Group, the Home Retail Group or the Sainsbury's Group's and the Home Retail Group's colleagues. In addition, a breach could lead to reputational damage.

In addition, the Banking Act 2009 (the "**Banking Act**") confers substantial powers on a number of UK authorities designed to enable them to take a range of actions in relation to UK deposit taking institutions and their groups which are considered to be at risk of failing. The exercise of any of these actions in relation to the Company or any suggestion of any such exercise could materially adversely affect the business and prospects of Sainsbury's Bank.

Under the Banking Act substantial powers are granted to HM Treasury, the PRA, the FCA and the Bank of England (together, the "**Authorities**") as part of a special resolution regime (the "**SRR**"). These powers enable the authorities to deal with a UK bank such as Sainsbury's Bank (each a "**relevant entity**") in circumstances in which the Authorities consider the failure of the bank has become highly likely and a threat is posed to the public interest. The SRR consists of five stabilisation options and two insolvency and administration procedures applicable to UK banks which may be commenced by the Authorities. The stabilisation options provide for: (i) private sector transfer of all or part of the business of the relevant entity; (ii) transfer of all or part of the business of the relevant entity to a "bridge bank" established by the Bank of England; (iii) transfer to an asset management vehicle, (iv) temporary public ownership (nationalisation) of the relevant entity; and (v) a bail-in tool which permits the Bank of England to cancel, modify or convert the form of a liability owed by a relevant entity or UK banking group company (as defined below) or make a contract have effect as if a specified right had been exercised under it (for example, requiring protected liabilities under a set-off or netting arrangement to be converted into a net debt). Bail-in may also involve the transfer of securities of the failing bank to a resolution administrator or another person (for example, affected creditors in the form of shares in the resolved bank or banking group company as compensation for the cancellation of their liabilities). In each case, the Authorities have wide powers under the Banking Act including powers to modify contractual arrangements in certain circumstances and powers for HM Treasury to disapply or modify laws (with possible retrospective effect) to enable the powers under the Banking Act to be used effectively. Pursuant to amendments made to the Banking Act, these powers may be used in respect of a wider range of UK entities, including a UK incorporated company which meets certain conditions and is in the same group as a relevant entity (a UK banking group company). Sainsbury's Bank is a UK banking group company. The taking of any action under the Banking Act could therefore adversely affect the Sainsbury's Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

As at the date of this Prospectus, the Authorities have not made an instrument or order under the Banking Act in respect of the Sainsbury's Group or any member of it and there has been no indication that they will make any such instrument or order. However, there can be no assurance that this will not change and/or that the Sainsbury's Group and, following completion of the Acquisition, the Combined Group will not be adversely affected by any such order or instrument if made.

Each of Sainsbury's Bank's and the Home Retail Group's Financial Services' business is subject to substantial and increasing industry wide regulatory and governmental oversight

Sainsbury's Bank faces risks associated with an uncertain and rapidly evolving prudential regulatory environment, pursuant to which it is required, among other things, to maintain adequate capital resources and to satisfy specified capital ratios at all times. Sainsbury's Bank's borrowing costs and capital requirements could be affected by prudential regulatory developments, which include: (i) the legislative package implementing the proposals of the Basel Committee (known as Basel III) in the European Union and amending and supplementing the existing Capital Requirements Directive and other regulatory developments impacting capital position ("**CRD IV**"); and (ii) the European Commission's directive providing for the establishment of an EU wide framework for the recovery and resolution of credit institutions and investment firms, commonly known as the Bank Recovery and Resolution Directive (the "**BRRD**"). It is noted that on 23 June 2016 the UK voted in a referendum to leave the European Union. Accordingly, the extent to which European Union legislation will apply, or continue to apply, to the Combined Group in the future is uncertain. See Part 4 "*Regulatory Overview*" for further detail on the CRD IV and BRRD regimes.

CRD IV introduced significant changes in the prudential regulatory regime applicable to banks, including: (i) increased minimum levels of capital and additional minimum capital buffers; (ii) enhanced quality standards for qualifying capital; (iii) increased risk weighting of assets; and (iv) the future introduction of a minimum leverage ratio. The legislation entered into force in the UK on 1 January 2014 although many provisions will be phased in with full implementation of CRD IV required by January 2024. CRD IV requirements may change, whether as a result of further changes agreed by EU legislators, through binding regulatory technical standards, changes to the way in which the PRA interprets and applies these requirements, or otherwise. Such changes could lead to further unexpected enhanced requirements in relation to Sainsbury's Bank's capital, leverage, liquidity and funding ratios or alter the way such ratios are calculated.

On 31 October 2014, the Financial Policy Committee ("**FPC**") of the Bank of England published its final review of the role of a leverage ratio in the UK's capital framework for banks, making certain recommendations for UK global systemically important banks and other major UK banks and building societies as well as for all other PRA-regulated banks. Recommendations in respect of all PRA-regulated firms included, among others (i) a minimum leverage ratio requirement set at three per cent. and (ii) a countercyclical leverage ratio buffer. Draft secondary legislation in relation to the leverage ratio framework was laid before the UK Parliament. On 7 December 2015, the PRA published their policy statement which set out the final rules and supervisory statements to implement a UK leverage ratio framework. This policy statement extended the transitional period for disclosure requirements until 31 December 2017 (while the transitional period for other reporting ends on 31 December 2016). It is not yet possible to predict with any certainty the additional financial obligations or restrictions that may be imposed on Sainsbury's Bank or the effect any additional leverage ratio requirements may have on Sainsbury's Bank's business, financial condition, results of operations or prospects. However, depending on the specific nature of the requirements, their application to Sainsbury's Bank and the proposed form of supervisory action for any breach of the requirements, such changes could have a significant impact on Sainsbury's Bank's operations and capital structure.

In addition to the substantial and changing prudential regulation, each of Sainsbury's Bank and the Home Retail Group's Financial Services business faces risks associated with an uncertain and changing legal and regulatory environment. At both a national and European level existing laws and regulations may be amended or new laws and regulations introduced which could affect Sainsbury's Bank and/or the Home Retail Group's Financial Services business by, for example: (a) resulting in the need for increased operational and compliance resources to ensure compliance with the new or amended laws and regulations; (b) restricting the customer base to which its products or services can be offered; and (c) restricting the products or services it can provide, any or all of which could have an adverse impact on Sainsbury's Bank's and/or the Home Retail Group's Financial Services' business, financial condition, results of operations and prospects. See Part 4 "*Regulatory Overview*" for a description of some of the recent and proposed legislative and regulatory changes impacting the financial services businesses of the Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group.

Areas where regulatory changes could have an adverse effect on Sainsbury's Bank's and the Home Retail Group's Financial Services' businesses include, but are not limited to: (a) general changes in UK Government, central bank or regulatory policy, or changes in regulatory regimes, including changes that apply retroactively, that may influence customer decisions in particular markets in which Sainsbury's Bank and/or the Home Retail Group's Financial Services business operates, which may change the structure of those markets and the products offered or may increase the costs of doing business in those markets; (b) external bodies applying or interpreting standards or laws in a manner that is different to how Sainsbury's Bank or the Home Retail Group's Financial Services business applies or interprets them; (c) one or more of Sainsbury's Bank's or the Home Retail Group's Financial Services business' regulators intervening to mandate the pricing of certain of Sainsbury's Bank's or the Home Retail Group's Financial Services business' products, as applicable, as a consumer protection measure; (d) one or more of Sainsbury's Bank's or the Home Retail Group's Financial Services business' regulators intervening to prevent or delay the launch of a product or service, or prohibiting an existing product or service; (e) changes in competitive and pricing environments; (f) further requirements relating to financial reporting, corporate governance and conduct of business and employee compensation; (g) changes to regulation and legislation relating to economic and trading sanctions, money laundering and terrorist financing; (h) influencing business strategy, particularly the rate of growth of the business; and (i) imposing conditions on the sales and servicing of products, which has the effect of making such products unprofitable or unattractive to sell.

The financial services industry continues to be a focus of significant regulatory change and scrutiny. This has led to a more intensive approach to supervision and oversight, increased expectations of authorised firms and their senior management and enhanced regulatory requirements. As a result, regulatory risk will continue to require the attention of senior management who are increasingly accountable to the regulators and will consume significant levels of business resources and could result in Sainsbury's Bank and/or the Home Retail Group's Financial Services business needing to change its respective internal operations at increased costs. Furthermore, as enhanced supervisory standards are developed and implemented, this more intensive approach and the enhanced regulatory requirements, along with uncertainty and the extent of international regulatory coordination, may ultimately adversely affect the Sainsbury's Bank's and the Home Retail Group's Financial Services' business, capital and risk management strategies and/or may result in Sainsbury's Bank or the Home Retail Group's Financial Services business deciding to modify its respective legal entity structure, capital and funding structures and business mix or to exit certain business activities altogether or to determine not to expand in areas despite their otherwise attractive potential. In addition, implementation of regulatory developments could result in additional costs or limit or restrict the way in which Sainsbury's Bank or the Home Retail Group's Financial Services business conducts business. Any of these factors could have a material adverse effect on the business, financial condition, results of operations or prospects of Sainsbury's Bank or the Home Retail Group's Financial Services business which could in turn have a material adverse impact on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects.

The Home Retail Group and, following completion of the Acquisition, the Combined Group faces risks relating to complaints and redress issues from historic sales of Payment Protection Insurance ("PPI"). Existing provisions made in the Home Retail Group's financial statements for such issues may not cover all potential costs and losses

PPI redress, which is primarily redress in respect of mis-sold PPI, is one of the most significant conduct-related factors that has adversely affected the profitability of UK retail banks and financial institutions in recent years. In response to an industry-wide review by the FCA, the Home Retail Group, with the support of an independent expert, undertook a full investigation into PPI mis-selling during the 52-weeks ended 1 March 2014. As a result of this investigation, and in agreement with the FCA, the Home Retail Group launched a customer redress exercise which involved contacting customers identified as having experienced actual or potential detriment under its historical PPI sales practices. This exercise is in its closing stages and the Home Retail Group has satisfied all undertakings provided to the FCA in relation to its PPI redress.

As at 27 February 2016, the Home Retail Group had recorded total provisions of £63.1 million for customer redress matters, principally PPI, of which £11.5 million was unutilised. The Home Retail Group's provision for PPI customer redress comprises the estimated cost of making redress payments to customers in respect of past sales of PPI policies, including the related operational costs of administering these claims. The eventual cost is dependent upon response rates, uphold rates, redress costs, claim-handling costs and those costs associated with claims that are subsequently referred to the Financial Ombudsman Service. Consequently, provision levels remain under review in response to changing circumstances and the position remains uncertain. There is a risk that the number of future complaints received by the Home Retail Group could exceed its assumptions on volume and the actual future uphold rates and average redress costs could exceed the levels anticipated by the Home Retail Group. There is also a risk that the resourcing for the administration of the claims and redress handling process is inadequate to meet regulatory timeframes and additional claims management costs may be incurred in attempting to meet such timeframes. The increasing proportion of claims made where there is no evidence of a PPI sale presents a further challenge in calculating provision amounts. As such there is a risk that the Home Retail Group's existing provision for PPI customer redress may not cover all potential losses and further provision may be required to be made which could have a material adverse effect on the Home Retail Group's and, following the completion of the Acquisition, the Combined Group's businesses, reputation, results of operations, financial condition or prospects.

In November 2014, the Supreme Court ruled in *Plevin v Paragon Finance Limited [2014] UKSC 61* that failure to disclose to a customer a "high" commission payment on a single premium PPI policy sold with a consumer credit agreement created an unfair relationship between the lender and the borrower under s140 of the Consumer Credit Act 1974. It did not define a tipping point above which commission was deemed "high". The disclosure of commission was not a requirement of the FSA's (now FCA's) Insurance Conduct of Business Rules ("**ICOBS**") rules for the sale of general insurance (including PPI). The industry, the FCA and the Financial Ombudsman Service are considering the broader impacts of this decision but there is no current definitive view. Accordingly, there is a risk that the practical implications of this decision, including the potential extent of any redress owed to customers sold such unfair PPI policies, may have an adverse effect on the Home Retail Group's and, following the completion of the Acquisition, the Combined Group's businesses, results of operations, financial condition or prospects. The estimated costs of *Plevin* claims are included in the above total redress costs.

The Home Retail Group and, following completion of the Acquisition, the Combined Group faces risks relating to redress issues in relation to the collection of late payment fees from customers of the Home Retail Group's Financial Services business. Existing provisions made in the Home Retail Group's financial statements for the 52 weeks ended 27 February 2016 for such issues are unlikely to cover all potential costs and losses

In the course of implementing its new governance and risk management procedures, the Home Retail Group's Financial Services division identified that it had erroneously collected excess fees in relation to the late payment of amounts due from certain customers. The Home Retail Group took advice on this matter and based upon this advice it booked a charge in its financial statements for the 52 weeks ended 27 February 2016. The Home Retail Group has subsequently been advised that a more extensive customer redress programme will now be required in relation to this matter. A detailed review exercise will now be undertaken by the Home Retail Group, however a preliminary estimate has been prepared by the Home Retail Group which indicates that the existing customer redress provision may need to be increased by an amount in the region of £30 million. No assurance can be given, however, that such provision will not need to be increased by a further material amount following completion of the Home Retail Group's detailed review exercise or that any such provision or revised provision following the completion of the Home Retail Group's detailed review exercise, as the case may be, will be sufficient to cover all potential costs and losses in relation to this matter. Further, it is possible that the Financial Conduct Authority will take action against the Home Retail Group in respect of the erroneous collection of fees, and that such action may include one or more of the sanctions available to the Financial Conduct Authority, including the imposition of a fine. Any such increased provision, shortfall or sanction could have a material adverse effect on the Home Retail Group's and, following completion of the Acquisition, the Combined Group's businesses, reputation, results of operations, financial condition or prospects.

3. Risks Relating to the Acquisition and the New Sainsbury's Shares

Completion is subject to a number of conditions which may not be satisfied or waived

Completion of the Acquisition is conditional upon, among other things: obtaining the relevant regulatory clearances from the FCA and other regulators; obtaining clearances from the CMA; the approval of the Scheme by a majority in number of the Scheme Shareholders (other than Non-Voting Persons) (or the relevant class or classes thereof, if applicable) present and voting, either in person or by proxy, at the Court Meeting representing not less than 75 per cent. in value of the Scheme Shares voted by such Scheme Shareholders; all resolutions necessary to approve and implement the Scheme and to approve certain related matters being duly passed by the requisite majority or majorities at any General Meeting of Home Retail Group plc or at any adjournment of that meeting; and the sanction of the Scheme with or without modification (but subject to any such modification being acceptable to Sainsbury's and Home Retail Group plc) by the Court.

Although the Sainsbury's Directors believe that the clearances should be forthcoming, it is possible that the parties may not obtain these clearances, or that they may not be obtainable within a timescale acceptable to the parties, or that they may only be obtained subject to certain conditions or undertakings which may not be acceptable to the parties. In the event that the FCA or any other required clearance is not obtained on terms reasonably satisfactory to Sainsbury's or if any other condition is not fulfilled or waived, the Acquisition may not be completed. Further, it is possible that the FCA or other regulators may attach conditions to their approval of the Acquisition, which might delay or prevent the realisation of certain synergies identified by the parties or otherwise impact the Combined Group's strategy and operations. If this were to happen it is possible that the businesses, results of operations, financial condition and/or prospects of the Sainsbury's Group, the Home Retail Group and/or, following completion of the Acquisition, the Combined Group may be materially adversely affected.

The Combined Group's success will be dependent upon its ability to integrate the two businesses; there will be numerous challenges associated with the integration and the synergies expected from the Acquisition may not be fully achieved

The principal elements of the current operations of the Sainsbury's Group and the Home Retail Group will be integrated to form the aggregated operations of the Combined Group over a period of three years. To the extent that the Combined Group is unable to efficiently integrate the operations, realise cost reductions, retain qualified colleagues or customers and avoid unforeseen costs or delay, there may be an adverse effect on the business, results of operations, the financial condition and/or prospects of the Combined Group. While the Company believes that the costs and synergies expected to arise from the transaction have been reasonably estimated, unanticipated events or liabilities may arise which result in a delay or reduction in the benefits derived from the transaction, or in costs significantly in excess of those estimated.

The Combined Group will encounter numerous integration challenges as a consequence of the Acquisition. In particular, following Completion, the Combined Group may face challenges with the following: management and resources may be diverted from its core business activity due to colleagues being required to assist in the integration process, addressing possible differences between the Sainsbury's Group's businesses (including countries of operation), culture, processes, controls, procedures and systems and those of the Home Retail Group; retaining and motivating colleagues and ensuring knowledge transfer to the Combined Group. In addition, the Acquisition might affect the relationship that the Sainsbury's Group and/or the Home Retail Group have with suppliers and business partners, and affect business performance and/or potential growth opportunities.

Any decline in the service standards of the Combined Group may result in an increase in customer complaints and customer and/or regulatory actions, which may lead to reputational damage and the loss of customers by the Combined Group and have an adverse impact on financial performance and condition. Furthermore, it may not prove possible to achieve the expected level of synergy benefits on integration of the businesses of the Sainsbury's Group and the Home Retail Group on time or at all and/or the cost of delivering such benefits may exceed the expected cost.

There will inevitably be a cost involved in revising the current systems and structures of the Sainsbury's Group following completion of the Acquisition. There is a risk that these costs could exceed current estimates, which would adversely affect anticipated integration benefits.

During the integration period following Admission, the Combined Group may not be in a position to acquire other companies or businesses that it might otherwise have sought to acquire. In view of the demands the integration process may have on management time, it may also cause a delay in other projects currently contemplated by the Sainsbury's Group and the Home Retail Group.

Under any of these circumstances, the business growth opportunities, overhead functions consolidation benefits, purchasing and distribution benefits and other synergies anticipated by Sainsbury's and the Home

Retail Group to result from the Acquisition may not be achieved as expected, or at all, or may be delayed materially. To the extent that the Combined Group incurs higher integration costs or achieves lower synergy benefits than expected, its businesses, results of operations, financial condition and/or prospects, and the price of New Sainsbury's Shares, may be adversely affected.

Substantial future sales by significant shareholders or issues by Sainsbury's of Combined Group Shares could impact their market price

The Company cannot predict what effect, if any, future sales of Combined Group Shares by significant shareholders or issues of Combined Group Shares by the Company, or the availability or perception of such future sales or issues, will have on the market price of the Combined Group Shares. Sales of substantial amounts of Combined Group Shares by significant shareholders in the public market following the Acquisition, or the issuance of a substantial number of Combined Group Shares by the Company, or the perception or any announcement that such sales or issuances could occur, could adversely affect the market price of the Combined Group Shares and may make it more difficult for investors to sell their Combined Group Shares at a time and price which they deem appropriate, or at all.

Pre-emption rights for U.S. and other non-EU holders of Combined Group Shares may not be available and consequently such shareholder s may not be able to participate in future equity offerings

In the case of certain increases in the issued share capital of the Combined Group, holders of Combined Group Shares will generally be entitled to statutory pre-emption rights to subscribe for such shares, unless shareholders waive such rights by a resolution at a shareholders' meeting. U.S. and other non-EU holders of shares are customarily excluded from exercising any such pre-emption rights they may have, unless exemptions from any overseas securities law requirements are available. No assurance can be given that any exemption from such overseas securities law requirements would be available to enable U.S. or other non-EU holders to exercise such pre-emption rights or, if available, that the Combined Group will utilise any such exemption.

The value of the Combined Group Shares may fluctuate significantly

Following completion of the Acquisition, the Combined Group Shares may be subject to market price volatility and the value of the Combined Group Shares may fluctuate significantly as a result of a large number of factors, including, but not limited to, those referred to in this section headed "*Risk Factors*", as well as period-to-period variations in operating results or change in revenue or profit estimates by the Company, industry participants or financial analysts. The value of the Combined Group Shares could also be affected by developments unrelated to the Company's operating performance, such as the operating and share price performance of other companies that investors may consider comparable to the Company, speculation about the Company in the press or the investment community, strategic actions by competitors, including acquisitions and/or restructurings, changes in market conditions and regulatory changes, whether or not the Company derives significant revenue therefrom and shifts in macro-economic or geopolitical conditions generally.

The market price of the Combined Group Shares could be negatively affected by sales of substantial amounts of Combined Group Shares in the public markets or the perception that these sales could occur.

A third party may be able to obtain a large enough shareholding in Home Retail Group to delay or prevent completion of the Acquisition

Home Retail Group plc is a listed company whose ordinary shares are freely traded on the London Stock Exchange. It is possible that an existing or new shareholder with a significant shareholding in Home Retail Group could use, or could threaten to use, its shareholding to vote against the Acquisition when shareholder consent is sought. Such an action could materially delay or prevent the implementation of the Scheme and therefore deprive the parties of some or all of the anticipated benefits of the Acquisition.

Combined Group Shareholders may earn a negative or no return on their investment in the Company

The Company's results of operations and financial condition are dependent on the trading performance of the members of the Combined Group. There can be no assurance that the Company will pay dividends in the future. Any decision to declare and pay dividends in the future will be made at the discretion of the Sainsbury's Board and will depend on, among other things, applicable law, regulation, restrictions, the Company's and the Combined Group's financial position, regulatory capital requirements, working capital requirements, finance costs, general economic conditions and other factors the Sainsbury's Directors deem significant from time to time. The Company's ability to pay dividends will also depend on the level of distributions, if any, received from its operating subsidiaries.

Sainsbury's Shareholders and Home Retail Group Shareholders will own a smaller percentage of the Combined Group than they currently own of Sainsbury's and Home Retail Group, respectively

After completion of the Acquisition, the Sainsbury's Shareholders and Home Retail Group Shareholders will own a smaller percentage of the Combined Group than they currently own of the Sainsbury's Group and the Home Retail Group, respectively. Based on the number of Home Retail Group Shares in issue as at the close of business on the Last Practicable Date and assuming that there are no other issues of Sainsbury's Shares or Home Retail Group Shares (including under the Sainsbury's Share Schemes or Home Retail Group Share Schemes) between the Last Practicable Date and the date of Admission and that 261,115,846 New Sainsbury's Shares are issued in connection with the Acquisition, the Sainsbury's Shareholders and former Home Retail Group Shareholders will own 88.06 per cent. and 11.94 per cent., respectively, of the outstanding shares of the Combined Group. As a consequence, the number of voting rights which can be exercised and the influence which may be exerted by shareholders in respect of the Combined Group will be reduced.

The issue of additional Combined Group Shares in connection with future acquisitions, any share incentive or share option plan or otherwise may dilute all other shareholdings

The Combined Group may seek to raise financing to fund future acquisitions and other growth opportunities and may, for these and other purposes, such as in connection with share incentive and share option plans, issue additional equity or convertible equity securities. As a result, the existing Combined Group Shareholders may suffer dilution in their percentage ownership or the price of the Combined Group Shares may be adversely affected.

DIRECTORS, COMPANY SECRETARY, REGISTERED AND HEAD OFFICE AND ADVISERS

Sainsbury's Directors	David Tyler (*Chairman*) Mike Coupe (*Chief Executive Officer*) John Rogers (*Chief Financial Officer*) Matt Brittin (*Non-Executive Director*) Brian Cassin (*Non-Executive Director*) Mary Harris (*Non-Executive Director*) David Keens (*Non-Executive Director*) John McAdam (*Non-Executive Director and Senior Independent Director*)[(1)] Susan Rice (*Non-Executive Director*)[(2)] Jean Tomlin (*Non-Executive Director*)
Company Secretary	Tim Fallowfield
Registered and head office of the Company	33 Holborn London EC1N 2HT
Joint Sponsors	Morgan Stanley & Co. International plc 25 Cabot Square Canary Wharf London E14 4QA UBS Limited 1 Finsbury Avenue London EC2M 2PP
Joint Financial Advisers to the Company	Morgan Stanley & Co. International plc 25 Cabot Square Canary Wharf London E14 4QA UBS Limited 1 Finsbury Avenue London EC2M 2PP
Legal Advisers to the Company	Clifford Chance LLP 10 Upper Bank Street Canary Wharf London E14 5JJ
Legal Advisers to the Joint Sponsors	Ashurst LLP Broadwalk House 5 Appold Street London EC2A 2HA
Reporting Accountants	Deloitte LLP Athene Place 66 Shoe Place London EC4A 3BQ
Auditors to the Company	Ernst & Young LLP 1 More London Place London SE1 2AF
Registrars	Computershare Investor Services PLC P.O. Box 82 The Pavilions Bridgwater Road Bristol BS99 6ZZ

(1) John McAdam will stand down from the Sainsbury's Board at Sainsbury's 2016 annual general meeting on 6 July 2016.

(2) Susan Rice will be appointed Senior Independent Director at Sainsbury's 2016 annual general meeting on 6 July 2016.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Expected timetable of principal events

Event	Time and Date
Publication of Prospectus	5 July 2016
Latest time for receipt of Home Retail Group Forms of Proxy/ CREST Proxy Instructions for the Court Meeting	11.00 a.m. on 25 July 2016
Latest time for receipt of Home Retail Group Forms of Proxy/ CREST Proxy Instructions for the General Meeting	11.10 a.m. on 25 July 2016
Voting Record Time	6.00 p.m. on 25 July 2016
Court Meeting	11.00 a.m. on 27 July 2016
Home Retail Group General Meeting	11.10 a.m. on 27 July 2016(1)
Latest time for receipt of green Forms of Election or electronic elections from CREST holders	1.00 p.m. on 30 August 2016
Certain of the following dates are subject to change (please see Note (1) below):	
Scheme Sanction Hearing (to sanction the Scheme)	31 August 2016*
Last day of dealings in, and for registration of transfers of, and disablement in CREST of, Home Retail Group Shares	31 August 2016*
Suspension of Home Retail Group Shares from the Official List and from trading on the London Stock Exchange's main market for listed securities	4.30 p.m. on 31 August 2016*
Scheme Record Time	6.00 p.m. on 31 August 2016*
Home Retail Group Reduction Court Hearing (to confirm Home Retail Group Capital Reduction)	1 September 2016*
Effective date of the Scheme	1 September 2016*
Cancellation of Home Retail Group Shares and issue of New TopCo Shares to Home Retail Group Shareholders	1 September 2016*
New TopCo Reduction Record Time	6.00 p.m. on 1 September 2016*
Confirmation hearing for the New TopCo Capital Reduction (to confirm the New TopCo Capital Reduction)	2 September 2016*
Effective date of the New TopCo Capital Reduction	2 September 2016*
Execution of transfer of NewCo Shares held by Home Retail Group Shareholders to Sainsbury's	2 September 2016*
Issue of New Sainsbury's Shares	By no later than 8.00 a.m. on 5 September 2016*
Admission and commencement of dealings in New Sainsbury's Shares	8.00 a.m. on 5 September 2016*
Cancellation of Listing of Home Retail Group Shares	5 September 2016*
Settlement of Offer Consideration:	
CREST accounts of Home Retail Group Shareholders credited with New Sainsbury's Shares	As soon as possible after 8.00 am on 5 September 2016*
CREST accounts of Home Retail Group Shareholders credited with any cash due	Within 14 days of the New TopCo Reduction Effective Time
Despatch of cheques and share certificates of New Sainsbury's Shares to Home Retail Group Shareholders who held Home Retail Group Shares in certificated form	Within 14 days of the New TopCo Reduction Effective Time
Settlement of Capital Return:	
Despatch of cheques or settlement through CREST	Within 14 days of the New TopCo Reduction Effective Time
Long Stop Date	29 March 2017

Notes:

(1) Or as soon thereafter as the Court Meeting shall have concluded or been adjourned.

(2) These times and dates are indicative only and will depend, among other things, on the date upon which the Court sanctions the Scheme and the date on which the Conditions are satisfied or, if capable of waiver, waived. The timetable is also dependent on whether the Court Order sanctioning the Scheme is delivered to the Registrar of Companies, and the time taken to have the Court Order stamped by HM Revenue & Customs (unless confirmation is received from HM Revenue & Customs that a block stock transfer form can be stamped instead) before delivering it to the Registrar of Companies.

* The expected date of the Scheme Sanction Hearing (to sanction the Scheme) and each of the subsequent dates set out in this timetable could be subject to change to earlier or later dates. These dates will depend, among other things, on the date on which the regulatory and other Conditions to the Scheme and the Acquisition are satisfied or, if capable of waiver, waived.

All times are London times. Each of the times and dates in the above timetable is subject to change without further notice.

INDICATIVE ACQUISITION STATISTICS

Number of Sainsbury's Shares in issue as at 1 July 2016 (being the Last Practicable Date)	1,925,529,752
Number of New Sainsbury's Shares to be issued in connection with the Acquisition	up to 261,115,846
Number of Sainsbury's Shares in issue immediately following Admission[(1)]	up to 2,186,645,598
New Sainsbury's Shares as a percentage of the total Sainsbury's Shares immediately following completion of the Acquisition[(1)(2)]	11.94%

Notes:

(1) Assumes that no New Sainsbury's Shares are issued as a result of (i) the exercise of any options or (ii) awards vesting under the Sainsbury's Share Schemes between 1 July 2016 (being the Last Practicable Date) and Admission.

(2) Based on the number of Sainsbury's Shares and Home Retail Group Shares in issue as at 1 July 2016 (being the Last Practicable Date) and that 261,115,846 New Sainsbury's Shares are issued in connection with the Acquisition.

IMPORTANT INFORMATION

General

Investors should only rely on the information in this Prospectus. No person has been authorised to give any information or to make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Company, the Sainsbury's Directors, Morgan Stanley or UBS. No representation or warranty, express or implied, is made by Morgan Stanley, UBS or any of their respective affiliates, directors, officers, employees and advisers as to the accuracy, completeness or verification of such information, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by Morgan Stanley, UBS or any of their respective affiliates, directors, officers, employees and advisers as to the past, present or future.

Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to the FSMA, neither the delivery of this Prospectus nor the issue of the New Sainsbury's Shares nor Admission shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Sainsbury's Group since the date of this Prospectus or that the information contained herein is correct as of any time subsequent to its date.

The Company will update the information provided in this Prospectus by means of a supplement hereto if a significant new factor that may affect the evaluation by prospective investors of the terms of the Acquisition and/or the Scheme occurs prior to Admission or if this Prospectus contains any material mistake or inaccuracy. The Prospectus and any supplement thereto will be subject to approval by the FCA and will be made public in accordance with the Prospectus Rules.

The contents of this Prospectus or any subsequent communications from the Company, Morgan Stanley, UBS or any of their respective affiliates, officers, directors, employees or agents are not to be construed as legal, business or tax advice. Each prospective investor should consult its, his or her own lawyer, financial adviser or tax adviser for legal, financial or tax advice. In making an investment decision, each investor must rely on its, his or her own examination, analysis and enquiry of the Sainsbury's Group, the terms of the Acquisition or the Scheme, including the merits and risks involved.

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company, the Sainsbury's Directors, Morgan Stanley, UBS or any of their respective affiliates or any of their representatives that any recipient of this Prospectus should agree to acquire the New Sainsbury's Shares in accordance with the Acquisition and the Scheme. Prior to making any decision as to whether to acquire the New Sainsbury's Shares in accordance with the Acquisition and the Scheme, prospective investors should read the whole of this Prospectus carefully (including the documents, or parts thereof, which are incorporated by reference herein) and not just rely on key information or information summarised within it. In making an investment decision, prospective investors must rely upon their own examination of the Company and the terms of the Acquisition and the Scheme and this Prospectus, including the merits and risks involved.

Prospective investors who agree to acquire New Sainsbury's Shares in accordance with the Acquisition and the Scheme will be deemed to have acknowledged that (i) they have not relied on Morgan Stanley, UBS or any of their respective affiliates in connection with any investigation of the accuracy of any information contained in this Prospectus or their decision whether or not to acquire New Sainsbury's Shares in accordance with the Acquisition and the Scheme and (ii) they have relied on the information contained in this Prospectus (including those documents (or parts thereof) incorporated by reference herein) and the Scheme Document, and no person has been authorised to give any information or to make any representation concerning the Sainsbury's Group or the New Sainsbury's Shares (other than as contained in this Prospectus) and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company, the Sainsbury's Directors, Morgan Stanley or UBS or any person affiliated with Morgan Stanley or UBS.

Morgan Stanley, UBS and their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services for, the Company, members of the Sainsbury's Group and the Sainsbury's Shareholders for which they would have received customary fees. Morgan Stanley, UBS and their respective affiliates may provide such services to the Company, members of the Sainsbury's Group and the Sainsbury's Shareholders and any of their respective affiliates in the future.

Presentation of Financial Information

The (i) audited Sainsbury's historical financial information for the 52-week periods to 15 March 2014, 14 March 2015 and 12 March 2016 referred to in Part 6 "*Sainsbury's Financial Information*" and which is incorporated by reference into this Prospectus as set out therein; and (ii) audited Home Retail Group historical financial information for the 52-week period to 27 February 2016 referred to in Part 8 "*Home Retail Group Financial Information*", and which is incorporated by reference into this Prospectus as set out therein, have each been prepared in accordance with IFRS.

Key Performance Indicators

Sainsbury's

The Sainsbury's Board has adopted the following metrics, which are considered to give an understanding of the Sainsbury's Group's underlying performance drivers. These measures are referred to as key performance indicators ("**KPIs**"). The KPIs described below are not measures of financial performance under generally accepted accounting principles, including IFRS, and should not be considered in isolation or as an alternative to the Sainsbury's Group statement of comprehensive income or other primary financial information referred to in Part 6 "*Sainsbury's Financial Information*" and incorporated by reference into this Prospectus. Because these measures are not determined in accordance with generally accepted accounting principles and are thus susceptible to varying calculations, they may not be comparable with other similarly titled measures of performance of other companies.

The Sainsbury's Board considers the Sainsbury's Group's KPIs to be as follows:

Group measures:

Underlying profit before tax—this is defined as profit before tax before any profit or loss on the disposal of properties, investment property fair value movements, retail financing fair value movements, impairment of goodwill, International Accounting Standard 19 pension financing element and defined benefit pension scheme expenses, acquisition adjustments and one-off items that are material and infrequent in nature, but after the coupons on perpetual securities;

Underlying basic earnings per share—this is defined as underlying profit, net of attributable taxation, divided by the weighted average number of ordinary shares in issue during the year, excluding those held by the Employee Share Ownership Plan trusts, which are treated as cancelled;

Cost savings—this excludes Sainsbury's Bank and represents cost reductions as a result of identified initiatives;

Retail operating cash flow—this is defined as retail cash generated from operations after changes in working capital;

Dividend per share—this is defined as total proposed dividend per share in relation to the financial year;

Pre-tax return on capital employed—this is defined as underlying profit before interest and tax, divided by the average of opening and closing capital employed (net assets before net debt);

Gearing—this is defined as net debt divided by net assets; and

Lease-adjusted net debt/underlying EBITDAR—this is defined as net debt plus capitalised lease obligations (5.5 per cent discount rate) divided by Sainsbury's Group underlying EBITDAR.

Retail measures:

Like-for-like sales (%)—this is defined as year-on-year growth in sales including VAT, excluding fuel, excluding Sainsbury's Bank, for stores that have been open for more than one year;

Retail sales growth (%)—this is defined as year-on-year growth in sales including VAT, excluding fuel, excluding Sainsbury's Bank;

Retail underlying EBITDAR margin (%)—this is defined as underlying profit before tax before underlying net finance costs, underlying share of post-tax results from joint ventures, depreciation, amortisation and rent, divided by sales excluding VAT, including fuel, excluding Sainsbury's Bank;

Trading intensity per sq ft—this is defined as sales per week (including VAT, excluding fuel, excluding Sainsbury's Bank) divided by sales area;

Retail underlying operating margin (%)—this is defined as underlying profit before tax, underlying net finance costs and underlying share of post-tax results from joint ventures, divided by retail sales excluding VAT, including fuel, excluding Sainsbury's Bank; and

Core retail capital expenditure—this is defined as capital expenditure excluding Sainsbury's Bank and before proceeds from sale and leasebacks and capital relating to the acquisition of freehold and trading properties.

The Home Retail Group

Benchmark measures

The Home Retail Group uses the following terms as measures which are not formally recognised under IFRS:

Benchmark operating profit—this is defined as operating profit from all operations (both continuing and discontinued) before amortisation of acquisition intangibles, post-employment benefit scheme administration costs, store impairment and onerous lease charges or releases and costs or income associated with store closures and exceptional items;

Benchmark profit before tax (benchmark PBT)—this is defined as profit from all operations (both continuing and discontinued) before amortisation of acquisition intangibles, post-employment benefit scheme administration costs, store impairment and onerous lease charges or releases and costs or income associated with store closures, exceptional items, financing fair value remeasurements, financing impact on post-employment benefit obligations, the discount unwind on non-benchmark items and taxation; and

Basic benchmark earnings per share (benchmark EPS)—this is defined as benchmark PBT less taxation attributable to benchmark PBT, divided by the weighted average number of shares in issue (excluding shares held in the Home Retail Group's share trusts net of vested but unexercised share awards).

These measures are considered useful by the Home Retail Group Directors in that they provide investors with an alternative means to evaluate the underlying performance of the Home Retail Group's operations. In addition, the Home Retail Group uses the term '*total net debt*' which is considered useful by the Home Retail Group Directors in that it highlights the Home Retail Group's aggregate net indebtedness to banks and other financial institutions together with debt-like liabilities, notably operating leases.

Argos KPIs used in this Prospectus

Sales—this is defined as income received from goods and services.

Financial Services KPIs used in this Prospectus

Number of active store card holders—this is the total number of store card accounts that have had monetary activity, either making a sale transaction, a payment or having an outstanding balance in the last six months; and

In-house credit penetration—this is penetration based upon total in-house retail credit sales (including VAT) divided by total UK retail sales (including VAT).

Currency Presentation

Unless otherwise indicated, all references in this Prospectus to "sterling", "pounds sterling", "GBP", "£", or "pence" are to the lawful currency of the United Kingdom. The Company prepares its financial statements in pounds sterling. All references to the "euro" or "€" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended. All references to "U.S. dollars" or "US$" are to the lawful currency of the United States.

Rounding

Certain data in this Prospectus, including financial, statistical, and operating information has been rounded. As a result of the rounding, the totals of data presented in this Prospectus may vary slightly from the actual arithmetic totals of such data. Percentages in tables have been rounded and accordingly may not add up to 100 per cent.

Market, Economic and Industry Data

Unless the source is otherwise stated, the market, economic and industry data in this Prospectus constitute the Sainsbury's Directors' estimates, using underlying data from independent third parties. The Company obtained market data and certain industry forecasts used in this Prospectus from internal surveys, reports and studies, where appropriate, as well as market research, publicly available information and industry publications.

The Company confirms that all such third party data contained in this Prospectus has been accurately reproduced and, so far as the Company is aware and able to ascertain from information published by the relevant third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

Where third-party information has been used in this Prospectus, the source of such information has been identified.

Service of process and enforcement of civil liabilities

The Company has been incorporated under English law. Service of process upon the Sainsbury's Directors and officers of the Company, all of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, since all of the directly owned assets of the Company are outside the United States, any judgment obtained in the United States against it may not be collectible within the United States. There is doubt as to the enforceability of certain civil liabilities under the U.S. federal securities laws in original actions in English courts, and, subject to certain exceptions and time limitations, English courts will treat a final and conclusive judgment of a U.S. court for a liquidated amount as a debt enforceable by fresh proceedings in the English courts.

Definitions

Certain terms used in this Prospectus, including all capitalised terms and certain technical and other items, are defined and explained in Part 13 "*Definitions*".

Information not Contained in this Prospectus

No person has been authorised to give any information or make any representation other than those contained in this Prospectus and, if given or made, such information or representation must not be relied upon as having been so authorised. Neither the delivery of this Prospectus nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this Prospectus or that the information in this Prospectus is correct as of any time subsequent to the date hereof.

Information Regarding Forward-looking Statements

This Prospectus includes forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the Company or the Combined Group's control and all of which are based on the Sainsbury's Directors' current beliefs and expectations about future events. Forward-looking statements are sometimes identified by the use of forward-looking terminology such as "believe", "expects", "may", "will", "could", "should", "shall", "risk", "intends", "estimates", "aims", "plans", "predicts", "continues", "assumes", "positioned" or "anticipates" or the negative thereof, other variations thereon or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Prospectus and include statements regarding the intentions, beliefs or current expectations of the Sainsbury's Group, the Sainsbury's Directors, as applicable, concerning, *inter alia*, the results of operations, financial condition, prospects, growth, strategies, and dividend policy of the Sainsbury's Group and the industry in which it operates. In particular, the statements under the headings "*Summary Information*" and "*Risk Factors*", and in Part 2 "*Information on the Sainsbury's Group*", Part 3 "*Information on the Home*

Retail Group", Part 4 "*Regulatory Overview*" and Part 7 "*Sainsbury's Operating and Financial Review*" regarding the Company's strategy and other future events or prospects are forward-looking statements.

These forward-looking statements and other statements contained in this Prospectus regarding matters that are not historical facts involve predictions. No assurance can be given that such future results will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the Sainsbury's Group. Such risks and uncertainties could cause actual results to vary materially from the future results indicated, expressed, or implied in such forward-looking statements. Such forward-looking statements contained in this Prospectus speak only as of the date of this Prospectus. The Company, the Sainsbury's Directors, Morgan Stanley, UBS and their respective affiliates expressly disclaim any obligation or undertaking to update the forward-looking statements contained in this Prospectus to reflect any change in their expectations or any change in events, conditions, or circumstances on which such statements are based unless required to do so by applicable law, the Prospectus Rules, the Listing Rules, the Transparency Rules of the FCA or the Market Abuse Regulation.

PART 1
DETAILS OF THE ACQUISITION

1. Introduction

On 1 April 2016, the boards of Home Retail Group plc and Sainsbury's announced that they had reached agreement on the terms of a recommended offer by Sainsbury's to acquire the entire issued and to be issued ordinary share capital of Home Retail Group plc (the "**Acquisition**").

The Acquisition is to be implemented pursuant to a three step process involving: (i) a scheme of arrangement of Home Retail Group plc under Part 26 of the 2006 Act to introduce New TopCo as the new holding company of the Home Retail Group and issue New TopCo Shares to Home Retail Group Shareholders; (ii) a reduction of capital of New TopCo to effect the Capital Return; and (iii) the mandatory transfer of the New TopCo Shares (which will then be held by Home Retail Group Shareholders) to Sainsbury's pursuant to the Articles of New TopCo. Further details of Acquisition are set out in paragraph 13 of this Part 1 "*Details of the Acquisition*".

2. The Acquisition

Under the terms of the Acquisition, Home Retail Group Shareholders will receive:

For each Home Retail Group Share	**From Sainsbury's:** **0.321 New Sainsbury's Shares and** **55 pence in cash** **(the "Offer Consideration")**

In addition, Home Retail Group Shareholders will also be entitled to receive a payment of 27.8 pence per Home Retail Group Share from New TopCo, reflecting a return to shareholders following the reduction of capital of New TopCo (the "**Capital Return**").

Based on the Closing Price of Sainsbury's Shares of 276.3 pence per share on 31 March 2016 (being the latest practicable date prior to the Firm Offer Announcement):

(i) the Offer Consideration represents an indicative value of 143.7 pence per Home Retail Group Share and values Home Retail Group plc's issued ordinary share capital at approximately £1.2 billion.

(ii) the Offer Consideration and the Capital Return together represent an indicative value of 171.5 pence per Home Retail Group Share and value Home Retail Group plc's issued ordinary share capital at approximately £1.4 billion; and

(iii) the Offer Consideration and the Capital Return together represent a premium of approximately 74 per cent. to the Closing Price of 98.7 pence per Home Retail Group Share on 4 January 2016 (being the last Business Day prior to the commencement of the Offer Period).

Based on the Closing Price of Sainsbury's Shares of 236.1 pence per share on the Last Practicable Date:

(i) the Offer Consideration represents an indicative value of 130.8 pence per Home Retail Group Share and values Home Retail Group plc's issued ordinary share capital at approximately £1.1 billion;

(ii) the Offer Consideration and the Capital Return together represent an indicative value of 158.6 pence per Home Retail Group Share and value Home Retail Group plc's issued ordinary share capital at approximately £1.3 billion; and

(iii) the Offer Consideration and the Capital Return together represent a premium of approximately 61 per cent. to the Closing Price of 98.7 pence per Home Retail Group Share on 4 January 2016 (being the last Business Day prior to the commencement of the Offer Period).

Upon Completion it is expected that former Home Retail Group Shareholders will hold 11.94 per cent. of the enlarged issued ordinary share capital of Sainsbury's (based on the existing issued ordinary share capital of J Sainsbury plc and the issued ordinary share capital of Home Retail Group plc).

The financial terms of the Acquisition (including the Offer Consideration and the Capital Return) are final and will not be increased, except that Sainsbury's reserves the right to increase the amount of the Offer Consideration and/or the Capital Return if there is an announcement on or after the date hereof of an offer or a possible offer for Home Retail Group by a third party offeror or potential offeror.

It is intended that the Scheme, the Capital Return and the Acquisition will be implemented by way of a three step process summarised in paragraph 13 of this Part 1 "*Details of the Acquisition*", pursuant to which Sainsbury's will acquire (indirectly, following the introduction of New TopCo and the subsequent reduction of capital of New TopCo through a Court procedure (the "**New TopCo Capital Reduction**")) the entire issued and to be issued share capital of Home Retail Group plc.

The Acquisition will be conditional upon, amongst other things: (i) approval by the requisite majorities of Home Retail Group Shareholders at the Home Retail Group Meetings; (ii) regulatory clearances being received from the FCA, the GFSC and the CMA; and (iii) the Scheme and the New TopCo Capital Reduction becoming Effective and all other Conditions being fulfilled or (if capable of waiver) waived by no later than the Long Stop Date. The GFSC confirmed on 24 May 2016 that it had no objection to the Acquisition.

The Acquisition will include a Mix and Match Facility, which will allow Home Retail Group Shareholders (other than those with a registered address in, or who are a citizen, resident or national of, a Restricted Jurisdiction) to elect, subject to off-setting elections, to vary the proportions in which they receive New Sainsbury's Shares and cash in respect of their holdings in Home Retail Group Shares. However, the total number of New Sainsbury's Shares to be issued and the maximum aggregate amount of cash to be paid under the Acquisition will not be varied as a result of elections under the Mix and Match Facility. Please refer to paragraph 6 below of this Part 1 "*Details of the Acquisition*" for further details.

Subject to any legal or regulatory requirements or restrictions in any Restricted Jurisdictions, Sainsbury's has arranged a dealing facility for eligible Home Retail Group retail shareholders. Under such dealing facility, the New Sainsbury's Shares to which eligible Home Retail Group retail shareholders become entitled may be sold for their benefit by the provider of such facility. Further details of the dealing facility are included in the Scheme Document.

3. Background to and reasons for the Acquisition

Sainsbury's set out a clear strategy in November 2014 and outlined its vision to provide great quality products and services at fair prices, delivering these to customers whenever and wherever they want to shop. As part of this, in its core food business, Sainsbury's has invested in product quality, range, pricing and multiple channels to market, to ensure that it maintains and grows this critical core business. By lowering prices and reducing the level of promotions, Sainsbury's has simplified its food business, improved its offer to customers and delivered efficiencies which then supports further investment in the core proposition. The Sainsbury's Directors believe Sainsbury's is making good progress particularly versus its "Big Four" supermarket peers, delivering growth in transactions and volumes in a highly competitive marketplace.

Sainsbury's is also focused on realising the benefits from its high level of footfall and customer knowledge to compete across a broad range of products and services, beyond its food heritage. A key part of the strategy is to grow the Sainsbury's clothing and general merchandise business in store and online. Sainsbury's focus for organic growth in this area is on the categories that customers buy frequently and Sainsbury's has prioritised clothing, homewares and seasonal ranges. Sainsbury's has been exploring the optimisation of its retail space to develop its customer offer, including adapting its store space to increase the product range and services that are provided.

Sainsbury's is seeing strong growth in these categories supported by its design-led own label ranges such as *Tu* and Home Collection. Sainsbury's experience so far from having launched its clothing range online is that there is strong, nationwide demand for these ranges that it is not currently able to provide to all its customers from its store network. Consequently, in its clothing and general merchandise categories, Sainsbury's sees strong growth potential in the long term from being able to provide a full multi-channel proposition, offering Click and Collect and "fast to home" delivery.

In addition to these areas of strong organic growth, Sainsbury's has been working in partnership with the Home Retail Group trialling a number of Argos digital concessions in Sainsbury's stores. Argos launched ten concessions in Sainsbury's supermarkets which have now been trading for an average of 54 weeks. In addition, Sainsbury's has also offered Argos Fast Track Collection services in one small supermarket and two convenience stores since November 2015.

Sainsbury's customer research has shown that both Argos and Sainsbury's customers value having Argos concessions in Sainsbury's stores as they can complete more general merchandise shopping missions at the same time as they do their food and grocery shop; Argos customers have welcomed the additional convenience they get from having the Argos offer in Sainsbury's supermarkets which are easily accessible, have free parking and offer longer opening hours.

Sainsbury's has seen encouraging results from these trials, driving additional customers and sales to both Argos and Sainsbury's across the ten concession locations. These trials, together with the due diligence conducted in connection with the Acquisition, have enabled Sainsbury's to build up a strong understanding of the Home Retail Group business.

The Acquisition accelerates Sainsbury's strategy

The Sainsbury's Directors believe that the Acquisition represents an attractive opportunity to accelerate Sainsbury's strategy across food, clothing and general merchandise and that the combination of Sainsbury's and the Home Retail Group is an attractive proposition for the customers and shareholders of both companies, establishing a platform for long-term value creation.

In particular, the Sainsbury's Directors believe that the Acquisition will deliver the following benefits:

Leading food and non-food retailer of choice for customers

- Both the Sainsbury's and the Home Retail Group brands represent trust, quality, value and service, with strong foundations.
- The combination will bring together two of the UK's leading retail businesses, with complementary product offers, focused on delivering quality products and services at fair prices, through an integrated, multi-channel proposition.
- Sainsbury's and the Home Retail Group share similar cultures and values, focused on serving the needs of customers whenever and wherever they want to shop.

Deliver profitable sales growth by offering customers a winning combination of location, range, speed and flexibility

- The Combined Group will be able to offer customers the right combination of product range, location, speed and flexibility across food, clothing and general merchandise, making each business's core proposition more accessible and convenient for all customers.
- Argos concessions or collection services in Sainsbury's stores will increase its reach and customer base while at the same time reducing Argos operating costs.
- Sainsbury's has detailed knowledge of, and direct connection with, its customers who account for around 25.5 million transactions a week, and the Combined Group will be able to enhance and benefit from this to drive sales and loyalty.

Optimises the use of combined retail space

- The combination will optimise the use of the combined retail space, by rolling out the Argos proposition via concessions into the Sainsbury's store network, enhancing convenience for customers, increasing the attractiveness of these locations and delivering cost efficiencies.
  - Relocations of existing Argos stores into Sainsbury's supermarkets will be optimised to the extent possible to fall in line with Argos lease expiry dates to minimise costs. Relocations of Argos stores into Sainsbury's supermarkets are expected to make up approximately 55 per cent. of the Argos concessions in Sainsbury's supermarkets.
    - Approximately 50 per cent. of these are expected to move less than one mile and to a similar retail location type. In these relocations, sales are assumed to be the same as are currently seen in the existing Argos store.
    - Where the existing Argos store is relocating into a Sainsbury's supermarket which is more than one mile away or to a different retail location type, the level of sales transferred to the relocated Argos concession is assumed to be lower than that which is currently achieved in the existing Argos store.
    - Existing Argos stores have a short lease length. As of the end of the financial year ended 27 February 2016, over 60 per cent. of Argos' leases expire within five years and on average have 4.3 years remaining, excluding the 101 digital concessions within Homebase Stores which are due to close within the next 18 months.

  - Such relocations will have lower fixed operating (e.g. occupancy costs and utilities) and store labour costs when compared to standalone Argos stores:
    - Standalone Argos store level costs, notably store labour, occupancy costs and utilities, which are estimated to be equal to approximately 11–14 per cent. of a store's costs will be lowered in relocation concessions.
  - Infill Argos concessions (which are expected to make up approximately 45 per cent. of the concession roll-out) will be opened within Sainsbury's supermarkets where there is no Argos store within three miles, or in catchments that are underserved by Argos. Infill Argos stores are expected to:
    - deliver additional sales with attractive returns on investment; and
    - create new retail roles to operate these concessions.
  - All Argos concessions in Sainsbury's supermarkets are assumed to gain additional spend from Sainsbury's customers shopping in Argos who do not currently shop in Argos.
  - Argos collection services will be offered in Sainsbury's stores which will drive additional footfall and cross selling opportunities.
- The Combined Group will have attractively located stores across the UK and Ireland, offering access to a wide range of product categories including food and grocery, clothing, homewares, toys, stationery, electrical goods, furniture and other general merchandise.

Multi-channel capabilities

- The Home Retail Group Directors believe that the Home Retail Group is shaping the future of shopping in the UK through digital retail leadership and multi-channel capability. It is a leader in online and mobile retailing and the Sainsbury's Directors believe that a combination of Sainsbury's and the Home Retail Group will significantly enhance Sainsbury's digital capability in food, clothing and general merchandise.
- The Acquisition will bring together multi-channel capabilities including digital, store and delivery networks to provide fast, flexible and reliable product fulfilment to store or to home across a wide range of food and non-food products.
- The Combined Group's performance will be enhanced by its ability to offer customers a wide range of products that meet their everyday needs, available in stores, to Click and Collect or delivered to home or at a time that suits the customer.

A financial services proposition with consumer-centric services

- The Acquisition is expected to create a financial services proposition that will provide a wider range of customer-centric services including credit cards, store credit, loans, deposits, insurance and ATMs.

Deliver revenue and cost synergy potential

- The Acquisition is expected to deliver revenue synergy potential through the ability to sell to each other's customers, including the operation of Argos concessions within Sainsbury's stores, the sale of Sainsbury's products and services to Argos' customers and leveraging Argos infrastructure.
- The Acquisition is expected to provide cost synergy potential through property rationalisation, scale benefits and operational efficiencies, as outlined in paragraph 4 of this Part 1 "*Details of the Acquisition*" below. Based on the trials undertaken with Argos, Sainsbury's has confidence in the ability of the Acquisition to deliver synergies with limited integration risk, driven by property rationalisation, which is a core Sainsbury's strength.

4. **Financial benefits and effects of the Acquisition**

Synergy potential

The Sainsbury's Directors believe that, as a direct result of the Acquisition, the Combined Group will generate attractive synergies and create additional shareholder value.

The Agreed Terms Announcement on 2 February 2016 included statements of estimated cost savings and synergies expected to arise from the Acquisition.

Sainsbury's has been able, as a result of further analysis and its integration planning work following undertaking due diligence on the Home Retail Group, to revise the initial synergy estimate, as set out in the Original Announcement and repeated below (the "**Quantified Financial Benefits Statement**")[3]. The Sainsbury's Directors believe that these cost savings and synergies further enhance the attractiveness of the Acquisition.

The Sainsbury's Directors now expect a higher level of EBITDA synergies in the third full year after Completion of not less than £160 million. This represents an increase of one third compared to the previous estimate of not less than £120 million EBITDA synergies. This higher EBITDA synergy estimate results from (i) an increase of £15 million in the estimated synergies from Argos concessions due to an increase in the number of concession opportunities and increased occupancy cost savings, offset by a reduction in the estimated Sainsbury's food and grocery halo sales; (ii) an increase of £30 million in the estimated cost synergies from central and support functions savings as well increased buying cost savings; and (iii) a decrease of £5 million in other revenue synergies as a result of revised assumptions on clothing, homewares and seasonal revenue synergies.[4]

Approximately 15 per cent. of the estimated EBITDA synergies are expected to be realised in the first full year after Completion, approximately 65 per cent. in the second full year after Completion and 100 per cent. in the third full year after Completion.

The constituent elements of quantified synergies, which are in addition to savings previously targeted by Sainsbury's and Home Retail Group plc separately, comprise the following:

- approximately 45 per cent. of the identified synergies (approximately £75 million) are expected to be generated from Argos concessions, arising from (i) cost savings generated from the relocation of certain existing Argos stores into concessions in Sainsbury's stores, and (ii) revenue gains from new concessions within Sainsbury's stores, including but not limited to cross-selling opportunities and the expansion of Click and Collect desks. Of these synergies, approximately 15 per cent. are expected to be realised in the first full year after Completion, approximately 60 per cent. in the second full year after Completion and 100 per cent. in the third full year after Completion;
- approximately 45 per cent. of the identified synergies (approximately £70 million) are expected to be cost synergies generated by removing duplication and overlap from both central and support functions at Sainsbury's and Home Retail Group plc. There are also benefits to the Combined Group in purchasing of goods for resale and goods not for resale from sharing best practice and increased scale. Of these synergies, approximately 15 per cent. are expected to be realised in the first full year after Completion, approximately 65 per cent. in the second full year after Completion and 100 per cent. in the third full year after Completion; and
- the remainder of the identified synergies (approximately £15 million) are expected to be further revenue synergies, principally from the sale of Sainsbury's clothing, homewares and seasonal and leisure ranges through the existing Argos network together with the roll-out of Sainsbury's ATMs to Argos locations and the sale of Habitat products through Sainsbury's channels. Of these synergies, approximately 25 per cent. are expected to be realised in the first full year after Completion, approximately 80 per cent. in the second full year after Completion and 100 per cent. in the third full year after Completion.

It is expected that the realisation of the identified synergies will require one-off exceptional costs of approximately £130 million, of which approximately 50 per cent. are expected to be incurred in the first full year after Completion, 20 per cent. in the second full year after Completion and 30 per cent. in the third full year after Completion.

It is also expected that incremental capital expenditure of approximately £140 million will be incurred in the three years following Completion, relating to store fit-out expenditure. Approximately 30 per cent. of this capital expenditure is to be incurred in the first full year after Completion, 40 per cent. in the second full year after Completion and 30 per cent. in the third full year after Completion.

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3 References to "Offer" and "HRG" in the Quantified Financial Benefits Statement set out in the Original Announcement have been replaced with "Acquisition" and "Home Retail Group plc" respectively.

4 Numbers refer to synergies in the third full year after Completion.

The synergies referred to above are expected to be recurring and are expected to arise as a direct result of the Acquisition and could not be achieved independently of the Acquisition. The synergies are also stated net of anticipated dis-synergies, which arise principally from lost sales in the Argos stores moving more than one mile or changing to a different retail location type as well as estimated cannibalisation impact of new infill Argos concessions. For the avoidance of doubt, the EBITDA impact of the synergies as set out above already reflects the impact of these identified dis-synergies.

Please refer to Part 12 "*Quantified Financial Benefits Statement*" for further detail on the above Quantified Financial Benefits Statement (including the supporting bases of belief and principal assumptions). References in this Prospectus to the Quantified Financial Benefits Statement should be read in conjunction with Part 12 "*Quantified Financial Benefits Statement*".

The Sainsbury's Directors have confirmed that there have been no material changes to the Quantified Financial Benefits Statement since 1 April 2016 and the Quantified Financial Benefits Statement remains valid. The reporting accountants and joint financial advisers have also confirmed to Sainsbury's that the reports they produced in connection with the Quantified Financial Benefits Statement (copies of which were set out in the Appendix to the Original Announcement on 18 March 2016) continue to apply.

Sainsbury's has identified a number of initiatives which are expected to create additional benefits that are not included in the Quantified Financial Benefits Statement, including:

- utilisation of the Sainsbury's brand, marketing and loyalty database to increase Argos sales;
- utilisation of Argos systems to manage Sainsbury's general merchandise (and thereby improving availability performance and overall inventory efficiency); and
- potential synergies within the Argos Financial Services business.

Financial effects

The Sainsbury's Directors expect that the Acquisition will result in double digit earnings per share accretion (excluding the effects of implementation costs) and a low- to mid- teens return on invested capital (inclusive of implementation costs)[5] in the third full year following Completion.[6]

5. **Irrevocable Undertakings**

Sainsbury's has received irrevocable undertakings from each of the Home Retail Group Directors to vote in favour of the Scheme at the Court Meeting and the Special Resolution to be proposed at the Home Retail Group General Meeting (or if the Acquisition is subsequently structured as a Takeover Offer, to accept any Takeover Offer made by Sainsbury's), in respect of an aggregate of 2,145,121 Home Retail Group Shares, representing, in aggregate, approximately 0.26 per cent. of the ordinary share capital of Home Retail Group plc in issue on the Last Practicable Date.

Copies of these irrevocable undertakings are available on the Company's website at www.j-sainsbury.co.uk/investor-centre and on the Home Retail Group's website at www.homeretailgroup.com/investor-centre until the Scheme becomes Effective.

6. **Mix and Match Facility**

Home Retail Group Shareholders (other than those with a registered address in, or who are a citizen, resident or national of, a Restricted Jurisdiction) may elect, subject to availability, to vary the proportions in which they receive New Sainsbury's Shares and cash in respect of their holdings in Home Retail Group Shares. However, the total number of New Sainsbury's Shares to be issued and the maximum aggregate amount of cash to be paid under the Acquisition will not be varied as a result of elections under the Mix and Match Facility. Accordingly, satisfaction of elections made by Home Retail Group Shareholders under the Mix and Match Facility will depend on the extent to which other Home Retail Group Shareholders make offsetting elections.

To the extent that elections cannot be satisfied in full, they will be scaled down on a pro-rata basis. As a result, Home Retail Group Shareholders who make an election under the Mix and Match Facility will not

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5 Return on invested capital is defined as acquired post-tax EBIT plus post-tax synergies divided by purchase price plus implementation costs net of tax.

6 These statements are not, and shall not be construed as, profit forecasts.

necessarily know the exact number of New Sainsbury's Shares or the amount of cash they will receive until settlement of the consideration due to them in respect of the Acquisition. The Mix and Match Facility is conditional upon Completion.

Elections under the Mix and Match Facility will not affect the entitlements of those Home Retail Group Shareholders who do not make such elections.

Further details in relation to the Mix and Match Facility are contained in the Scheme Document and accompanying Form of Election.

7. **Financing of the Acquisition**

Sainsbury's intends to finance the cash consideration payable to Home Retail Group Shareholders pursuant to the Acquisition through its existing debt facilities and resources, which are expected to be entirely refinanced at a later date through the proposed transfer of the Home Retail Group's Financial Services business loan book to Sainsbury's Bank. It is expected that in connection with such transfer, Sainsbury's Bank would refinance the funding that the Financial Services business has received from the Home Retail Group, utilising retail deposits and other financial resources. In the near to medium term it is expected that Sainsbury's Bank would primarily finance the Financial Services business by utilising retail deposits. This would have the consequence of lowering the Combined Group's lease-adjusted leverage (excluding Sainsbury's Bank) relative to the standalone lease-adjusted leverage of the Sainsbury's Group (excluding Sainsbury's Bank).

Sainsbury's entered into an amendment and restatement agreement dated 18 March 2016 (the "**Amendment and Restatement Agreement**") making certain amendments to the existing facility agreement dated 5 May 2015 between Sainsbury's, SSL as guarantor, HSBC Bank plc as facility agent, HSBC Corporate Trustee Company (UK) Limited as security agent and the financial institutions listed therein to (i) accommodate the Acquisition and (ii) allow Sainsbury's to use a proportion of the facilities to finance the cash consideration payable under the Acquisition.

Further information on the financing of the Acquisition is set out in the Scheme Document.

8. **Information relating to the Sainsbury's Group**

Founded in 1869, as at 12 March 2016 the Sainsbury's Group operated 1,374 stores—including 601 supermarkets and 773 convenience stores—and employed approximately 165,100 colleagues across the UK. With around 25.5 million customer transactions every week, the Sainsbury's Group's focus is on providing great quality products at fair prices. The Sainsbury's Group sells food, clothing and general merchandise products to customers across supermarkets, convenience stores and online and also sells fuel from petrol filling stations adjacent to some of its stores. Sainsbury's Bank offers accessible financial products such as credit cards, insurance and personal loans that reward customers who both bank and shop with the Sainsbury's Group. Strong, well-established values are integral to the Sainsbury's Group's success in helping customers *Live Well for Less*.

J Sainsbury plc is the holding company of the Sainsbury's Group. J Sainsbury plc was listed on the London Stock Exchange in 1973. As at the Last Practicable Date, Sainsbury's had a market capitalisation of £4,546 million.

For the 52-week period ended 12 March 2016, the Sainsbury's Group (i) generated revenue of £23,506 million excluding VAT, including fuel (ii) delivered underlying profit before tax of £587 million; and (iii) had total assets of £16,973 million.

9. **Information relating to the Home Retail Group**

The Home Retail Group is one of the UK's leading home and general merchandise retailers and consists of one of the most recognised retailing brands in the UK home and general merchandise sector, Argos, supported by its Financial Services business.

The Home Retail Group offers over 57,000 products through Argos and operates a nationwide distribution network across multiple distribution centres and 845 stores as at 27 February 2016. The Home Retail Group offers immediacy and convenience through a multi-channel offer. Customers can place orders in-store, online, on the phone and through smartphone and tablet apps, with collection either immediately in-store, during a specified delivery slot either that day or on a day of their choosing through Fast Track Delivery or at specified delivery times for larger items such as appliances and furniture.

In October 2012, Argos outlined a five-year Transformation Plan to reinvent itself as a digital retail leader, transforming from a catalogue-led business to a digital-led business. According to Home Retail Group plc, the Transformation Plan addresses competitive challenges, and aims to exploit emerging market opportunities and restore sustainable growth.

Home Retail Group plc is the holding company of Argos and was listed on the London Stock Exchange in 2006. On 27 February 2016, Home Retail Group plc completed the Homebase Sale. As at the Last Practicable Date, Home Retail Group plc had a market capitalisation of £1,245 million.

For the 52-week period ended 27 February 2016, the Home Retail Group's continuing operations (i) generated revenues of £4,234.7 million; (ii) delivered benchmark profit before tax of £71.5 million; and (iii) had total assets of £3,092 million. The recommended offer by Sainsbury's for the acquisition of the Home Retail Group resulted in an exceptional impairment charge of £852 million for the Home Retail Group, leading to a total loss after tax of £808 million for the 52-week period ended 27 February 2016. This goodwill charge represented the adjustment required to the goodwill that arose on the acquisition of Argos in 1998 in order to align the Home Retail Group's reported net assets, after adjusting for certain other items, to the recommended offer by Sainsbury's for the acquisition of the Home Retail Group. This charge is a non-cash item and therefore it had no impact on the Home Retail Group's year-end cash balance of £623 million.

10. **Current Trading**

(a) ***Sainsbury's***

The Sainsbury's Group announced in its first quarter trading statement for the 12 weeks to 4 June 2016 on 8 June 2016, that:

(a) Total retail sales for the first quarter increased by 0.3 per cent. (excluding fuel) and decreased by 0.1 per cent. (including fuel) compared to the same quarter in the previous year; Sainsbury's like-for-like retail sales for the first quarter decreased by 0.8 per cent. (excluding fuel) and decreased by 1.0 per cent. (including fuel) year-on-year. Sainsbury's also achieved like-for-like transaction growth across all channels in the quarter;

(b) Sainsbury's is focused on delivering its multi-channel, multi-product strategy. Sainsbury's has a clear and simple trading strategy focusing on lower regular prices which is resonating with customers; is reducing promotional participation levels and continues to lower the prices of everyday products. The Sainsbury's Group is investing in improving the quality and range of its own-brand food and non-food products and continues to see encouraging results from Sainsbury's Bank;

(c) Sainsbury's convenience business achieved growth of over six per cent. and opened seven new convenience stores in the quarter. Groceries online performed well with over eight per cent. sales growth and nearly a 13 per cent., increase in orders. Sainsbury's also launched its new groceries online app in the quarter; and

(d) Market conditions remain challenging, with food price deflation continuing to impact the Sainsbury's Group's sales and pressures on pricing meaning the market will remain competitive for the foreseeable future. However, the Sainsbury's Directors are confident that the Sainsbury's Group's strategy to be a trusted multi-channel, multi-product and services retailer is delivering and will enable the Sainsbury's Group to continue to outperform its major peers.

(b) ***The Home Retail Group***

The Home Retail Group announced in its first quarter trading update for the 13-week period ended 28 May 2016 on 9 June 2016 that:

(a) For the 13-week period ended 28 May 2016, based on unaudited management accounts, total sales at Argos grew by 2.6 per cent. Net new space contributed 2.5 per cent., mainly as a result of store openings in the previous financial year. Like-for-like sales grew by 0.1 per cent;

(b) Sales grew in both electrical and non-electrical product categories during the quarter, with the growth in electricals principally attributable to the performance of televisions, mobiles, computers and tablets, partially offset by a sales decline in white goods. The growth in sales of non-electrical products was largely driven by furniture and general sports, partially offset by weaker sales of seasonal products;

(c) Internet sales grew by 16% in the quarter and represented 49% of total Argos sales, up from 44% for the same quarter last year. Within this, mobile commerce sales grew by 17% to represent 29% of total Argos sales, up from 25% in the same quarter last year;

(d) The approximate 100 basis point gross margin decline at Argos was principally driven by the anticipated impact of adverse currency and shipping costs and an adverse sales mix impact mainly attributable to the improved performance of margin dilutive electrical products; and

(e) In the course of implementing its new governance and risk management procedures, the Home Retail Group's Financial Services division identified that it had erroneously collected excess fees in relation to the late payment of amounts due from certain customers. The Home Retail Group took advice on this matter and based upon this advice it booked a charge in its financial statements for the 52 weeks to 27 February 2016. The Home Retail Group has subsequently been advised that a more extensive customer redress programme will now be required. A detailed review exercise will now be undertaken by the Home Retail Group, however a preliminary estimate has been prepared by the Home Retail Group, which indicates that the existing customer redress provision may need to be increased by an amount in the region of £30 million.

11. **Management, Employees and Locations**

Both the Sainsbury's Group and the Home Retail Group have large numbers of committed and talented colleagues who work hard to ensure that customers receive the best possible levels of customer service and quality. The Sainsbury's Board recognises how important such colleagues are to the success of the Combined Group.

Sainsbury's current intention is to continue running the Home Retail Group as a separate business and to integrate Sainsbury's existing non-food business into the Home Retail Group following Completion. The Home Retail Group's scale, multi-channel expertise and competency across a broad range of general merchandise product markets as well as its consumer financial services is highly complementary to Sainsbury's non-food expertise in clothing, general merchandise and entertainment. Sainsbury's therefore anticipates that the future leadership team will be comprised of senior leaders from both the Home Retail Group and the Sainsbury's Group, with a view to retaining the Home Retail Group's expertise in digital, channels, product markets and consumer finance.

On 10 June 2016, Home Retail Group plc announced that John Walden will be stepping down as Chief Executive of Home Retail Group plc upon Completion. On the same day Sainsbury's announced its intention to promote its Chief Financial Officer, John Rogers, to the role of Chief Executive of Home Retail Group upon Completion. From Completion, John Rogers will have responsibility for combining Sainsbury's non-food business with Argos, and for the delivery of the on-going digital transformation and performance of the Home Retail Group. John Rogers will remain a member of the Sainsbury's Group Operating Board and the J Sainsbury Plc Board. He will be based at Home Retail Group's headquarters in Milton Keynes. The complete Home Retail Group leadership team will be determined as soon as possible and in consultation with the Home Retail Group's senior leadership.

Upon Completion, Ed Barker, Sainsbury's Director of Group Finance, will be appointed Chief Financial Officer of Sainsbury's on an interim basis.

The Home Retail Group Non-Executive Directors have agreed to resign from office with effect from Completion and will be paid in lieu of their notice entitlement.

In order to achieve some of the expected benefits of the combination of the Sainsbury's Group and the Home Retail Group, it will be necessary to perform a detailed review of how best to combine the two groups. With regards to the retail operations of the Combined Group overall Sainsbury's anticipates a net increase of around 1,000 or more roles over a three-year period. Sainsbury's anticipates relocating a number of existing Argos spoke stores into a nearby Sainsbury's supermarket. The majority of employees at those Argos stores will be offered the opportunity to redeploy into the relocated store, and assuming such redeployment opportunities are taken up, it is estimated that the relocation will lead to a reduction of around 200 to 300 roles. Such reduction is, however, expected to be offset by the new roles to be created as a result of opening new Argos stores and introducing new Click & Collect operations in a number of Sainsbury's existing supermarkets.

The synergy work carried out to date has confirmed the potential to generate cost savings for the Combined Group in areas such as reducing headcount in overlapping corporate and support functions where there may be duplication. At this stage Sainsbury's has not yet fully developed proposals as to how such headcount reductions will be implemented, however it is currently estimated that there will be a reduction of approximately 400 to 600 roles across corporate and support functions of the Combined Group. No decisions have been made to date on the precise number of employees or the specific teams, roles and locations that will be affected, which will depend on the outcome of more detailed review to be carried out post-Completion.

Taking the above into account, Sainsbury's expects the overall effect of the Acquisition on the combined headcount of the group to be positive over the long term. It is expected that the net increase of around 1,000 or more retail operations roles will more than counterbalance the 400 to 600 reduction in corporate and support function roles.

Sainsbury's has no current intention to close either the Home Retail Group's head office in Milton Keynes or Sainsbury's office in Coventry, although it is expected that certain functions may move between Milton Keynes and other office locations of Sainsbury's.

Sainsbury's has begun integration planning but more detailed consideration will need to be undertaken and will be subject to engagement and (if applicable) consultation with appropriate stakeholders, including employee representative bodies and unions in accordance with Sainsbury's legal obligations. Sainsbury's intends that there will be a dedicated team responsible for leading the integration and that this team will be made up of individuals from both the Home Retail Group and the Sainsbury's Group.

Sainsbury's confirms that the existing contractual and statutory employment rights, including pension rights, of all employees of the Sainsbury's Group and the Home Retail Group will be fully observed following Completion. Further information in respect of employees and pensions is set out in the Scheme Document.

No proposals have yet been made on the terms of any incentivisation arrangements for relevant employees or managers.

Following Completion, Home Retail Group employees will, subject to the approval of the Sainsbury's Remuneration Committee, participate in Sainsbury's employees' share plans and other long-term incentive arrangements on at least a similar level and on a similar basis to other employees of Sainsbury's whose role is broadly equivalent.

12. Agreement with Home Retail Group Pensions Trustee

Sainsbury's and the trustee of the Home Retail Group Pension Scheme (the "**Home Retail Group Trustee**") entered into an agreement dated 17 March 2016 (the "**Pensions Letter**") in relation to the future funding of the Home Retail Group Pension Scheme, the terms of which will take effect conditional on completion of the Acquisition. The key terms of the agreement reached with the Home Retail Group Trustee are:

- An agreed basis for the statutory valuation in relation to the Home Retail Group Pension Scheme as at 31 March 2015; an increase in the level of deficit contributions payable by Argos Limited under the Home Retail Group Pension Scheme's statutory schedule of contributions (to £40 million per annum, payable quarterly); and a lump sum payment of £50 million by Argos, to be made following completion of the Acquisition. These contributions are in addition to the lump sum contributions totalling £50 million agreed by Home Retail Group with the Home Retail Group Trustee in connection with the Homebase Sale, £26 million of which has already been paid to the Home Retail Group Pension Scheme and the balance to be paid after the Capital Return.
- A commitment from Sainsbury's to stand behind Argos Limited's obligations under the statutory schedule of contributions and to make a lump sum payment to the Home Retail Group Pension Scheme (of up to £470 million) if there is an insolvency of Sainsbury's or Argos Limited. This commitment will replace similar commitments currently in place from Home Retail Group (which will fall away following completion of the Acquisition) and, subject to certain conditions, will be reset at the next two statutory valuations in relation to the Home Retail Group Pension Scheme (expected to have effective dates in 2018 and 2021).
- The grant of an additional £37.5 million of security over freehold assets in favour of the Home Retail Group Trustee (resulting in an aggregate £75 million of security in total, inclusive of the £37.5 million of security agreed with Home Retail Group in connection with the Homebase Sale).

Sainsbury's understands that the Home Retail Group Pension Scheme is closed to the future accrual of benefits. Sainsbury's has no intention to re-open the scheme to benefit accrual or new entrants.

The Home Retail Group Trustee has confirmed to Sainsbury's in writing that, having taken advice, it is satisfied that it does not consider the Acquisition, on the terms described herein, to be materially detrimental to the financial support in place for the Home Retail Group Pension Scheme.

13. **Proposed Structure of the Scheme, the Capital Return and the Acquisition**

It is intended that the Scheme, the Capital Return and the Acquisition will be implemented by way of a three step process summarised below, pursuant to which Sainsbury's will acquire (indirectly, following the introduction of New TopCo as the new holding company of the Home Retail Group and the subsequent New TopCo Capital Reduction) the entire issued and to be issued share capital of Home Retail Group plc.

- ***Step 1: Introduction of New TopCo***

  Under the terms of the Scheme, the Scheme Shares will be cancelled in consideration for which the Scheme Shareholders will receive newly issued shares in New TopCo ("**New TopCo Shares**") and New TopCo will receive newly issued shares in Home Retail Group plc, thereby becoming the sole shareholder of Home Retail Group plc.

  To become Effective, the Scheme requires, among other things, the approval of a majority in number of the Home Retail Group Shareholders present and voting in person or by proxy at the Court Meeting, representing not less than 75 per cent. in value of the Scheme Shares voted by such Home Retail Group Shareholders and the passing of the Special Resolution to implement the Scheme and the Acquisition at the Home Retail Group General Meeting. The Scheme must also be sanctioned by the Court.

  Once the necessary approvals from Home Retail Group Shareholders have been obtained and the other Conditions (other than Condition 1(a) in relation to the Long Stop Date, Condition 1(c) in relation to the New TopCo Capital Reduction and, if Condition 1(d) in relation to Admission of New Sainsbury's Shares has not yet been satisfied, Condition 1(d)) have been satisfied or (where applicable) waived and the Scheme has been sanctioned by the Court, the Scheme will become Effective upon delivery of the Scheme Court Order to the Registrar of Companies.

  Upon the Scheme becoming Effective, it will be binding on all Home Retail Group Shareholders, irrespective of whether or not they attended or voted at the Home Retail Group Meetings.

  The Scheme will be governed by English law. The Scheme will be subject to the applicable requirements of the Takeover Code, the Panel, the London Stock Exchange and the FCA.

- ***Step 2: New TopCo Capital Reduction***

  Following the Scheme becoming Effective, New TopCo's share capital will be reduced through the New TopCo Capital Reduction, following which, the Capital Return will be paid to Home Retail Group Shareholders and the balance credited to reserves of New TopCo, which will be available to New TopCo to fund future dividends and for other lawful purposes.

  To become Effective, the New TopCo Capital Reduction must be confirmed by the Court and the New TopCo Capital Reduction Court Order delivered to and registered by the Registrar of Companies.

- ***Step 3: transfer of New TopCo Shares to Sainsbury's***

  Immediately following the New TopCo Capital Reduction becoming Effective, all of the New TopCo Shares, which will then be held by Home Retail Group Shareholders, will be transferred to Sainsbury's pursuant to the mandatory transfer provisions in the articles of association of New TopCo, in consideration for the Offer Consideration.

Further details on the steps and structure of the Scheme and the New TopCo Capital Reduction is set out in the Scheme Document. The Panel has consented to Home Retail Group posting the Scheme Document more than 28 days after the Firm Offer Announcement.

Sainsbury's reserves the right to implement the Acquisition by way of a transfer scheme under Part 26 of the 2006 Act or through different steps and processes (with agreement of the Home Retail Group plc and, if required, the Panel). See paragraph 24 below of this Part 1 "*Details of the Acquisition*" for further details.

Subject to the satisfaction or waiver of the Conditions, the Acquisition is expected to complete on or about 2 September 2016 and the Sainsbury's Group and the Home Retail Group will operate as the Combined Group with effect from the following Business Day (expected to be on or about 5 September 2016).

14. **Offer-related arrangements**

(a) ***Confidentiality Agreement***

Sainsbury's and Home Retail Group plc have entered into a confidentiality agreement dated 3 February 2016 pursuant to which each of Sainsbury's and Home Retail Group plc has undertaken to keep certain information relating to the other party confidential and not to disclose such information to third parties, except to certain permitted disclosees for the purposes of evaluating the Acquisition, to the pension trustees of Sainsbury's and Home Retail Group plc, or if required by applicable laws or regulations.

The confidentiality obligations of each party under the Confidentiality Agreement will terminate on Completion or, in the event that the Acquisition is not Completed, the date that is six months after the Acquisition terminates (or, if Sainsbury's exercises the right to implement the Acquisition by way of a Takeover Offer, the Takeover Offer lapses or is withdrawn).

(b) ***Co-operation Agreement***

Sainsbury's and Home Retail Group plc have entered into a co-operation agreement dated 1 April 2016 with respect to the implementation of the Acquisition.

Sainsbury's and Home Retail Group plc have agreed to co-operate and provide each other with reasonable information, assistance and access in relation to the filings, submissions and notifications to be made for the process of obtaining all regulatory clearances. Sainsbury's and Home Retail Group plc have also agreed to provide each other with reasonable information, assistance and access for the preparation of the key shareholder documentation.

The Co-operation Agreement records Sainsbury's and Home Retail Group plc's intention to implement the Acquisition pursuant to the Scheme. However, pursuant to the Co-operation Agreement, Sainsbury's may implement the Acquisition by way of a Takeover Offer if: (i) Home Retail Group plc consents; (ii) a third party announces a possible offer or firm intention to make an offer for Home Retail Group plc; or (iii) the Home Retail Group Board withdraws or modifies its unanimous recommendation of (or intention to recommend) the Acquisition.

Sainsbury's is subject to certain customary restrictions on the conduct of its business during the period pending Completion which prohibit, among other things: (i) the payment by Sainsbury's of dividends (other than in the ordinary course and consistent with past practice and its dividend policy) and (ii) the allotment of further shares (or rights or options in respect of shares) (other than pursuant to employee share incentive plans, or in order to satisfy options or awards vesting under those plans).

The Co-operation Agreement also contains provisions that will apply in respect of Home Retail Group Employee Share Plans and certain other arrangements for the benefit of employees (see paragraph 15 below for further information).

The Co-operation Agreement will terminate if (among other circumstances):

(i) agreed in writing by Sainsbury's and Home Retail Group plc;

(ii) the Acquisition has not Completed prior to the Long Stop Date; or

(iii) upon service of written notice by Sainsbury's to Home Retail Group plc, if: (a) the Scheme Document does not include a unanimous and unconditional recommendation of the Acquisition, or the Home Retail Group Directors otherwise withdraw or modify their recommendation; (b) a third party announces a firm intention to make an offer for Home Retail Group plc which is recommended by the Home Retail Group Directors, or which completes; (c) either the Court Meeting or Home Retail Group General Meeting is not held by the 22nd day after the expected date of such meetings as set out in the Scheme Document (or such later date as may be agreed between Sainsbury's and Home Retail Group plc); (d) the Scheme is not approved by the Home Retail Group Shareholders at the Court Meeting or the Home Retail Group General Meeting; (e) the Court hearing to confirm the New TopCo Capital Reduction is not held within three Business Days of the Court hearing to sanction the Scheme (or such later date as may be agreed between Sainsbury's and Home Retail Group plc); or (f) any Condition (which has not been waived) is invoked (with permission of the Panel) so as to cause the Acquisition not to proceed.

(c) ***Clean Team Agreement***

Sainsbury's and Home Retail Group plc have entered into a clean team confidentiality agreement dated 14 April 2016 pursuant to which each of Sainsbury's and Home Retail Group plc has undertaken to designate their outside counsel and experts hired in connection with the Acquisition as well as certain employees as members of "clean teams" ("**Clean Team Members**") and to restrict disclosure of certain confidential and competitively sensitive information in connection with the CMA filing process to Clean Team Members.

Each party is under obligations to ensure that Clean Team Members only use such competitively sensitive information in connection with CMA filing purposes and correspondence with the CMA and to ensure that Clean Team Members are not involved in day-to-day decision making in relation to certain specified commercially sensitive areas in relation to products and services where the activities of the parties overlap until the Acquisition is Completed or, if the Acquisition does not Complete, for a period of six months from the date on which the relevant Clean Team Member had access to competitively sensitive information.

The obligations of each party will terminate on Completion or, if the Acquisition does not Complete, the date that is six months after discussions or negotiations in relation to the Acquisition terminate.

15. **Home Retail Group Employee Share Plans and remuneration**

Sainsbury's will make appropriate proposals to participants in the Home Retail Group Employee Share Plans. Participants in the Home Retail Group Employee Share Plans will be contacted separately regarding the effect of the Acquisition on their rights under the Home Retail Group Employee Share Plans and with the details of Sainsbury's appropriate proposals. In summary, awards will vest and options which are not already exercisable will become exercisable when the Scheme is sanctioned and participants will have the opportunity to take part in the Scheme on the same basis as other Home Retail Group Shareholders. Option holders will be able to exercise their options at, or up to six months after, the Scheme Court Order. Alternatively, holders of sharesave options will be given the opportunity to exchange their options over Home Retail Group Shares for equivalent options over Sainsbury's Shares. Further details of the terms of such proposals are included in the Scheme Document.

The Acquisition will extend to any Home Retail Group Shares which are unconditionally allotted, issued or transferred, on or prior to the Scheme Record Time to satisfy the exercise of existing options or vesting of existing awards under the Home Retail Group Employee Share Plans prior to the Scheme Record Time. Any Home Retail Group Shares allotted, issued or transferred after the Scheme Record Time under the Home Retail Group Employee Share Plans will be immediately transferred to Sainsbury's (or its nominee) in exchange for the same consideration as Home Retail Group Shareholders will be entitled to receive under the terms of the Acquisition and a cash amount equal to the Capital Return.

The participants in the Home Retail Group Share Incentive Plan and the Home Retail Group Ireland Approved Profit Sharing Scheme will be treated in the same way as the other Home Retail Group Shareholders.

Home Retail Group employees will be eligible to be considered for participation in Sainsbury's employee share plans from Completion.

The Home Retail Group Employee Share Plans and other remuneration arrangements will operate in the ordinary course up to Completion. Further, the Home Retail Group will operate a part year discretionary bonus plan for Home Retail Group employees for the part of the financial year of the Home Retail Group up to Completion.

16. **Dividends and dividend policy**

The Sainsbury's Directors expect that, following Completion, the Combined Group will pay dividends in line with Sainsbury's existing dividend policy of two times cover.

The Boards of Sainsbury's and the Home Retail Group plc have agreed that, if the Acquisition has not Completed by Sainsbury's Interim Dividend Record Time (and provided that Home Retail Group plc has not paid, declared, approved or made any dividend or distribution since the date of the Original Announcement), Home Retail Group Shareholders will be entitled to receive an interim dividend from Home Retail Group plc for the 26 weeks ending 27 August 2016 in an aggregate amount of not more than

£0.01 per Home Retail Group Share (the "**Permitted Home Retail Group Interim Dividend**"), equivalent to the Home Retail Group interim dividend in respect of its financial year ended 27 February 2016.

17. Disclosure of interests in Home Retail Group

Sainsbury's made a public Opening Position Disclosure in respect of the interests in the relevant securities of Home Retail Group plc held by Sainsbury's and its concert parties on 19 January 2016 (the "**Sainsbury's Opening Position Disclosure**"). As set out in the Sainsbury's Opening Position Disclosure, a close relative of David Tyler, the Chairman of Sainsbury's, holds 355 Home Retail Group Shares.

Save as disclosed in this Prospectus and in the Sainsbury's Opening Position Disclosure, as at the Last Practicable Date, none of Sainsbury's nor, so far as Sainsbury's is aware, any person acting or deemed to be acting in concert with Sainsbury's had:

(a) any interest in, or right to subscribe for, any relevant securities of Home Retail Group plc;

(b) any short position in (whether conditional or absolute and whether in the money or otherwise), including any short position under a derivative, any agreement to sell or any delivery obligation or right to require another person to purchase or take delivery of, any relevant securities of Home Retail Group plc; or

(c) borrowed or lent, or entered into any financial collateral arrangements or dealing arrangements in respect of, any relevant securities of Home Retail Group plc.

18. Conditions

The Acquisition is subject to the Conditions and to certain further terms as set out in the Scheme Document. The Conditions include, amongst other things: (i) approval of the Scheme by a majority in number of Home Retail Group Shareholders who are present and vote, whether in person or by proxy, at the Court Meeting (or any adjournment thereof) and who represent not less than 75 per cent. in value of the Home Retail Group Shares voted by such Home Retail Group Shareholders; (ii) the passing of all resolutions required to approve and implement the Scheme and the Acquisition and to approve certain related matters by the requisite majority of Home Retail Group Shareholders at the Home Retail Group General Meeting (or any adjournment thereof); (iii) regulatory clearances being received from the FCA, the GFSC and the CMA; and (iv) the Scheme and the New TopCo Capital Reduction becoming Effective and all other Conditions being fulfilled or (if capable of waiver) waived by no later than the Long Stop Date. If the Conditions have not been satisfied or waived by the Long Stop Date the Acquisition will not proceed. The GFSC confirmed on 24 May 2016 that it had no objection to the Acquisition.

19. Delisting and cancellation of trading

It is intended that dealings in Home Retail Group Shares will be suspended at 4.30 p.m. London time on the date of the Court hearing to sanction the Scheme. It is further intended that an application will be made to the London Stock Exchange for the cancellation of the trading of Home Retail Group Shares on its main market for listed securities and the UKLA will be requested to cancel the listing of Home Retail Group Shares on the premium segment of the Official List to take effect on the Business Day following the New TopCo Reduction Effective Time.

Share certificates in respect of the Home Retail Group Shares will cease to be valid and should be destroyed following the Scheme Effective Date. In addition entitlements to Home Retail Group Shares held within CREST will be cancelled.

As soon as reasonably practicable after the Completion Date, it is intended that Home Retail Group plc will be re-registered as a private limited company under the relevant provisions of the 2006 Act.

20. Admission to the Official List and to trading on the London Stock Exchange and dealings in New Sainsbury's Shares

Applications will be made to the FCA and the London Stock Exchange for the New Sainsbury's Shares to be admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities, respectively. It is expected that Admission will become effective and that dealings for normal settlement in the New Sainsbury's Shares will commence on the London Stock Exchange at 8.00 a.m. on the first Business Day following the Completion Date.

21. **Fractional entitlements**

Fractions of New Sainsbury's Shares will not be allotted or issued to Home Retail Group Shareholders and entitlements will be rounded down to the nearest whole number of Sainsbury's Shares. All fractions of New Sainsbury's Shares will be aggregated and sold in the market as soon as practicable after the Completion Date. The net proceeds of such sale (after deduction of all expenses and commissions incurred in connection with the sale) will be distributed in due proportions to Home Retail Group Shareholders who would otherwise have been entitled to such fractions, save that fractional cash entitlements shall be rounded down to the nearest whole pence.

22. **Dealing facility**

Subject to any legal or regulatory requirements or restrictions in any Restricted Jurisdictions, Sainsbury's has arranged a dealing facility for eligible Home Retail Group retail shareholders. Under such dealing facility, the New Sainsbury's Shares to which eligible Home Retail Group retail shareholders become entitled may be sold for their benefit at a cost of 0.5 per cent. commission plus £8.50 per transaction. Further details of the dealing facility, which will be made available for a period of six months following Completion, are included in the Scheme Document.

23. **Dilution**

Subject to the Acquisition becoming Effective, it is expected that up to 261,115,846 New Sainsbury's Shares will be issued. This will result in Sainsbury's issued share capital increasing by 13.56 per cent. If the Acquisition becomes Effective, Sainsbury's Shareholders will suffer an immediate dilution as a result of the Acquisition following which they will hold 88.06 per cent. of the enlarged issued share capital of Sainsbury's.

24. **Reserving the right to proceed by way of a Takeover Offer**

Sainsbury's has reserved the right to implement the Acquisition by way of a transfer scheme under Part 26 of the 2006 Act or through different steps and processes (with the agreement of Home Retail Group plc and, if required, the Panel).

Sainsbury's has also reserved the right to implement the Acquisition by way of a Takeover Offer for the entire issued and to be issued share capital of Home Retail Group plc not already held by Sainsbury's as an alternative to the Scheme (with the consent of the Panel and subject to the terms of the Co-operation Agreement). In such an event, the Takeover Offer will be implemented on substantially the same terms as set out in the Original Announcement, including an acceptance condition of 90 per cent. of shares to which such Takeover Offer relates (or such lesser percentage (being more than 50 per cent) as Sainsbury's may decide with the consent of the Panel). In such circumstances the Capital Return would be structured in a manner to be determined at such time.

25. **Home Retail Group ADRs**

The offer of New Sainsbury's Shares will not be extended to Home Retail Group ADRs and Home Retail Group ADR holders will not be entitled to vote directly on the Scheme of the Acquisition. Further details are set out in the Scheme Document.

26. **Further terms of the Acquisition**

The Home Retail Group Shares and the New TopCo Shares will be acquired pursuant to the Acquisition with full title guarantee, fully paid and free from all liens, charges, equities, encumbrances, rights of pre-emption and any other interests of any nature whatsoever and together with all rights now or hereafter attaching thereto, including, without limitation voting rights and the right to receive and retain in full all dividends and other distributions (if any) declared, made or paid on or after the date of the Original Announcement, other than, in the case of New TopCo Shares, the Capital Return.

If any dividend or other distribution is announced, declared, made, paid or becomes payable by Home Retail Group plc or New TopCo in respect of the Home Retail Group Shares or the New TopCo Shares on or after the date of the Original Announcement and prior to the Completion Date, other than or in excess of the Permitted Home Retail Group Payments, Sainsbury's reserves the right to reduce the value of the Offer Consideration (including, for the avoidance of doubt, by reducing the cash element of the Offer Consideration and/or adjusting the Exchange Ratio) by the amount of all or part of the dividend or other distribution, or all or part of the amount in excess of the Permitted Home Retail Group Payments, that has been announced, declared, made, paid or become payable. In calculating the amount of any such reduction, the value of New Sainsbury's Shares will be calculated by reference to the Closing Price of Sainsbury's Shares on the last trading day before Sainsbury's announcement of a reduction in the Offer Consideration.

The New Sainsbury's Shares will be issued credited as fully paid and will rank *pari passu* in all respects with the existing Sainsbury's Shares from the date of issue, save that they will not participate in any dividend payable by Sainsbury's with reference to a record date prior to the Completion Date.

27. **Overseas shareholders**

The availability of the Acquisition to Home Retail Group Shareholders who are not resident in the UK or who are subject to the laws and/or regulations of another jurisdiction (including the ability of such Home Retail Group Shareholders to vote their Home Retail Group Shares with respect to the Acquisition at the Home Retail Group Meetings, to execute and deliver Forms of Proxy appointing another to vote at the Home Retail Group Meetings on their behalf, or to participate in the Mix and Match Facility) may be restricted by the laws and/or regulations of those jurisdictions. Therefore any persons who are not resident in the UK or who are subject to the laws and/or regulations of any jurisdiction other than the UK should inform themselves about, and observe, any applicable legal or regulatory requirements. Home Retail Group Shareholders who are in any doubt regarding such matters should consult an appropriate independent professional adviser in the relevant jurisdiction without delay.

The attention of any Home Retail Group Shareholder who is resident and/or domiciled in the Republic of South Africa is drawn to the fact that receipt of the consideration under the Acquisition may require approval of the Financial Surveillance Department of the South African Reserve Bank in terms of the Exchange Control Regulations 1961, issued pursuant to the Currency and Exchanges Act, 1933 of the Republic of South Africa. Accordingly any such shareholder must approach an authorised dealer in the Republic of South Africa to ascertain whether any consent or approval is required and if so, obtain the relevant consent or approval. In addition, it is currently expected that New Sainsbury's Shares due to any Home Retail Group Shareholder who is resident and/or domiciled in the Republic of South Africa will be sold on their behalf and such Home Retail Group Shareholder will receive the net proceeds of such sale.

PART 2
INFORMATION ON THE SAINSBURY'S GROUP

The following information should be read in conjunction with the more detailed information contained in this Prospectus elsewhere including the financial and other information appearing in Part 7 "Sainsbury's Operating and Financial Review" as well as Part 4 "Regulatory Overview". The financial information included in this Part 2 "Information on the Sainsbury's Group" has been extracted without material adjustment from Part 7 "Sainsbury's Operating and Financial Review" which has been incorporated into this Prospectus by reference or from the financial information referred to in Part 6 "Sainsbury's Financial Information" which has been incorporated into this Prospectus by reference, or from the accounting records of the Sainsbury's Group, which formed the underlying basis of the financial information referred to in Part 6 "Sainsbury's Financial Information", which has been incorporated into this Prospectus by reference.

Introduction

Founded in 1869, as at 12 March 2016 the Sainsbury's Group operated 1,374 stores—comprising 601 supermarkets and 773 convenience stores—and employed approximately 165,100 colleagues across the UK. With approximately 25.5 million customer transactions every week, the Sainsbury's Group's focus is on providing great quality products at fair prices. The Sainsbury's Group sells food, clothing and general merchandise products to customers across supermarkets, convenience stores and online and also sells fuel from petrol filling stations adjacent to some of its stores. Sainsbury's Bank offers accessible financial services products such as credit cards, insurance and personal loans that reward customers who both bank and shop with the Sainsbury's Group. Strong, well-established values are integral to the Sainsbury's Group's success in helping customers *Live Well for Less*.

History and Development

Founded in 1869 by John and Mary Sainsbury, the Sainsbury's Group's business has grown to become one of the UK's largest grocery retailers. The business was founded on a strong set of values that are still at the heart of its business and day-to-day operations. The Sainsbury's Directors believe that these values are integral to the Sainsbury's Group's relationships with suppliers, colleagues and other stakeholders, differentiating it from its competitors and providing a competitive advantage. The Sainsbury's Group is focused on developing its food and grocery proposition to ensure it serves customers well through a variety of channels.

In the period between 2004 and 2013, the Sainsbury's Group invested in its property network, opening supermarkets and growing its 'Sainsbury's Local' branded convenience store network. At the same time, the Sainsbury's Group invested in, and developed, its grocery online channel and continued to invest in its core food and grocery product ranges; increasing choice; investing in its quality credentials and its value perception. During this time, the Sainsbury's Group also launched its *Tu* clothing range and substantially expanded its general merchandise proposition. Finally, the Sainsbury's Group continued to grow its financial services business through Sainsbury's Bank and in January 2014 bought out its joint venture partner, LBG, to gain full ownership and control of this division.

In November 2014, in the face of a rapidly changing customer and competitive environment, Mike Coupe, the newly appointed CEO of the Sainsbury's Group, announced the results of a strategic review undertaken by the Operating Board earlier in 2014 (the "**Strategic Review**"). As a consequence of the review, the Sainsbury's Group outlined that it would continue to deliver great quality products and services at fair prices, while building its multi-channel routes to market in order to serve customers whenever and wherever they wanted. As part of this strategy the Sainsbury's Group's focus for investment going forward shifted away from opening large supermarkets to opening more convenience stores and developing its online business across grocery and non-food products.

Set out below is a selection of key milestones in the Sainsbury's Group's businesses since 2004.

2004	Justin King appointed CEO
	Launched *Tu* Fashion range in 160 stores
	Began working with the Woodland Trust, since then planted 177 million trees
	Sold Shaw's (the US grocery retailer)
2005	First retailer to introduce traffic light nutritional labelling and campaigns for transparency on front of packaging
	Making Sainsbury's Great Again turnaround programme
2006	Established first of Farmer Grower Development Groups investing in British agriculture (now in place across 10 product categories with membership of 2,500 farmers)
2007	First retailer to convert all of its bananas to 100 per cent. Fairtrade
	Sainsbury's Dairy Development Group launched with 300 dairy farmer partners
2008	Established 'You Can' employment programme in partnership with Remploy, Mencap and Job Centre Plus—13,000 people employed as a result.
2009	Largest retailer to completely remove battery-farmed eggs from its shelves
	David Tyler appointed Chairman
2010	First retailer to be awarded Gold accreditation by Investors in People
2011	*20x20 Sustainability Plan* launched (and refreshed in 2015 as Sainsbury's *Sustainability Plan*)
	Launched Brand Match (which ceased on 26 April 2016)
	1,000th store opens in Irvine, Scotland
	Announced that all tuna used as an ingredient in its food will be caught using the pole and line method, ensuring that 100 per cent. of Sainsbury's tuna across all products is responsibly sourced
2012	Became the first ever Paralympics-only sponsor
2013	Achieved 100 per cent. diversion from landfill for operational waste
	Grocery Online delivered over £1billion in annual sales
	Announced purchase of 50 per cent. stake in Sainsbury's Bank from Lloyds Banking Group
2014	Mike Coupe appointed CEO
	Strategic Review launched on 9 November 2014
	Opened the first retail outlet in the UK to come off the National Grid and be powered by food waste alone
2015	Agreed strategic partnership that will see Lloyds Pharmacy acquire Sainsbury's pharmacy business. The transaction is currently under Phase 2 review by the CMA and an outcome is expected by 8 August 2016.
	Sainsbury's launched trial of ten Argos digital concessions in its supermarkets.

For the 52-week period to 12 March 2016, the Sainsbury's Group (i) generated revenue of £23,506 million excluding VAT, including fuel; (ii) delivered underlying profit before tax of £587 million; and (iii) had total assets of £16,973 million.

J Sainsbury plc is the holding company of the Sainsbury's Group. J Sainsbury plc was listed on the London Stock Exchange in 1973. As at the Last Practicable Date, Sainsbury's had a market capitalisation of £4,546 million.

Business Description

Products and Services

Food and Grocery

The Sainsbury's Group operates in the UK's £147 billion (*source*: Kantar Worldpanel) food and grocery sector. For the 52-week period to 12 March 2016, food and grocery accounted for over 80 per cent. of the Sainsbury's Group's total sales (both including and excluding VAT). According to Kantar Worldpanel, the Sainsbury's Group has a 16.5 per cent. share of UK food and grocery based on a 52 week rolling basis to the week ending 19 June 2016.

The Sainsbury's Group sells a broad range of quality own-brand and branded food and grocery products through supermarkets, convenience stores and online. Its products include fresh, chilled and ambient food, household and pet products and health and beauty product ranges. In order to appeal to a wide cross section of customers, the Sainsbury's Group offers several own-brand food ranges including its entry-level "*basics*" brand, its core "*by* Sainsbury's" range and its premium "*Taste the Difference*" line. In addition, the Sainsbury's Group also markets a number of complementary own-brand ranges such as "*Freefrom*", "*So Organic*", "*Be Good to Yourself*" and "*My Goodness*". The Sainsbury's Group was also the first grocery retailer to introduce organic produce into UK grocery retail.

The table below shows the key categories of food and grocery products that the Sainsbury's Group sells:

Category	Department	Examples
Fresh	Produce	Fruit & vegetables
	Meat, Fish, Poultry	Fresh & cooked meat, fish & poultry
	Bakery	Bread, cakes & other baked goods
	Meal Solutions	Ready meals & party food
	Food Counters	Fish, delicatessen, patisserie etc.
Packaged Food . . .	Dairy	Milk, butter, cheese etc.
	Canned & Packaged	Rice, pasta, tinned food etc.
	Frozen	Frozen food
	Impulse	Confectionary, soft drinks, crisps, biscuits etc.
	World Foods	Regional foods such as Asian, Afro-Caribbean etc.
Non-Food Grocery	Beers, Wines & Spirits	Alcoholic drinks
	Household & Pet	Cleaning products & pet food
	Baby, Health & Beauty	Baby products, cosmetics, health etc.
	Petrol & Kiosk	Petrol, tobacco, magazines etc.

The Sainsbury's Group offers over 15,000 own-brand products and for the 52-week period to 12 March 2016, these products accounted for around half of the Sainsbury's Group's food sales. The Sainsbury's Group's "*Taste the Difference*" range grew volumes by nearly 2 per cent. year-on-year and was voted best supermarket range by the Good Housekeeping Institute for the third year running. Over 95 per cent. of the Sainsbury's Group's customers buy into the core "*by* Sainsbury's" range and the Sainsbury's Group continues to enhance its quality credentials by investing in improving the quality of its own-brand products.

The Sainsbury's Group is committed to offering great quality products at fair prices. As a result of the Sainsbury's Group's regular, lower prices strategy, it has lowered the prices of over 1,900 products since November 2014, and remains as competitive as it has ever been on the price of food and grocery relative to its traditional supermarket competitors (Tesco, Asda and Morrisons).

Clothing

The Sainsbury's Group operates in the UK clothing and footwear sector which, according to Verdict, saw approximately £50 billion in sales per annum in 2015. Clothing is a fast-growing business within the Sainsbury's Group, with clothing sales growing by 8.5 per cent. year-on-year for the 52-week period to 12 March 2016.

The Sainsbury's Group sells a wide range of womenswear, menswear, childrenswear and lingerie across a range of price points in its supermarkets that are over 30,000 sq. ft of net selling space in size. The Sainsbury's Group's primary clothing brand is *Tu* which was launched in 2004. The Sainsbury's Group also sells a premium range of womenswear, Gok for *Tu*. This range is designed by Gok Wan, a UK fashion expert and television personality renowned for helping women dress in ways that are right for their natural body shape. The partnership with Gok Wan is in its fifth year and these collections continue to be very popular with the Sainsbury's Group's customers. In addition, in 2015 the Sainsbury's Group began collaboration with the Admiral men's sportswear brand.

The Sainsbury's Group's *Tu* clothing brand brings customers high street style at supermarket prices, with new collections introduced every six to eight weeks. The Sainsbury's Group continues to increase its clothing market share and is the UK's sixth largest clothing retailer by volume and tenth largest by value (*source*: Kantar Worldpanel based on the 52 week data to 5 June 2016). The Sainsbury's Group has achieved a strong position in the childrenswear market, as the fifth largest childrenswear retailer by volume and seventh by value (*source*: Kantar Worldpanel based on 52 week data to 5 June 2016). It is also the fourth biggest schoolwear retailer by volume (*source*: Kantar Worldpanel based on 52 week data to 5 June 2016). The Sainsbury's Group's *Tu* clothing offer is now available online (having launched in 2015) and initial sales have exceeded the Sainsbury's Directors' expectations.

General Merchandise

The Sainsbury's Group operates in the UK general merchandise sector which encompasses a wide range of product categories. Together, this large, disparate sector was estimated by Verdict to be worth approximately £124 billion per annum in 2015. For the 52-week period to 12 March 2016, the Sainsbury's Group's general merchandise sales grew by 3.5 per cent.

The Sainsbury's Group sells a broad range of general merchandise products in 439 of its larger supermarkets. As with clothing, the Sainsbury's Group's general merchandise business is growing faster than its core food and grocery business and the Sainsbury's Directors believe that this area has further growth potential. The Sainsbury's Group's general merchandise offering is largely focused on the categories that customers want to buy when shopping for their groceries: homewares, small domestic appliances, toys, stationery, entertainment and seasonal products. The Sainsbury's Group's general merchandise proposition offers quality and design-led products at value for money prices within an attractive department store 'look and feel'. The Sainsbury's Group offers three own-brand general merchandise product tiers: the entry-level "*basics*" range, the core "*by* Sainsbury's" range and the premium "*Home Collection*" range. The Sainsbury's Group also sells branded ranges and a small offering of larger electrical items, such as televisions.

The table below shows the key clothing and general merchandise products that the Sainsbury's Group sells.

Department	Examples
Bedroom	Bedding products, duvets, pillows, bed sheets
Bathroom	Bathroom accessories & towels
Home accessories	Decorative accessories, candles, fragrance
Tabletop	Cutlery, crockery and table top accessories
Cookshop	Cooking utensils, equipment & accessories
Utility & storage	Household storage & cleaning accessories
New technology	Laptops, tablets & accessories
Sound & vision	TVs, audio players & accessories
Electrical consumables	Batteries, lightbulbs & printer cartridges
Domestic appliances	Vacuums & irons
Kitchen electricals	Kettles, toasters & food processors
Leisure	Sporting goods, DIY & car care
Mobile	Mobile phones & accessories
Seasonal events	Christmas, Easter & Halloween
Outdoor living	BBQ, outdoor dining & garden products
Gifting	Low value & novelty gifting products
Cards & Wrap	Greetings cards & wrapping paper
Paper Tableware	Disposable dinnerware, cutlery & party items
Stationery	Office & design-led stationery
Toys	Pre-school, girls' & boys' toys
Film	DVD & Blu-Ray
Music	CDs
Books	Paperback & hardback books
Video games	Consoles, accessories & software

Fuel

The Sainsbury's Group also sells fuel from forecourts located adjacent to some of its supermarkets and convenience stores. The fuel that the Sainsbury's Group sells to customers is supplied exclusively by Greenergy, pursuant to a fuel supply agreement.

Pharmacy services

The Sainsbury's Group currently offers pharmacy services in 277 of its larger supermarkets and four pharmacies on the premises of hospitals. On 29 July 2015, the Sainsbury's Group agreed to sell this business to LloydsPharmacy as part of an overall partnership deal. LloydsPharmacy will operate the Sainsbury's pharmacies under the LloydsPharmacy brand and continue to develop and offer expert prescribing services as well as additional pharmacist advice and other services. This transaction is currently being reviewed by the CMA in a Phase 2 review of potential impacts on competition. The outcome of this review is expected by 8 August 2016. See paragraph 15.7 of Part 11 "*Additional Information*" for further information on the terms of the sale and purchase agreement with LloydsPharmacy.

Sainsbury's Bank

Sainsbury's Bank operates in the UK consumer financial services sector. In the 12 months ended 29 February 2016, its net interest, net commission and other operating income increased by 5.4 per cent., to £274 million.[7]

Sainsbury's Bank was launched in 1996 in a joint venture with Bank of Scotland (now part of LBG). Sainsbury's Bank provides banking and related financial services to the Sainsbury's Group's customers in the UK. On 31 January 2014, Sainsbury's Bank became a distinct and wholly owned subsidiary of Sainsbury's, following the purchase of the 50 per cent. shareholding, previously held by LBG. Sainsbury's Bank is currently undertaking the NBP to migrate its systems and platforms to a standalone operating model away from LBG, which provided these as part of the previous joint venture model. Throughout this transitional phase, on-going services continue to be provided by LBG under the Transitional Services Agreement (see paragraph 15.5 of Part 11 "*Additional Information*" for further information on the terms of the Transitional Services Agreement). The Sainsbury's Bank's principal activities consist of three core business lines: banking products (credit cards, savings and personal loans), insurance and travel money and ATM services.

As at 29 February 2016, Sainsbury's Bank had £3,209 million in customer savings deposits. Sainsbury's Bank also provides personal loans for customers for values between £1,000 and £40,000. As at 29 February 2016, Sainsbury's Bank had £2,516 million of outstanding personal loans to customers. Sainsbury's Bank also offers various insurance products such as pet and travel; these are provided through partnerships with various insurance companies.

Sainsbury's Bank provides travel money services in 207 Sainsbury's stores (as at 12 March 2016). Travel money services provide currency exchange for a wide variety of international currencies. In March 2015, Sainsbury's Bank acquired control of the travel money business from Travelex Agency Services Limited including ownership and pricing of the traded currency and direct employment of employees. This allowed Sainsbury's Bank to have direct control of the travel money proposition and maximise the effectiveness of these operations within Sainsbury's stores. As at 12 March 2016, Sainsbury's Bank also operated 1,646 ATMs on Sainsbury's premises, providing customers with access to cash and balances in convenient locations across the country.

The Sainsbury's Directors believe that this wide range of financial services is appealing to customers and offers attractive lines of business with good growth potential. The Sainsbury's Directors believe the decision to take full control of Sainsbury's Bank in 2014 will enable the Sainsbury's Group to effectively cross-market financial services products to its core customer base and maximize the loyalty relationship that exists between both businesses.

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7 The Sainsbury's Group's Income Statement for the 52-week period ended 12 March 2016 included the results of Sainsbury's Bank for the 12 months ended 29 February 2016, with Revenue comprising interest receivable, fees and commissions.

Channels to market

Overview

The Sainsbury's Group has supermarket, convenience and online businesses of scale and continues to develop its multi-channel credentials.

As at 12 March 2016, the Sainsbury's Group's store portfolio comprised 601 supermarkets and 773 convenience stores across the UK, a total estate of 1,374 stores covering approximately 23 million sq.ft. of net selling space. The Sainsbury's Group's store portfolio is located throughout the UK in England, Scotland, Wales and Northern Ireland. Stores are located in both town centre and out-of-town locations. The portfolio comprises a mix of both freehold, long leasehold and leasehold properties. The Sainsbury's Group's principal online websites focus on selling food and grocery, clothing and financial services products.

Store Channels

Supermarkets

As at 12 March 2016, the Sainsbury's Group operated 601 supermarkets across the UK. Supermarkets within the Sainsbury's Group's portfolio vary in size from around 5,000 sq. ft. to up to 100,000 sq. ft of net selling space. The smallest supermarkets offer mainly food and grocery products, while supermarkets larger than 30,000 sq. ft. of net selling space additionally offer a range of clothing and general merchandise.

In response to changing customers' shopping habits (as outlined in more detail in "*- Marketplace and Customers—Customer Shopping habits for Food and Grocery are changing*" below), the Sainsbury's Group is actively exploring different supermarket formats to maximise the potential of tailoring store formats and product ranges to best meet customer needs. These developments include different layouts for food and grocery to serve a wider range of shopping missions and investing in new ways to make it easier for customers to shop, check out and pay for their products.

In some of its larger supermarkets there is excess space. In the first instance, the Sainsbury's Group has outlined that it will use this space to ensure it is able to present as much of its clothing and general merchandise range in these locations in order to drive sales. In addition to this, in some of its larger stores, the Sainsbury's Group is able to sub-let space to carefully chosen partners. Given the generally attractive nature of its store locations and its high levels of customer traffic, Sainsbury's is attractive to a wide range of partners who would like to access the Sainsbury's Group's customer base. Larger Sainsbury's stores have concession partners that offer complementary goods and services to give customers more choice and convenience. These include Timpsons, Argos, Jessops, parcel collection services and GP and dental surgeries.

As outlined in the Strategic Review shared in November 2014, the Sainsbury's Group has significantly reduced the number of new supermarket openings it is planning. In the 52-week period to 12 March 2016, the Sainsbury's Group opened six supermarkets (of which two were replacement stores) and also refurbished seven supermarkets.

Convenience stores

As at 12 March 2016, the Sainsbury's Group operated 773 convenience stores ranging in size from a micro convenience store that is 600 sq. ft to 11,000 sq. ft of net selling space. The Sainsbury's Group is the third largest national grocery multiple operator of convenience stores in the UK behind Tesco and The Co-operative Group. The Sainsbury's Group's convenience stores provide customers with quality, fresh food at fair prices within walking distance of their home or workplace and are ideal for those wanting to do their 'for today/tonight/tomorrow' shopping.

The Sainsbury's Group is actively pursuing new sites to expand its convenience store portfolio across the UK. In the 52-week period to 12 March 2016, the Sainsbury's Group opened 69 and closed three convenience stores, taking the total number of convenience stores to 773. In the 52-week period to 12 March 2016, the Sainsbury's Group's convenience store channel generated sales of over £2.3 billion (including VAT) and delivered over 9 per cent. year-on-year growth.

Online Sales Channels

Grocery Online

Since launch, the Sainsbury's Group's online grocery ordering service has grown consistently with sales growth of nearly 9 per cent. and orders increasing by nearly 15 per cent. in the 52-week period ended 12 March 2016. The Sainsbury's Group operates a 'pick from store' model for its online food and grocery offer which means that online orders are fulfilled direct from the customer's local supermarket. Additionally, the Sainsbury's Group has also invested to develop an online fulfilment centre based in London. This is due to open in 2016 and will provide the Sainsbury's Group with the additional capacity that it needs to meet demand in the densely populated and fast growing London area.

Customers who use the Sainsbury's Group's grocery online service can choose to have their shopping delivered to their home within a pre-chosen delivery time slot, or use Sainsbury's growing network of Click & Collect service points currently available at 101 stores across the UK. The Sainsbury's Group continues to invest in this growing channel to support its strategy of making sure that it is able to serve its customers whenever and wherever they want to shop and aims to double the number of Click & Collect sites by the end of the financial year.

Clothing Online

In September 2015, the Sainsbury's Group launched its clothing website nationwide, making the vast majority of its clothing range available to customers. Initial sales have exceeded the Sainsbury's Directors' expectations. Customers who order clothing online can either have their products delivered to home or can "click and collect" their orders from over 700 Sainsbury's stores which now offer a collection service, including 105 convenience stores. The majority of customers choose to use this "click and collect" service.

General Merchandise Online

Having closed its dedicated general merchandise online service in 2014 because it was not economically viable, the Sainsbury's Group does not currently have a dedicated online platform to support its general merchandise proposition. Customers are, however, able to buy a limited range of general merchandise products via the groceries online website.

Financial Services

The Sainsbury's Bank's website features information on the key services available from Sainsbury's Bank. Customers can either sign up for services online or talk to a Sainsbury's Bank colleague over the phone.

Overview of key Business Operations

Product Sourcing and Purchasing—Overview

To offer its customers great food, grocery, clothing and general merchandise products at fair prices the Sainsbury's Group works with thousands of suppliers across the UK and overseas. In line with its values, the Sainsbury's Group aims to develop strong, mutually beneficial relationships with its suppliers, who range from individual farmers and growers to major processors, manufacturers and distributors. The Sainsbury's Group currently has around 2,000 food and 1,000 non-food suppliers.

The Sainsbury's Group's buyers operate out of London and Coventry in the UK, and five international sourcing offices. They are the key contacts with suppliers, and responsible for selecting goods or services and entering into buying arrangements on the Sainsbury's Group's behalf. The Sainsbury's Group also employs technologists whose expertise ensures that the products the Sainsbury's Group sells meet its high quality standards and are produced in an ethical, sustainable and responsible way.

Food and Grocery Sourcing and Purchasing

The Sainsbury's Group sources food and grocery products from over 2,000 suppliers in the UK, Europe and the rest of the world.

The Sainsbury's Group's British food and grocery sourcing credentials are an important part of its customer proposition. The Sainsbury's Group sells over 1,900 own-brand products sourced from the UK and continually seeks to increase the number of British lines that it sells. Over the last three years, the Sainsbury's Group has invested over £2 million into agricultural research and development projects designed to improve the efficiency and resilience of British farming, and was the first retailer to launch an apprenticeship scheme for young people wanting a career in agriculture and horticulture.

The Sainsbury's Group introduced product development groups in 2007, starting with the Sainsbury's Dairy Development Group. These are practical, working partnerships where retailer and supplier discuss challenges and opportunities, and share best practice to ensure supply chains are safe, environmentally sustainable, ethical and fit for the future. The Sainsbury's Group currently has ten product development groups across beef, lamb, pork, veal, eggs, chicken, milk, cheese, wheat and produce.

The Sainsbury's Group also supports its international suppliers and producers, particularly those from the developing economies. The Sainsbury's Group is the largest seller of Fairtrade products in the UK. The Sainsbury's Group is working towards using the development group model for overseas sourcing of products such as tea and coffee.

The Sainsbury's Group's team of product technologists have established programmes to support rigorous product monitoring and testing. This provides assurance over product traceability, safety and integrity. All Sainsbury's Group suppliers are required to meet the Sainsbury's Group's Code of Conduct for Ethical Trade (the "**Ethical Code**") which is based on the Ethical Trading Initiative base code for ethical trading, of which the Sainsbury's Group was a founding member. The Ethical Code covers areas such as fair pay, child labour, safety and hygiene. Sainsbury's also complies with the GSCOP.

As a "Designated Retailer" under the GSCOP and the Order which came into force on 4 February 2010, Sainsbury's is required to manage its relationship with suppliers in accordance with the Order and the GSCOP. Generally, the obligations imposed on a retailer include a responsibility to deal fairly and lawfully with its suppliers at all times, not vary the terms of a supply agreement retrospectively, not make significant changes to supply chain procedures during the period of supply agreement and to only de-list suppliers for genuine commercial reasons.

In relation to payments, the GSCOP provides, among other things, that a retailer should pay for goods on time, not require a supplier to make any payment towards the retailer's costs, not include provisions in a supply agreement under which a supplier must pay for shrinkage or wastage, should compensate suppliers for forecasting errors, should not pass on unjustified payments for consumer complaints and should limit circumstances under which payments are made as a condition of being a supplier. In June 2013, as a supplement to the GSCOP, the Groceries Adjudicator Act came into force creating the role of the Adjudicator, an independent adjudicator working within the Department of Business, Innovation and Skills who oversees the relationship between supermarkets and their direct suppliers. The Adjudicator has powers to enforce the GSCOP, investigate complaints and arbitrate disputes. Should an investigation find that a retailer has breached the GSCOP, the Adjudicator can implement sanctions. Sanctions may include issuing recommendations against a retailer, requiring a retailer to publish details of a breach and, in more severe cases, imposing a fine on the retailer. The Sainsbury's Group has consistently supported the GSCOP and effective GSCOP enforcement and has made significant investments to implement GSCOP throughout its business.

Sainsbury's was ranked second in the 2015 Advantage Mirror Programme, an independent annual benchmark of the leading six grocery retailers. Based on feedback from over 400 suppliers, Sainsbury's was rated 1st for "Business Relationship", "Retail Execution" and "Payment Processes" in the performance areas measured.

Food Product Development

The food and grocery market in the UK is characterised by a high level of new product development. The Sainsbury's Group has a team of product technologists and developers who work closely with the Sainsbury's Group's suppliers of own brand products to develop new products. The Sainsbury's Group's product development teams also focus on reducing salt and sugar in products while maintaining taste and appeal.

Clothing and General Merchandise Sourcing and Design

The Sainsbury's Group sources much of its clothing and general merchandise through its five international offices in Hong Kong, Delhi, Dongguan, Shanghai and Bangladesh (Dhaka), overseen by buying, technical, compliance and design teams based in Coventry, Hong Kong and Delhi. They work with Sainsbury's Group suppliers in the UK and globally to constantly seek to improve quality and value and to ensure the same high standards, no matter where the factories that supply the Sainsbury's Group are located in the world.

The Sainsbury's Group develops supportive and close working relationships with its clothing and general merchandise suppliers. Buying, technical and design teams regularly visit suppliers and the teams based overseas are in touch with suppliers daily to check that operations are being run to the right standards and in accordance with the Sainsbury's Group's Ethical Code. The factories that supply the Sainsbury's Group are independently audited and the Sainsbury's Group has initiated an ongoing training programme on ethical issues across the sites that supply its products.

The Sainsbury's Group employs 39 in-house designers in clothing and 13 in general merchandise. This team is in tune with global catwalk and lifestyle trends and aims to bring inspiring new collections to customers every six to eight weeks in clothing and six times a year in general merchandise. The majority of clothing and general merchandise products are designed in-house, with the remainder influenced by in-house design trends and selected by the Sainsbury's Group's buying teams from the full range offered by its branded and own-label suppliers.

Distribution and Logistics

As at 12 March 2016, the Sainsbury's Group operated 23 distribution centres servicing its supermarkets, convenience stores and online businesses.

Food Distribution Network

The Sainsbury's Group's food distribution network consists of 21 depots, of which 13 are regional distribution centres ("**RDCs**") servicing the supermarkets and convenience stores in their region primarily with "fast-moving" ambient ranges and chilled and produce ranges. Frozen food products are serviced primarily from two distribution centres ("**DCs**") that each cover half of the UK. They are supported in London by convenience depots, and in the north-east of England by an RDC with frozen capability.

The Sainsbury's Group also has two dedicated convenience DCs in London that service convenience stores with produce and ambient, chilled and frozen ranges. Supporting this are two automated "medium-moving" ambient RDCs, which each service half of the UK and a single "slow-moving" ambient DC that services the entire UK.

RDCs deliver "fast-moving" produce and ambient and chilled lines to supermarkets seven days per week, subject to store restrictions. Convenience stores receive chilled and produce deliveries six or seven days per week, with ambient and frozen ranges delivered as required by sales volumes, storage space and delivery costs. The Sainsbury's Group's food and grocery availability has improved over the last five years and the Sainsbury's Group was recognised for its market-leading availability in the Grocer 33 awards throughout 2015. The Sainsbury's Directors believe that this high level of product availability has contributed to the Sainsbury's Group's relative outperformance in a highly competitive market.

Non Food Distribution Network

The Sainsbury's Group's non-food distribution network consists of two clothing national distribution centres ("**NDC**") that deliver both hanging and boxed clothing to stores. These sites also pick and despatch clothing online orders, either through "click and collect" to stores or direct to a customer's home. There are also NDCs for general merchandise and entertainment lines.

General merchandise, clothing, entertainment and "click and collect" volume is delivered to stores via the Sainsbury's Group's food RDCs. The stock is trunked to the depots, where it is merged with other delivery stock for the store. This consolidates orders to stores and optimises the cost of delivery.

Retail Store Operations

As at 12 March 2016, the Sainsbury's Group operated 1,374 stores across the UK. These are run on a day-to-day basis by the Sainsbury's Group's Retail Operations team based in Sainsbury's store support centres. The role of the Retail Operations team is to ensure that stores have appropriate colleagues to provide the services and safety levels customers expect, to ensure that stores are well merchandised, that all the refrigeration, tills and facilities are operating effectively and efficiently and to present the Sainsbury's Group product offering to its best effect.

As at 12 March 2016, 150,374 colleagues (excluding pharmacies and temporary staff) were involved in operating the Sainsbury's Group's stores, including colleagues providing in store service, department managers, store managers and regional managers. These are all supported by teams in depots which support the delivery of products from suppliers to stores and the Store Support Centre which support the hiring and training of colleagues, the repair and maintenance of stores and the execution of an effective point of sale in store as well as ensuring that the Sainsbury's Group presents its prices and promotions in a way that complies with GSCOP regulations.

Marketing

In line with most multichannel retailers, the Sainsbury's Group communicates to customers through a variety of channels using in-store point of sale, above-the-line advertising on television and through print media, online on its and others' websites and directly through the Nectar Loyalty programme and its own direct marketing. The Sainsbury's Group advertises on national TV and through digital channels to increase overall consideration of its brand amongst customers and drive traffic to its stores and websites. The Sainsbury's Directors believe that new digital media channels will become increasingly important in the Sainsbury's Group's marketing and advertising strategy. Recognising the growth in the use of a wide variety of social media platforms like Facebook and Twitter, there is an increasing focus within the Sainsbury's Group to build engagement with customers through these new platforms/media.

The Sainsbury's Directors also believe that it is important to establish each store as a key part of its local community, in particular, through contributions to charitable work and community projects. Stores typically establish relationships with schools, colleges and other groups in their local area.

Customer Relationship Management and Loyalty Programme

In line with the Sainsbury's Group's strategy to know its customers better than anyone else, the Sainsbury's Group is a founding partner of the Nectar loyalty scheme. Over 15 million Nectar cardholders shopped at Sainsbury's during the 52-week period to 12 March 2016—in-store, online and through Sainsbury's Bank. Sainsbury's customers earn Nectar points on their shopping and other products and services purchased from the Sainsbury's Group with customers accruing one point per £1 they spend on most products (1 point per litre on fuel). Nectar points can then be spent with the Sainsbury's Group or with other Nectar partners.

The Sainsbury's Nectar loyalty scheme and the expertise that the Sainsbury's Group has developed provide valuable information that increases the Sainsbury's Group's knowledge of how its customers are shopping and interacting with it. This deep understanding of its customers, allows the Sainsbury's Group to take a joined-up, cross-group, cross-channel view. This data, combined with the Sainsbury's Group's well-developed capabilities in direct marketing and analytics, allows it to give customers highly targeted coupons and rewards as well as drive awareness of complementary products and services across the group. Not only does the Sainsbury's Group communicate and reward customers through Nectar loyalty scheme communications, it also uses the information it has on customers to make its own Sainsbury's-branded direct, tailored communications to customers. During the 52-week period to 12 March 2016, the Sainsbury's Group sent approximately 50 million personalised mailings to Nectar cardholders, using their shopping preferences to offer vouchers and other special offers for the products they want to buy. The Sainsbury's Group also uses the individual customer data to deliver targeted offers and rewards to customers via its "coupon-at-till" technology.

Property Management

The table below sets out the number of stores in the Sainsbury's Group's portfolio by store size (sq ft) as at 12 March 2016:

Size ('000 sq ft)	<10	10–20	20–40	40–60	60–80	>80
Number of stores	814	123	195	167	63	12

Ensuring that the size and format of the Sainsbury's Group's estate meets its customers' varied shopping needs is a fundamental part of its strategy for growth. The Sainsbury's Group's property management team is responsible for the acquisition, design, refurbishment and maintenance of the Sainsbury's Group store estate. The Sainsbury's Group's estate is a mixture of freehold, long-leasehold and leasehold properties. The estimated market value of properties, including the Sainsbury's Group's 50 per cent. share of properties held within property joint ventures, was £10.6 billion as at 12 March 2016. The property management team is responsible for delivering the target number of store openings, refurbishing and redeveloping stores, maintaining stores and their equipment in a timely manner so that service is not disrupted, and finding and managing concession partners.

Since 2013, there has been a reduction in the Sainsbury's Group's supermarket store-opening programme, with an intention to add only around 250,000 sq.ft. of gross new space in the financial year 2016/17, including 40 to 50 convenience stores and five new supermarkets. Furthermore, as a result of the review of its supermarket estate to optimise capital spend prioritisation, the Sainsbury's Group decided to withdraw from a number of schemes in its property pipeline that are unlikely to achieve an appropriate return on capital.

The Sainsbury's Group monitors and reviews the performance of its estate on an on-going basis. There are refurbishment and refreshment programmes in place for supermarkets and convenience stores to maintain and optimise the estate. These are devised, planned, and delivered by Sainsbury's teams to make most efficient use of capital across the estate. In addition facilities management helps to keep stores operating in optimal conditions.

The Sainsbury's Directors believe that the Sainsbury's Group has one of the strongest covenants in the marketplace and a strong track record of working in partnership with agents, developers and landlords to open new stores.

The Sainsbury's Group also has significant expertise in the maximisation of property value through initiatives such as mixed-use developments (for example, the Nine Elms and Whitechapel projects) and introducing concessions that enhance value from space and disposals of surplus assets.

Information Technology

The Sainsbury's Group has an integrated IT system that supports all the major aspects of its business, including in-store systems, product management, warehousing, logistics, human resources, finance and other administrative systems. It also supports its product delivery service and online platform.

The Sainsbury's Group uses a combination of packaged solutions and building blocks and own-built systems, where these latter systems confer specific competitive differentiation and advantage. This sourcing strategy seeks to deliver high performance solutions at an efficient level of cost.

These Sainsbury's IT systems enable management to make efficient pricing and inventory management decisions, facilitate budgeting and financial reporting processes, standardise operations across the store chain and automate many of the ordinary course transactions with suppliers.

People resources in IT are largely provided by Sainsbury's Group colleagues. Serviced operations are provided as a managed service by Tata Consultancy Services in a combined onshore and offshore model in the UK and India.

In response to the growing importance of digital channels to present and sell its products, direct communications with customers through email and social media and the increasing importance of data analytics across all areas of its business, the Sainsbury's Group began to develop its in house digital development capability supported by the creation of its digital lab in its Store Support Centre. The development of this capability is still at an early stage, but there are now around 200 Sainsbury's colleagues providing coding and digital development support to the Sainsbury's Group's business, helping it to develop and improve its multi-channel operations and its understanding of its customers.

Sainsbury's Bank Operations

The Sainsbury's Bank's operational office in Edinburgh oversees the day-to-day management of Sainsbury's Bank. A number of the underlying customer-facing activities and support operations are currently provided by LBG through the Transitional Services Agreement, while insurance sales operations are outsourced to third parties. The support operations currently outsourced to LBG include provision and support of IT platforms to support the operation of Sainsbury's Bank's ATM application and personal loans, credit cards, mortgages and savings products, and the provision of call centre employees and operations.

The NBP has been established to oversee and manage Sainsbury's Bank's transition to a standalone bank with a new target operating model. The NBP aims to build a new bank by managing the exit from existing LBG services and negotiating with partners to transition to a new platform and operating model, whilst minimising any impact on customers. The NBP is scheduled to be completed in two phases, being the migration of savings customers by late summer 2016, followed by credit cards and loans, the precise timing of which is currently being re-planned particularly in light of the Acquisition.

Under its target operating model, Sainsbury's Bank will retain overall responsibility for its business strategy and day-to-day management. It will "insource" key customer-facing and business operational processes to its direct control but will still predominantly outsource its banking IT platforms and certain business process operations. Accordingly, almost all of the services currently provided by LBG will either migrate to new vendors or transition to Sainsbury's Bank or the Sainsbury's Group. The Transitional Services Agreement requires LBG to continue to provide the services necessary to continue to operate Sainsbury's Bank until migration is complete.

Under the target model, customer banking platforms and related systems and processing services will be provided by FIS Global ("**FIS**"). FIS was selected as the relevant partner following a rigorous selection process and is a highly-experienced financial services outsourcing provider serving more than 14,000 organisations worldwide. Sainsbury's Bank has also acquired its own contact centre in Rosyth, Fife which will effectively bring sales and servicing activities 'in house'. Relevant LBG contact centre colleagues will transfer across to Sainsbury's Bank in line with the underlying product IT migrations.

Sainsbury's Bank's principal activities consist of three core business lines: banking products, insurance and travel money, which are primarily provided by online and telephone channels. However, Sainsbury's Bank does also provide ATMs and travel money bureaux in stores operated by Sainsbury's Bank and undertakes other marketing activities.

Banking products

Sainsbury's Bank raises funds, principally from UK retail deposits, and lends those funds to UK retail customers through its range of lending products, with the resulting interest margin representing income to Sainsbury's Bank. Current lending products consist mainly of unsecured personal loans and credit cards. Sainsbury's Bank also has a small historic book of residential mortgage balances relating to products originated prior to 2005, and has also recently decided to launch new mortgage products in 2017 (subject to receiving the necessary regulatory approvals and permissions). Banking products are funded and owned by Sainsbury's Bank and serviced through telephone and online channels.

Insurance

Insurance products are offered via introducer contracts with third party insurance partners for which Sainsbury's Bank receives a commission or a profit share. Commission is usually receivable from the insurance partner as a percentage of the gross written premium and is subject to claw-back provisions in the event of the policy being cancelled prior to the end of its contractual term. Certain introducer contracts also include a profit sharing agreement which enable Sainsbury's Bank to receive further income where the relevant insurance book is profitable after deducting the cost of claims and other administrative costs within pre-determined timeframes. Insurance products sold are branded as 'Sainsbury's Bank' but are tailored, produced, underwritten and serviced by third party insurance partners. Currently, Sainsbury's Bank offers home, car, pet, life and critical illness and travel insurance policies.

Sainsbury's Bank is responsible for marketing its insurance products and also performs oversight, review and outcome testing in respect of its insurance partners to ensure customers are treated in line with Sainsbury's Bank's own service values.

Recent trends have seen marginal declines in the car and home markets due to increased price competition and a strategic decision to reduce marketing and acquisition expenditure in these areas. Pet insurance, however, sees continued growth in new business sales.

Travel Money

Sainsbury's Bank provides foreign exchange, money transfer and prepaid credit card services via foreign exchange bureaux in stores operated by the Sainsbury's Group and through online channels. Sainsbury's Bank expects to continue to expand its travel money business through the opening of new bureaux in the Sainsbury's Group's store network.

Savings, ATMs and Funding

Sainsbury's Bank is predominantly funded through retail deposits with the majority (87.8 per cent. as at 29 February 2016) being repayable on demand. During the year ended 29 February 2016, Sainsbury's Bank diversified its funding base through wholesale markets, including a secured funding facility of £400 million, of which £300 million was drawn as at 29 February 2016. In addition, Sainsbury's Bank also participates in The Bank of England's Funding for Lending Scheme ("**FLS**") which provides Sainsbury's Bank with an additional source of funding and further diversifies its funding base. The FLS involves an exchange of a portion of Sainsbury's Bank's consumer loans for UK Treasury Bills repayable in 2018.

Sainsbury's Bank also funds its own ATM estate, which has grown to 1,646 free-to-use machines as at 12 March 2016 of which 46 per cent. are now fitted with voice technology for the visually impaired. As at 29 February 2016, Sainsbury's Bank owned and operated 2.3 per cent. of all UK ATMs, however given the high footfall in the Sainsbury's Group's estate these ATMs dispensed £1 of every £11 cleared through LINK in the UK during the year to 29 February 2016.

Other areas of Business

The Sainsbury's Group operates a digital entertainment website branded Sainsbury's Entertainment On Demand. This website sells downloadable ebooks, magazine subscriptions, music, film and TV programmes to customers. Products are available to customers to download for use on computers, tablets, mobile and other digital devices.

The Sainsbury's Group also sells energy services to its customers through a partnership with British Gas.

The Sainsbury's Group operates 38 phone shops within its supermarkets. These phone shops were developed as part of a joint venture with Vodafone which included the creation of a Sainsbury's branded mobile phone proposition, Mobile *by* Sainsbury's. The joint venture ceased in January 2016 and the Sainsbury's Group now solely owns and operates these phone shops which sell a range of handsets and mobile connections (sim free or with network contracts). The Sainsbury's Group is currently reviewing the options it has to expand this offer in the future.

In 2014, the Sainsbury's Group announced a joint venture with Dansk Supermarked Group ("**DSG**") to re-launch, on a trial basis, the Netto limited assortment discount brand and proposition in the UK. DSG owns and operates Netto stores in Denmark, Sweden, Germany and Poland and wanted to return to the UK following the sale of Netto UK to Asda. The joint venture has opened 16 Netto UK stores. On 4 July 2016, DSG and Sainsbury's announced that following a comprehensive review they will end their joint venture of trial Netto UK stores. It is expected that the 16 stores will continue to trade throughout July 2016 following which they will be closed during August 2016.

The Sainsbury's Group also has two property joint ventures with British Land and Land Securities. These joint ventures were set up to maximize the value of the Sainsbury's Group's property assets, by delivering new leisure, residential and commercial opportunities whilst adding trading space to its estate.

Regulatory and Environmental Matters

Prevention of injury or loss of life for both colleagues and customers is of the utmost importance and is paramount to maintaining the confidence customers have in the Sainsbury's Group's business. The Sainsbury's Group has clear policies and procedures in place detailing the controls required to manage health and safety and product safety risks across its business and to comply with all applicable regulations. These cover the end-to-end operation, from the auditing and vetting of construction contractors, to the health and safety processes in place in the Sainsbury's Group's depots, stores and offices, to the controls in place to ensure people and product safety and integrity.

The Sainsbury's Group is also subject to various environmental laws and regulations affecting the operation of its business, including regulations concerning waste-water disposal and licensing and consent requirements for fuel retailing.

The Sainsbury's Group has a number of initiatives in place to reduce its environmental impact and to meet its customers' expectations regarding environmental and sustainability issues. These are led by the Environmental Action Team and the Corporate Responsibility Steering Group for the Environment.

In addition, the Sainsbury's Group's financial services related businesses are subject to extensive regulation. See Part 4 "*Regulatory Overview*" for a description of this regulatory regime.

Colleagues and Colleague Relations

As at 12 March 2016, the Sainsbury's Group employed approximately 165,100 colleagues across its store estate, its store support centres in Coventry, Manchester and London, Sainsbury's Bank in Edinburgh, six Sainsbury's-managed depots and in five sourcing offices in Asia. All of its colleagues are critical to the success of the Sainsbury's Group's businesses and really make the difference by delivering great service to customers, building trust and loyalty with them every day. Retention and engagement of colleagues are key performance indicators within the business.

Ongoing reviews are performed to understand individual strengths and specific skill sets required to deliver objectives. In addition to experienced leadership underpinned by a strong set of values and the nurturing of talent by line managers, processes are also in place to identify talented colleagues and actively manage succession planning throughout the business. The Sainsbury's Group's employment policies and remuneration and benefits packages are regularly reviewed and are designed to be competitive with other companies, as well as providing colleagues with fulfilling career opportunities. The Sainsbury's Group's corporate value 'Great Place to Work' reinforces its commitment to giving people the opportunity to be the best they can be.

There are 23 depots in total, all which service the stores, with six of these operated and owned by the Sainsbury's Group. All of these depots have Union recognition, with Usdaw supporting warehouse colleagues and Unite supporting those colleagues working in the transport side of the depots. Relations with these Unions are good and there are no material labour disputes. Although there is no Union recognition in supermarkets or convenience stores, to maintain good relations Sainsbury's shares information with Union representatives on an ongoing basis to create a sense of partnership.

Marketplace and Customers

UK Food and Groceries

The Sainsbury's Group's primary business is in the UK food and groceries sector, which represents some £147 billion (*source*: Kantar Worldpanel based on a 52 week rolling basis to the week ending 19 June 2016) of annual sales and has historically grown by approximately 3 per cent in value terms. In the UK from 2010 to 2014, in response to less certain personal financial circumstances and reducing household disposable income, customers moved to more frequent, smaller 'basket' shops in an effort to control their spending and reduce food waste. Over the last five years, UK food and grocery retail has seen an increase in price competition in the sector as a result of the rise in popularity of the limited assortment discounters such as Aldi and Lidl, and customers' more savvy shopping behaviours. Over the last two years in response to competition and changing customer habits, the traditional supermarket competitors have invested in price. This, together with commodity goods price deflation, has driven overall food price deflation in the sector of around 1 per cent.

For the last 20 years the UK food and groceries sector has been characterised by intense competition as the major players (Tesco, Asda, Sainsbury's, Morrisons, Waitrose and The Co-operative), to a greater or lesser extent, built out-of-town superstores to offer 'everything under one roof', developed convenience store networks to bring fresh, frequently purchased products closer to customers' homes and offices and, most recently, built online order and fulfillment propositions that allow customers to shop at home or on their mobile devices and have their shopping delivered at a time that is convenient. At the same time, the UK has seen strong growth by limited assortment discounters such as Aldi and Lidl who have prospered over the last five years, growing store numbers and capturing nearly 10 per cent. of overall UK food and groceries.

The following table outlines grocer shares according to Kantar Worldpanel's 52-week total till roll data to 19 June 2016 (*note*: excludes petrol and instore concessions).

Competitor	Grocer Share (%)	Year on Year Change (ppts)
Tesco	28.2	−0.5
Sainsbury's	16.5	0.0
Asda	16.2	−0.7
Morrisons	10.7	−0.3
The Co-operative	6.2	+0.1
Aldi	5.8	+0.7
Waitrose	5.2	+0.1
Lidl	4.3	+0.6

Customer Shopping habits for Food and Grocery are changing

The changes in shopping behavior and competitor growth have driven a structural shift in the market. The move away from one weekly shop with one retailer has been enabled by the growth of convenience stores, growing confidence in the ease and security of shopping online and the rise of limited assortment discounters such as Aldi and Lidl. As customers use these channels more frequently, volumes in supermarkets continue to decline. However, the Sainsbury's Directors believe that supermarkets will remain the largest channel to market with forecasts indicating that more than 50 per cent. of grocery spend will still be made in supermarkets by 2022.

As customers shop more frequently and across an increasing range of shopping channels, they now enjoy an unprecedented level of flexibility and convenience in the way they buy their groceries. This has allowed customers to tailor their expectations for each shopping trip and potentially to have a very specific shopping mission in mind. Traditional grocers need to adapt their supermarket proposition to these changing shopping missions. The Sainsbury's Directors believe that generating customer loyalty will be critical in this respect and that those grocers that evolve their offering to align to these changing habits will be the most successful. Grocers will also have the license to expand their range beyond just food, selling clothing, general merchandise and other products and services as customers build even greater levels of trust with their brands.

Customer usage of online channels is growing rapidly. Ensuring that the Sainsbury's Group's online channel is efficient and effective is a high priority for the Sainsbury's Group. It is the Sainsbury's Group's experience that when customers shop with it online, they become overall more loyal to the Sainsbury's Group for their food and grocery shopping. Therefore a quality online food and grocery shopping offer is key to driving sales growth and long term loyalty.

Clothing and General Merchandise

According to Verdict, general merchandise and clothing in the UK was worth £174 billion in 2015. It remained relatively flat between 2011 and 2015, growing at 1.3 per cent. per year. The following table sets out estimated market values, historic and forecast market growths and online penetration rates (*source*: Verdict):

General merchandise and clothing	Clothing and footwear	Homewares	Electricals	Toys & Games
Market value	£50.3bn	£11.4bn	£22.0 bn	£2.9bn
Market growth (2011–15)	2.8% p.a.	1.4% p.a.	1.4% p.a.	1.3% p.a.
Market growth (2015–20F)	5.7% p.a.	4.2% p.a.	2.0% p.a.	2.2% p.a.
Online penetration (2011)	11.4%	11.1%	33.5%	25.7%
Online penetration (2015)	20.0%	13.3%	48.4%	32.1%

Growth in UK general merchandise and clothing (non-food) has primarily been driven in the online channel, with online sales growing at 11.9 per cent. p.a. since 2011 (compared to a decline of 0.6 per cent. p.a. in-store). Going forward, according to Verdict, UK general merchandise and clothing is forecast to grow at 4.2 per cent. p.a. over the next five years, with the majority of growth coming from online (9.8 per cent. p.a. in online sales).

The growth of browsing and buying online, has led to the development of a wide range of options for how customers can acquire their clothing and general merchandise products—they can order online and have their purchase delivered to home; they can order online and pick up their purchase in the retailer's stores or have them delivered via "click and collect" networks to thousands of convenient locations; or they can go in-store and order for delivery or later collection. Most clothing and general merchandise retailers make their full range available to customers, increasing the access and choice customers have when shopping for these goods. Even small retailers can use platforms such as Amazon and ebay to provide a professional online service to a nationwide customer base.

Strengths

In 2014, the Sainsbury's Operating Board, led by the then newly appointed Chief Executive Officer, Mike Coupe, conducted a detailed Strategic Review of the market, customers and the Sainsbury's business. One of the key conclusions that the Operating Board reached was that it believed that the Sainsbury's Group's business had a number of significant strengths upon which to build. The Operating Board identified these key strengths as follows:

Brand Heritage and Values

The Sainsbury's Group's business is one of the UK's oldest businesses and has, since its inception in 1869, delivered on its founding promise of "Quality Perfect, Prices Fair" in its core fresh food and grocery business. The Sainsbury's Group has been serving customers for over 146 years and has continued to invest in its values, delivering for customers in the areas that matter to them—fair, ethical and British sourcing and helping to reduce food waste.

Quality Leader

The Sainsbury's Group is committed to, and invests in, ensuring that the quality of its products meet customers' expectations for freshness, taste and safety. The Sainsbury's Group's customers consistently rate the quality of its fresh food and grocery offer more highly than its traditional supermarket competitors (Tesco, Asda and Morrisons).

Strong Value Proposition

In addition to leading on quality, the Sainsbury's Group continues to deliver on overall value for money. The Sainsbury's Group led the market in launching its innovative Brand Match scheme which ceased on 26 April 2016 as a result of customers telling the Sainsbury's Group that having lower regular prices across a store is more important to them than Brand Match.

Delivering Great Service to our Customers

The Sainsbury's Group has a heritage of providing great customer service across all channels. The Sainsbury's Group is committed to continuing to invest in colleagues and infrastructure to ensure that it is able to continue to serve customers whenever and wherever they want to shop or interact with the business.

Competitively-advantaged Store Portfolio

The detailed Strategic Review confirmed that the Sainsbury's Group's supermarket store network was in general well located. In addition, its supermarkets were, in general, the right size for what the Sainsbury's Group would require in order to accommodate its food and grocery offer and to allow it to display its clothing and general merchandise offer in more stores.

Established Convenience and Online Channels

The Sainsbury's Group was an early and consistent investor in developing the new and growing channels to market that its customers want to satisfy the way they want to shop for food and grocery in the future.

Growth Opportunities in Non-food and Financial Services

The Strategic Review confirmed that clothing, general merchandise and Sainsbury's Bank offered good long-term growth opportunities to drive sales and profit from solid, scale foundations in product/service areas that customers wanted.

Knowing Our Customers Better than Anyone Else

The Sainsbury's Group knows its customers because it is able to gather and analyse information about customers in many ways: through face to face interaction in all channels; through its participation in the Nectar loyalty programme; through a wide range of customer survey techniques; and through its "Tell Sainsbury's" programme.

The Sainsbury's Group's Strategy

In view of the challenging market in which the Sainsbury's Group was operating, it embarked upon the Strategic Review in 2014 to assess the financial position and liquidity of its business and its operational strategy.

As a result, the Sainsbury's Group's capital investment guidance was reduced from £2.8 billion spent in the three years between 2012/13 and 2014/15 to £1.6 billion over the next three years, driven principally by the reduction in new supermarket openings. A three-year cost reduction programme was announced with the ambition of delivering £500 million worth of operational efficiencies by the end of 2017/18, and £150 million of supply chain efficiencies were also identified to help offset the price investment made at this time. In the 52 weeks ended 12 March 2016, the Sainsbury's Group made operational cost savings of £225 million. In addition the dividend policy was amended to maintain cover at two times underlying earnings. This policy was intended to balance the Sainsbury's Group's ambitions to pay an affordable dividend whilst maintaining flexibility if market conditions deteriorated further. In May 2015, the Sainsbury's Group restructured its £1.15 billion revolving credit facility to a secured funding arrangement. This removed the associated debt covenants with this facility at the time. In July 2015, the Sainsbury's Group raised capital by issuing £250 million of perpetual subordinated capital securities and £250 million of perpetual subordinated convertible bonds. These were issued at a blended rate of financing of 4.69 per cent., are fully tax deductible and accounted for as equity under IFRS. The Sainsbury's Group injected £125 million of this capital into the defined-benefit pension scheme in 2015 and intends to make a further payment of £125 million in August 2016. Neither of these facilities carry any financial covenants ensuring the Sainsbury's Group currently retains no financial covenants on any of its borrowings.

From an operational perspective, the 2014 Strategic Review enabled the Operating Board to confirm its belief that the Sainsbury's Group had strong foundations upon which to build a business that could meet the needs of customers now and in the future across a wide range of food, non-food products and financial and other services.

As a consequence, Mike Coupe, CEO, and his Operating Board, articulated its strategy for winning in a challenging and dynamic retail environment. This strategy is summarised below:

The Sainsbury's Group will continue to strive to make its customers' lives easier every day. To do this it is focused on knowing its customers better than anyone else and offering great quality products at fair prices. In a time of rapid change in how customers shop for all products and services, the Sainsbury's Group is committed to being there for its customers whenever, wherever and however they want to shop. The Sainsbury's Group is also focused on ensuring that its colleagues really make a difference, and provide great service to all its customers across all channels. All this is underpinned by the Sainsbury's Group's values which are focused on quality, trust and respect for the environment.

Values at the heart of everything we do

The Sainsbury's Group's values will remain at the heart of everything it does as a business. The Sainsbury's Group's core values were confirmed as: being the **best for food and health**—making it easy for customers to buy fresh and healthy food; **sourcing with integrity**—continuing to work in partnership with its suppliers locally and internationally; **respect for the environment**—continuing to invest to reduce the impact its business has on the environment with a particular focus on reducing food waste and energy usage; the Sainsbury's Group will strive to **make a positive impact on the communities** it serves and will ensure that its colleagues see the Sainsbury's Group **as a great place to work**. Staying true to these values and delivering on them for colleagues and customers remains a key objective of the Sainsbury's Group.

Great Quality Products and Services at Fair Prices

The Sainsbury's Group's strengths lie in its heritage as a food retailer and its passion for ensuring that it ethically sources the best possible quality products to sell to customers at prices they can afford. Customer feedback confirms that the Sainsbury's Group has a reputation for providing great quality food at affordable prices. The Sainsbury's Group's food is consistently rated as higher quality than its main supermarket competitors. In November 2014, the Sainsbury's Group announced that it was going to invest further in the quality of its products and the Sainsbury's Directors believe that the Sainsbury's Group is making good progress in delivering on this investment. Thus far, the Sainsbury's Group has seen encouraging results from these investments in produce and fish as well as speciality desserts sold at Christmas. The Sainsbury's Group will continue to invest to deliver great quality, choice, innovation and inspiration for its customers.

Over the course of the last five years, the Sainsbury's Group has invested in the value it offers customers. In 2010, the Sainsbury's Group launched its market-leading Brand Match offer (which ceased on 26 April 2016), which gave customers the confidence that the branded goods they bought in Sainsbury's would be at the same price as those purchased in Tesco and Asda, including promotions. Over the course of the last 18 months, the Sainsbury's Group has further rationalised its overall approach to pricing and promotions and reduced the level of promotions, focusing on ensuring customers get regular low prices. The combination of these initiatives has simplified the offering to customers and simplified the business, allowing further price investment. The Sainsbury's Group has seen a good customer response to these investments in value and simplification, with positive transaction growth on a like-for-like basis, in the 52-week period ended 12 March 2016.

There for Our Customers

The way people accomplish the everyday activity of shopping for food is changing rapidly in the UK, driven by technology, channel development and competitor investment. The Sainsbury's Group has invested in all of its channels to market to ensure that whichever channel customers use they have a good experience. The Sainsbury's Group's convenience stores and supermarkets, offer a high level of product availability and freshness throughout the day and are comfortable, pleasant places to shop, with long opening hours and parking where appropriate.

The Sainsbury's Group's property network is in general well located with a bias towards areas where population and wealth are growing more rapidly. This is a function of its heritage, as its business developed initially in London and the south-east of England. The Sainsbury's Directors believe that the Sainsbury's Group also benefits from having broadly the right size of large supermarkets to serve the needs of customers, now and in the future. Over the last 10 years the Sainsbury's Group has used this well-positioned store network to introduce new propositions to customers. These propositions in clothing, general merchandise and financial services are based on the same strategy of offering great quality at value for money prices. The Sainsbury's Group's clothing sales rose by 8.5 per cent. in the 52-week period to 12 March 2016 with positive ratings on quality at accessible prices against its competitors. The Sainsbury's Group's general merchandise sales grew by 3.5 per cent. in the 52-week period to 12 March 2016 and is focused on design-led, own-label products in homeware (including kitchenware) and seasonal ranges, offering customers the ability to buy these products conveniently while they do their grocery shopping. The Sainsbury's Directors believe that the Sainsbury's Group can drive more growth in clothing and general merchandise by optimising the space it has in current supermarkets to bring a broader range of products into more stores without compromising its food and grocery offer.

The Sainsbury's Directors believe that the Sainsbury's Group's store locations are very attractive to a wide range of partners given the high level of customer footfall, long opening hours, ease of access and parking where possible. These locations are attractive to partners who want to operate concessions in these locations and for companies that offer "click and collect" services which allow customers to collect their online orders. The Sainsbury's Group's strategy is to offer a wide range of products and services in its stores that complement its own offering and maximises the attractiveness of its stores to the widest possible customer base. The Sainsbury's Directors believe that the Sainsbury's Group's strategically strong property portfolio makes it very attractive to partner businesses and customers alike.

The Sainsbury's Group has also invested to develop its grocery online offering, allowing customers to shop at home or on mobile devices and either have their shopping delivered to them at a time that is convenient or they can collect their shopping from over 100 locations that now provide this service. According to Verdict, in 2015 over 6 per cent. of UK groceries were bought online and the Sainsbury's Group's online business is growing strongly as it develops its website and its proposition. The Sainsbury's Directors believe that having efficient, large-scale operations across all the channels to market for groceries—supermarkets, convenience stores and online—is a strategic strength. The more channels a customer uses with the

Sainsbury's Group, enabling them to shop wherever, whenever and however they want, the more of their overall grocery spend they do with the Sainsbury's Group.

In 2015, the Sainsbury's Group launched its *Tu* clothing online website which allows customers to shop for *Tu* clothing and have their orders delivered to home or collected in store. Sales and orders have exceeded the Sainsbury's Directors' expectations and over 80 per cent. of orders are collected from one of over 700 Sainsbury's locations that offer "click and collect" for *Tu* clothing. The Sainsbury's Group will continue to invest in this new channel as part of its overall strategy to grow its clothing business. In addition to offering clothing online, the Sainsbury's Group is investigating the ways in which this website could also support the development of a new sales channel for the Sainsbury's Group's design-led own label ranges in homewares, kitchenware and seasonal products.

Sainsbury's Colleagues Make the Difference

Regardless of how customers interact with the Sainsbury's Group—in a supermarket, a convenience store, online or at the doorstep—the Sainsbury's Group aims to ensure they have a good experience. To ensure that colleagues really make a difference, the Sainsbury's Group places great importance on investing in them and helping them to do their jobs well. One of the key components of how the Sainsbury's Group delivers its strategy and also differentiates itself from competitors is its belief that "Colleagues Make a Difference".

As part of the Sainsbury's Group's commitment to provide service excellence, as well as supporting its Sustainability Plan, the Sainsbury's Group has committed to investing in the training and development of its colleagues. The Sainsbury's Group offers colleagues externally accredited training—such as City & Guilds qualifications from its Food Colleges. The Sainsbury's Group opened its six Food Colleges in 2010, following the success of its Bakery College established in 2009. Nearly 40,000 of the Sainsbury's Group's colleagues working on meat, fish, bakery and hot food counters, as well as in its café's, have attended training at the Sainsbury's Group's Food Colleges where they train on the Sainsbury's Group's own hands-on craft skills courses. This offering provides considerable, high quality training that gives colleagues real transferable skills. In 2014, the Sainsbury's Group offered job-related diploma qualifications across a range of departments and helped over 2,800 colleagues achieve Job Related Qualifications—including a Level 2 qualification in retail skills. The Sainsbury's Group's trainee manager scheme continues to be popular, giving bespoke training for team leaders and store managers of the future. So far over 2,000 trainee managers have been recruited over the last five years. This year the Sainsbury's Group has 34 colleagues in its high level graduate scheme which invests in the talented people who will lead the business in the future.

The Sainsbury's Group regularly reviews its offering and supports career progression for internal colleagues aligned to its talent vision. The Sainsbury's Group sees qualifications as a development opportunity across the business to support its colleagues in line with business needs—to ensure the Sainsbury's Group has the right people in the right place who can deliver the right service in the right way for the Sainsbury's Group's customers. Apprenticeships continue to play a central role in achieving these aims. In 2016, the Sainsbury's Group expects to take on around 400–500 apprentices across a variety of schemes including management development, logistics, fish and bakery, hospitality, digital programming and business administration. Spanning levels 2–7, the Sainsbury's Group expects its apprenticeship offer to grow significantly in the next two years as it expands its offer across the group, providing access to development opportunities for all its colleagues.

Engagement of colleagues is instrumental in creating a customer- and colleague-centric culture, and all parts of the business are measured bi-annually via a survey managed externally, called "Talkback". Every location has a colleague forum comprising of colleagues that are nominated by their peers to represent them. These forums are called "Great Place to Work" groups and have been designed to give colleagues a voice and an opportunity to get involved in helping shape and guide change in the business. An emphasis is placed on colleague communications so that colleagues are both well informed about activities that directly relate to them and so that they have the opportunity to communicate their views to management/members of the Board. Performance reviews, listening groups, regular communication of business activities and a colleague suggestion scheme are some of the other methods the Sainsbury's Group uses to understand and respond to colleagues' needs.

The Sainsbury's Group monitors the progress it makes in enabling its colleagues to be the best they can be in delivering great customer service. The Sainsbury's Group's "Mystery Shopper" programme measures service levels in each store every fortnight and the Sainsbury's Group's stores continue to perform strongly year-on-year. The Sainsbury's Group also measures product availability and in the 52-week period to 12 March 2016, it was awarded the Grocer 33 Store of the Week 19 times, and won the Grocer Gold Customer Service and Availability awards for the third year running.

Attracting talented colleagues with either specialist or generalist skills into central functions supported by training and development, is essential to the growth, efficiency and sustainability of the Sainsbury's Group's operations. An example of this was the creation of the digital hub at Holborn which has equipped the business with a new capability to create unique customer orientated technology solutions.

We Know our Customers Better than Anyone Else

Customers are at the heart of the Sainsbury's Group's business, and for its future success it needs to understand what they want. The Sainsbury's Group talks to its customers regularly to get a detailed picture of how they shop across all of its channels and to find out what they value, how their needs are changing and how the Sainsbury's Group can serve them better. The Sainsbury's Group talks to its customers through face-to-face, telephone and online conversations. Focus groups and accompanied shopping with customers in Sainsbury's stores helps gather information as to what people want when it comes to products, service and values. "Trolley Talk", the Sainsbury's Group's online customer panel launched in September 2014, enables the Sainsbury's Group to reach around 4,000 people every week. The insight the Sainsbury's Group gains from this helps it to identify what is important and to action change quickly and effectively. For example, Trolley Talk highlighted that the price dairy farmers are paid for their milk was a concern to many people. As a result, the Sainsbury's Group took the initiative to advertise that it pays its farmers a higher price for milk than many of its peers. The Sainsbury's Group also gains valuable feedback from store colleagues and through its customer Careline.

The Sainsbury's Directors believe that this insight, combined with great products, a brand that people trust, the right retail space in good locations and technology that helps Sainsbury's deliver what its customers want, gives the Sainsbury's Group a competitive advantage, now and in the future.

By offering customers more products and financial services that meet their everyday needs, the Sainsbury's Group builds a stronger relationship with its customers, adding to its knowledge and allowing it to further tailor its rewards and offers to customers. The Sainsbury's Directors believe that customers who can acquire more of the goods and services they need to manage their busy day to day lives ultimately become more loyal to the Sainsbury's Group's business overall.

PART 3
INFORMATION ON THE HOME RETAIL GROUP

Introduction

The Home Retail Group is one of the UK's leading home and general merchandise retailers and in the financial year ended 27 February 2016 generated sales of £4,234.7 million. It consists of one of the most recognised retailing brands in the UK home and general merchandise sector, Argos, supported by its Financial Services business.

Argos is one of the UK's leading multi-channel retailers, while the Home Retail Group's Financial Services business makes it easier for customers to buy the products they want.

History and Development

In April 1998, Argos was purchased by GUS plc, having been founded in 1973 as a catalogue-led high street retailer. In 1998, Argos was primarily a single-channel retailer with a chain of 435 stores, selling a smaller range of general merchandise. Its core categories were jewellery, toys, electricals and housewares.

In 2000, the Home Retail Group's Financial Services business was formed, offering a range of credit and insurance products to make it easier for customers to buy the products they want and maximise the profit derivable by the Home Retail Group from the transaction.

In 2002, Homebase was acquired by GUS plc and in 2006, the Home Retail Group was formed following a demerger from GUS plc. At launch, it comprised Argos, Homebase and Financial Services; in 2011, the iconic Habitat brand, including its transactional website and three London stores, was bought by the Home Retail Group having been founded in 1964 by Sir Terence Conran.

In 2011, and following the acquisition of Habitat, the Home Retail Group comprised three distinct retail brands with over 1,000 stores, three transactional websites, two mobile shopping apps and the UK's biggest large product home-delivery operation, making it at that time, in the opinion of the Home Retail Group Directors, the UK's leading multi-channel retailer.

In 2013, Argos trialled a new digital, technology enabled format in four stores in central London, featuring digital tablet browsers in place of the traditional laminate catalogue, pens and paper.

In 2014, Argos introduced a digital concessions format. As at 27 February 2016, there were 101 digital concessions within Homebase, 10 within Sainsbury's and in total over 170 digital format stores across the estate.

In February 2016, Homebase was sold by the Home Retail Group to Bunnings (UK&I) Holdings Limited, a subsidiary of Australian group Wesfarmers.

Business Overview

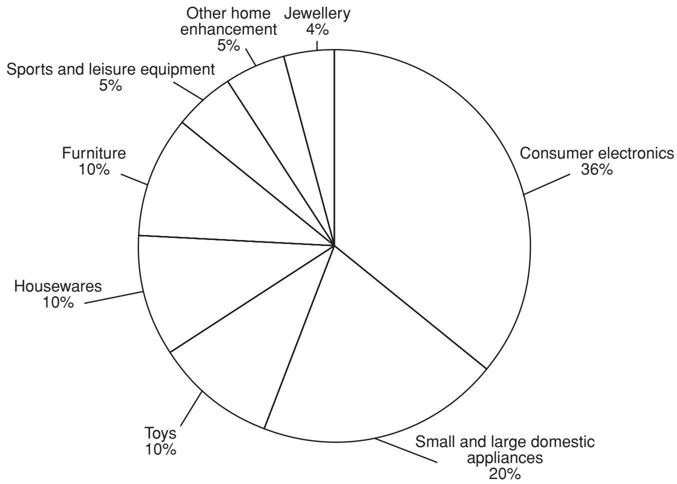
Argos products

The Home Retail Group is a general merchandise market retailer in the UK and Ireland, selling a variety of products including jewellery, toys, sports and leisure equipment and electrical equipment. On-going growth in sales of general merchandise is expected, driven by:

- increasing number of households;
- rising overall household disposable income;
- technological change and development;
- falling prices of necessary items such as food and clothing, leaving consumers with more discretionary spend for home- and leisure-related products; and
- expanding sources of low-cost supply which will stimulate further consumer expenditure across these product categories.

General merchandise retailing is highly fragmented with numerous product categories. A wide variety of retailers compete in respect of each product category, and the Home Retail Group competes across a number of product categories.

The chart below shows the mix of the Home Retail Group's sales for the financial year ended 27 February 2016. Electrical goods including consumer electronics and small and large domestic appliances accounted for 56 per cent. of sales; houseware, furniture and other home enhancement products accounted for 25 per cent. of sales; and jewellery, toys and sports & leisure equipment accounted for the remaining 19 per cent. of sales.



Consumer Electronics

Within Electrical (which also comprises small and large domestic appliances), consumer electronics consist of: audio and visual equipment such as stereo systems and radios, portable audio players, televisions, receivers and DVD players; photographic equipment; telecommunications equipment including fixed line and mobile phones; computers, tablets and associated accessories; video games hardware; and satellite navigation. The Home Retail Group sells consumer electronics through its Argos business. The Home Retail Group Directors believe that Argos has a strong and growing position in most consumer electronics products, selling both new technologies and more established products.

Small Domestic Appliances

Small domestic appliances include home and personal electronic appliances such as kettles, toasters, food processors, irons, shavers, hair dryers and electric toothbrushes. Key retail competitors for these products include retailers such as Amazon and Tesco. Argos is the UK's largest retailer of small domestic appliances, a position it has held for a number of years.

Large Domestic Appliances

Sales of large domestic appliances in the UK are driven by replacement cycles, increasing penetration of some appliances such as dishwashers and, to a lesser extent than consumer electronics, technology development. The key competitors for these products include Currys PC World, the John Lewis Partnership and AO.com.

Housewares

Housewares encompasses household textiles (for example, bed linen, towels, curtains, tablecloths and rugs), homewares (for example, cookware, tableware, glasses, cutlery, crockery and storage) and other decorative household furnishings (for example, lighting, cushions, candles, bathroom accessories, kitchen accessories and prints).

Housewares retailing is generally fragmented with a wide range of retailers, each with a relatively small share of the overall market. Key competitors include Ikea and the John Lewis Partnership.

Furniture

Furniture encompasses upholstery, beds, living room, dining room, occasional and home office furniture.

Furniture retailing in the UK is fragmented and is undergoing a period of significant change as a number of smaller and independent retailers exit the market and consumer demand increases for a wide range of products at lower prices combined with shopping and delivery convenience. There are a limited number of larger scale retailers such as Argos, as well as competitors such as Ikea, the John Lewis Partnership and Next, who are able to meet these demands.

Jewellery

Jewellery consists of products such as watches, necklaces, bracelets and rings. Jewellery retailing is relatively fragmented, with a large proportion of the market consisting of small chains or independents. There are a small number of well-established jewellery multiples, of whom Goldsmiths, H Samuel and Ernest Jones are the most significant.

Toys

Toy retailing in the UK is highly competitive and is characterised by intense price competition. Toys R Us is the largest specialist toy retailer though there are also a number of other smaller specialist chains such as Smyths Superstores and The Entertainer. Argos is a long-standing toy retailer in the UK, offering a wide range of products targeting all age groups.

Sports and leisure

Competition for sales of sports and leisure equipment is fragmented and is not subject to shifts in fashion that characterise sports and leisure clothing and footwear retailing.

Argos offers a broad range of sports and leisure equipment, including wearable technology, bicycles and bicycle accessories, tents, fishing rods, home fitness equipment, golf clubs and snooker and table tennis tables.

Financial Services

The Home Retail Group's Financial Services business, as an in-house provider of retail credit, warranties and direct insurances, provides a range of promotional credit offers as well as a traditional revolving credit facility for customers. The Home Retail Group's Financial Services business generated £739 million of credit sales in the 52-week period to 27 February 2016.

The Home Retail Group's Financial Services business provides both significant support to the Home Retail Group's retail business, in particular by helping drive sales of high value items, and enables the Home Retail Group to maximise the overall profit derived from customer transactions.

Argos and the Home Retail Group's Financial Services business provide market-leading convenience options across Argos's digital and store channels, access to a broad range of products and related financial services at competitive prices, and with a priority focus on successfully executing the Transformation Plan.

Strategy and Transformation Plan

Strategy

The Home Retail Group's strategy is to create long-term value by offering leadership in convenience and choice for customers in the digital age.

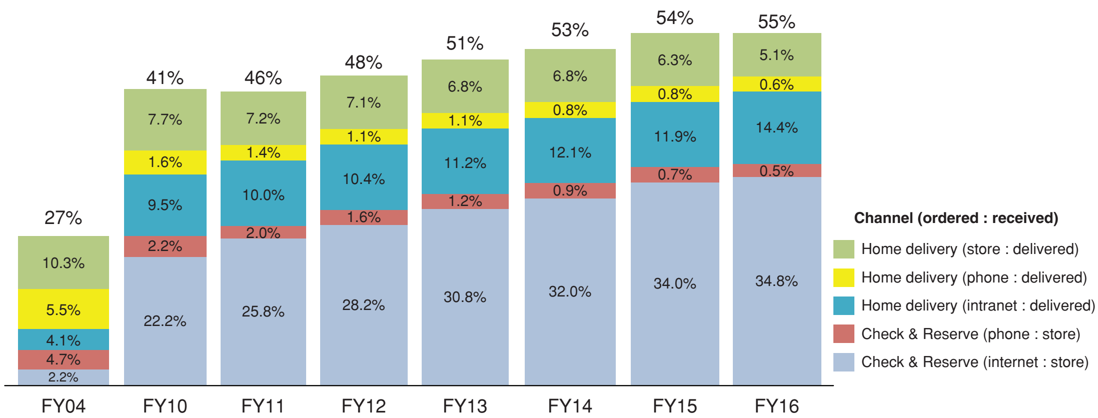
The strategy uses Argos as a base with which to build contemporary, market-leading retail capabilities and a leading customer offer across the many ways which customers shop, purchase and obtain goods—including digital (online and mobile), store formats and home delivery. The Home Retail Group Directors believe that these capabilities and multi-channel offer can be extended to Habitat and potential partners to accelerate their competitiveness and achieve long-term growth for the Home Retail Group.

The Home Retail Group's strategy is built around five elements of a competitively advantaged and differentiated customer proposition: product choice, digital, convenience, human and financial services.

- **Product choice:** The scale and strength of the Home Retail Group's brands drives market leadership in general merchandise product categories. The Home Retail Group offers over 57,000 products through Argos, including a substantial element of exclusive and own-brand lines such as Habitat, and is continually expanding its offer to build credibility, choice and differentiation. The Home Retail Group utilises its scale advantage to source products for customers, enabling it to offer them a broad choice of products at competitive prices.

- **Digital:** Retail has seen technology drive a fundamental and permanent shift in the way customers shop. Increasingly customers choose to shop online or on the move through mobile devices. The Home Retail Group strives to develop digital customer experiences that are intuitive, inspiring and consistent across many devices, and provide information to customers that is helpful in their purchase decision such as an up-to-the-minute view of stocking levels for each product. Multi-channel experiences are core to what the Home Retail Group does, and the reason it has an ongoing focus on developing successful internet and mobile commerce channels. A summary of Argos sales by channel ordered and received is given below, indicating that the Internet represented 49 per cent. of Argos' total sales for the 52-weeks to 27 February 2016:

% of Argos shares



	FY04	FY10	FY11	FY12	FY13	FY14	FY15	FY16	Memo:
	2%	32%	36%	39%	42%	44%	46%	49%	Total Internet (% of total sales)
	-	-	1%	5%	10%	18%	25%	28%	of which Mobile (% total of sales)
	2%	24%	28%	30%	31%	32%	34%	35%	Total Check & Reserve (% of total sales)

- **Convenience:** In a digital world, convenience is being redefined to mean the ability for customers to obtain products at the location and the time they desire. The presence of a local store remains important for many customers, both to meet traditional shopping needs and as locations from which to 'click & collect' items previously ordered online. Home delivery options are equally important to customers. Argos operates a nationwide distribution network across multiple distribution centres and 845 stores as at 27 February 2016. The Home Retail Group's logistics network is based on a well-developed infrastructure that allows it to continue to focus on improving the speed at which products can be delivered to customers, through whichever channel they choose to shop.
- **Human:** In the 52-weeks to 27 February 2016, the Home Retail Group employed an average of 45,500 colleagues, of which 15,000 related to the Homebase business, leaving the Home Retail Group post completion of the Homebase Sale with the remaining 30,500 colleagues working in stores, home delivery, distribution, contact centres and central functions who are fundamental to how customers experience the Home Retail Group's brands. They are a key factor in building trust with customers, particularly in an increasingly technology-driven environment.
- **Financial Services:** Argos is supported by an in-house financial services offer. The Home Retail Group Financial Services business offers a range of credit products which make it easy for Argos customers to buy the products they want, when they want. As at 27 February 2016, there were approximately 1.6 million Argos active store cardholders who accounted for approximately 15 per cent. of Argos's sales for the 52-weeks ended 27 February 2016. The base of active store cardholders has grown by around 28 per cent. over the last three years.

Transformation Plan

In October 2012, Argos outlined a five-year Transformation Plan to reinvent itself as a digital retail leader, transforming from a catalogue-led business to a digitally-led business. The Transformation Plan addresses competitive challenges, aims to exploit emerging market opportunities and restore sustainable growth.

There are four key strategic elements to the Transformation Plan:

- **Provide more product choice, available to customers faster**—order fulfilment remains a highly competitive issue between retailers. The Home Retail Group Directors believe that Argos is uniquely positioned through its store estate and supply chain to provide market-leading order fulfilment options to customers on a national scale.

- **Reposition Argos' channels for a digital future**—growth in digital channels is expected to outpace the market generally. By focussing on and leading in these channels Argos believes it can secure future growth. Stores remain a strategic advantage for Argos as local points of collection and customer service; however their role is being adapted to support a digital offer.
- **Develop a customer offer that has universal appeal**—historically Argos' offering has been biased towards less affluent customers. By providing products, pricing, marketing programmes and customer experiences that are more appealing across the range of our customers, Argos has a significant opportunity to grow the business.
- **Operate a lean and flexible cost base**—stores are one of Argos' biggest costs. Historically, lease terms have been long and inflexible, yet customer usage of stores is changing and space requirements are less predictable. Reducing the lease terms across the estate will provide flexibility to adjust the estate as required.

The Home Retail Group Directors believe that Argos has made meaningful progress on its Transformation Plan and in developing new strategic capabilities since its introduction:

- **A national hub & spoke distribution network**, which currently supports approximately 20,000 products in local hubs, making them available for faster fulfilment via home delivery or store collection. Argos has recently further extended this concept to a regional hub trial, with potential to hold substantially more products, including third party products, for same day fulfilment.
- **Introduction of Fast Track Delivery and Fast Track Collection**, market-leading home delivery and store collection propositions that leverage hub & spoke, 845 Argos store locations, and a national home delivery network, offering approximately 20,000 products for same day home delivery to approximately 95 per cent. of UK mainland households or immediate store collection. Argos has also introduced an express two-man home delivery service offering leading large item delivery across a broad range of products.
- **Proven digital store model, including small formats and concessions**, which require lower capital outlay and provide customers with fast access to an expanded product range regardless of store stocking capacity. Argos recently extended the concession model to begin trialling collection via convenience stores that hold no Argos stock.
- **Digital development and digital channel capabilities**, although the Internet is now central to most businesses, the market has both broad variation in digital standards and a shortage of sufficient digital leadership capability. Argos has developed teams with strong digital capabilities, and aggressively shifted the business from a catalogue retailer to a digital specialist.
- **Partnership with ebay**, which provides over 200,000 ebay merchants with access to Argos' click and collect capabilities, driving footfall into Argos stores. The partnership has also been recently extended to include the trial of a consumer-to-consumer parcel drop-off service.
- **More universally appealing offer**, including expanded ranges and marketing communications that are beginning to reposition the Argos brand among consumers as more dynamic, while preserving its strong heritage.
- **A more flexible store cost base**, with substantial reductions in the average lease term of Argos stores to below five years, combined with new options for store locations presented by small stores and concessions, Argos has the flexibility to add, eliminate and relocate stores to minimise costs and meet previously unaddressed consumer demand.

Global Sourcing, Supply Chain and Customer Support

The Home Retail Group has dedicated teams of buyers scouring the world for everything from the latest 'must-have' gadgets to more basic essential day-to-day products. The Home Retail Group purchases from manufacturers worldwide with the greatest proportion of products being from the Far East. The Home Retail Group has sourcing operations in Hong Kong, Shanghai and Shenzhen. Approximately 175 people located in these offices procure goods for Argos.

The Home Retail Group's supplier relationships are important and consequently it sets exacting standards for quality and value. The Home Retail Group seeks out the best manufacturers and suppliers and works with them to ensure mutually beneficial relationships.

The development of this strategic sourcing infrastructure has resulted in imported goods now accounting for around 35 per cent. of Argos' sales for the 52-weeks to 27 February 2016. A growing proportion of imported product is directly sourced from overseas manufacturers, bringing further benefits to the business.

The Home Retail Group, due to its size and scale, has been able to develop operations for lower cost importing and direct sourcing. These operations identify suppliers, negotiate purchases and manage the importation process from the supplier to the UK. These directly controlled operations allow for the consolidation of shipments and the management of order quantities that both reduce cost and improve stock management over time.

Argos is supported by a scaleable customer service operation. This takes customer orders, deals with customer enquiries regarding their orders and confirms delivery times both over the phone and the Internet. The majority of customer service representatives are Home Retail Group employees, located in the UK and are a key part of the sales process and a significant point of customer contact.

Information Technology

The Home Retail Group has a suite of IT systems that supports the major aspects of its business, including in-store systems, product management, warehousing, logistics, human resources, finance and other administrative systems. It also supports its product delivery service and online platform.

The Home Retail Group uses a combination of packaged solutions and building blocks and own-built systems, where these latter systems confer specific competitive differentiation and advantage. This sourcing strategy seeks to deliver high-performance solutions at an efficient level of cost.

The Home Retail Group's IT systems enable management to make efficient pricing and inventory management decisions, facilitate budgeting and financial reporting processes, standardise operations across the store chain and automate many of the ordinary course transactions with suppliers.

Intellectual Property

The Home Retail Group seeks to protect its brands, designs, inventions and trade secrets through a combination of trade marks, design rights, copyrights and contractual restrictions. The protection provided by these intellectual property rights varies between the UK, Republic of Ireland and other countries.

The Home Retail Group considers the ARGOS name to be particularly important, and aims to register it as trade marks in markets which the Home Retail Group Directors believe are, or are likely in the future to be, material to its business. Argos owns UK trade mark registrations for ARGOS and many other brands, covering a broad range of goods and services. Argos also owns European Community trade mark registrations for ARGOS. Argos owns the domain names argos.co.uk and argos.ie. These domain names connect to their respective websites.

The HOME RETAIL GROUP name and logo are also considered important. The Home Retail Group has registered trade mark protection for the HOME RETAIL GROUP logo in the UK, the European Community, Hong Kong, China and India. It has also registered several domain names, namely homeretailgroup.com, homeretailgroup.co.uk, homeretailgroup.eu, homeretailgroup.cn, homeretailgroup.hk and homeretailgroup.in.

Regulatory and Environmental Matters

The Home Retail Group offers certain financial and insurance services to its customers, including the Argos and Homebase store cards. Some of the activities of the Home Retail Group's Financial Services business are regulated by the FCA and subject to the Consumer Credit Act.

The Home Retail Group's operations are also subject to regulation from UK and European Union and other international regulatory authorities concerning, among other things, export and import quotas and other customs regulations; consumer and data protection; the advertisement, promotion and sale of merchandise; product safety, the health, safety and working conditions of the Home Retail Group's employees, the safety of the Home Retail Group's stores and their accessibility for the disabled; environmental matters; and the Home Retail Group's competitive and marketplace conduct.

The Home Retail Group has a process in place for identifying, evaluating and managing risks faced by the Home Retail Group including risks relating to environmental, social and governance matters.

Employees and Employee Relations

In the 52-weeks to 27 February 2016, the Home Retail Group employed an average of 45,500 colleagues, of which 15,000 related to the Homebase business, leaving the Home Retail Group post-completion of the Homebase Sale with the remaining 30,500 colleagues.

The Home Retail Group maintains good relationships with its colleagues.

PART 4
REGULATORY OVERVIEW

Financial services providers, such as banks, consumer credit lenders/brokers and investment firms in the UK are subject to various regulatory regimes, requiring them to be authorised by the PRA and/or the FCA and to comply with the relevant UK and European legislation. Sainsbury's Bank plc and certain other members of the Sainsbury's Group and the Home Retail Group and, following completion of the Acquisition, the Combined Group—including Argos Limited and Home Retail Group Insurance Services Limited—each undertake regulated activities and are subject to certain elements of such regulatory regimes.

UK domiciled banks such as Sainsbury's Bank plc must comply with the rules and guidance of the PRA and the FCA made under the FSMA. Such dual regulated firms are subject to, *inter alia*, the applicable provisions of the PRA Handbook (the "**PRA Handbook**"), the PRA Rulebook (the "**PRA Rulebook**") and the FCA Handbook of Rules and Guidance (the "**FCA Handbook**" and together with the PRA Handbook and PRA Rulebook, the "**FS Handbook**"). As the Sainsbury's Group and the Home Retail Group also contains and, following completion of the Acquisition, the Combined Group will contain, non-bank financial services providers authorised by the FCA, such entities will be subject to the FCA Handbook rather than the PRA Handbook.

The following discussion considers the main features of the UK regulatory regime as it applies to the Combined Group.

UK REGULATORY ENVIRONMENT

Financial Services Act 2012

On 1 April 2014, the PRA and the FCA replaced the Financial Services Authority and became the regulators for persons authorised under the FSMA to undertake regulated activities in the financial services sector in the UK. The reforms were implemented under the Financial Services Act 2012 (the "**Financial Services Act**"). The PRA (a subsidiary of the Bank of England) oversees and is responsible for the prudential regulation of banks, building societies, insurers, credit unions and some large investment firms. The FCA (a separate legal entity) is responsible for conduct of business regulation for all authorised firms, market regulation and the prudential regulation of firms not authorised by the PRA. The Financial Policy Committee (which also sits within the Bank of England) is responsible for the macro-prudential regulation of the entire financial services sector.

The role of the PRA is defined in terms of two statutory objectives: to promote the safety and soundness of the firms it regulates; and to contribute to the securing of an appropriate degree of protection for policyholders. The FCA has an overarching strategic objective to ensure that relevant markets function well and this is underpinned by three operational objectives. These are securing an appropriate degree of protection for consumers, protecting and enhancing the integrity of the UK financial system and a new objective relating to the promotion of effective competition in the interests of consumers.

The PRA and the FCA have extensive powers to supervise and intervene in the affairs of the firms they are responsible for regulating, for example, if they consider it appropriate in order to protect policyholders against the risk that the minimum conditions for a firm to be authorised and prescribed under FSMA, issued by both the PRA and the FCA (the "**Threshold Conditions**") may not be met, that the firm or its parent has failed to comply with obligations under the relevant legislation or rules, that the firm has furnished them with misleading or inaccurate information or that there has been substantial departure from any proposal or forecast submitted to the relevant regulator.

The FCA also has the power to take a range of informal and formal disciplinary or enforcement actions in relation to a breach by a firm of the FSMA or the rules in the PRA or FCA Handbooks, including private censure, public censure, restitution, fines or sanctions and the award of compensation. The PRA (or FCA where relevant) may also cancel or vary (including by imposing limitations on) the firm's authorisation.

The Financial Services Act also conferred new powers on the PRA and FCA. For example, the PRA has the following three new powers that can, in certain circumstances, be applied directly to qualifying parent undertakings where those parent undertakings are not themselves regulated:

(a) power of direction;

(b) a rule-making power for information gathering; and

(c) a supporting disciplinary power to fine or censure a qualifying parent undertaking for breaches of a direction or an information rule.

The FCA was granted new early intervention powers which enable it to intervene directly in the market and make product intervention rules and withdraw misleading financial promotions with the aim of preventing harm to consumers. In April 2014, the FCA took over from the Office of Fair Trading to become the regulator for the consumer credit industry (see "*Consumer Credit Lending Regime*" below).

FS Handbook

The FCA Handbook applies to both FCA-authorised firms and PRA-authorised firms. It contains conduct requirements that apply to all regulated firms and prudential requirements relevant to FCA-authorised firms. The PRA Handbook and PRA Rulebook apply to PRA-authorised firms only and contain prudential requirements relevant to these firms.

The Principles for Businesses and the Fundamental Rules

The FCA Handbook contains Principles for Business (the "**Principles for Business**") which are intended to ensure fairness and integrity in the provision of financial services in the UK. In particular, the Principles for Businesses promulgated by the FCA require a firm to:

(a) conduct its business with integrity;

(b) conduct its business with due skill, care and diligence;

(c) take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems;

(d) maintain adequate financial resources;

(e) observe proper standards of market conduct;

(f) pay due regard to the interests of its customers and treat them fairly;

(g) pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading;

(h) manage conflicts of interest fairly, both between itself and its customers and between a customer and another client;

(i) take reasonable care to ensure the suitability of its advice and discretionary decisions for any customer who is entitled to rely upon its judgement;

(j) arrange adequate protection for clients' assets when it is responsible for them; and

(k) deal with its regulators in an open and cooperative way, and to disclose to the appropriate regulator anything relating to the firm of which that regulator would reasonably expect notice.

The PRA Rulebook contains Fundamental Rules which require a PRA authorised firm to:

(a) conduct its business with integrity;

(b) conduct its business with due skill, care and diligence;

(c) act in a prudent manner;

(d) maintain adequate financial resources;

(e) have effective risk strategies and risk management systems;

(f) organise and control its affairs responsibly and effectively;

(g) deal with its regulators in an open and cooperative way and disclose to the PRA anything relating to the firm which the PRA would reasonably expect to have notice of; and

(h) prepare for resolution so that, if the need arises, a matter can be resolved in an orderly manner with minimum disruption of critical services.

TCF

The FCA is responsible for ensuring that authorised firms treat customers fairly ("**TCF**") in line with Principle 6 of the Principles for Businesses, and communicate with customers in a manner that is clear, fair and not misleading. The FCA has established six key outcomes it expects firms to focus on as part of their TCF strategy, including that consumers can be confident they are dealing with firms where the fair treatment of customers is central to the firm's corporate culture, and that products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly.

Consumer Credit Regime

Certain companies in the Home Retail Group and, following completion of the Acquisition, the Combined Group have consumer credit authorisations. Sainsbury's Bank plc is fully authorised as a consumer credit lender. Home Retail Group Card Services Limited has an FCA interim permission as a consumer credit lender. Argos Limited and Habitat Retail Limited are authorised to perform the regulated activity of credit broking i.e. the promotion and arrangement of credit for customers from third party finance providers, and as such, are subject to various degrees of government regulation.

On 1 April 2014, responsibility for the regulation of consumer credit activities (including credit broking) transferred from the UK Office of Fair Trading (the "**OFT**") to the FCA. FSMA replaces certain of the provisions of the Consumer Credit Act 1974 ("**CCA**") that cover licensing and other aspects of the regulatory framework for consumer credit. Consumer credit activities that were licensable under the CCA have therefore become regulated activities under FSMA.

Companies carrying on consumer credit-related regulated activities must comply with the remaining elements of the CCA that cover, inter alia, documentary and information processes to be used in relation to consumer credit and the relevant provisions and guidance set out in the Consumer Credit sourcebook issued by the FCA. Such companies must be authorised by the FCA with the appropriate permission. An interim permission regime allows companies that had previously been regulated by the OFT to continue trading while transitioning across to the FCA regime. Each company holding an interim permission needed to submit an application in order to obtain replacement FCA authorisation. There are two categories of replacement authorisation: "limited permission" and "full permission". Companies that qualify for limited permission should present reduced risks to their customers and therefore have a proportionately reduced regime. Companies that only promote and arrange for the provision of credit for their customers from third parties to allow those customers to buy goods from them require a limited permission. Once an authorisation is applied for it normally takes up to six months for this to be reviewed and, if appropriate, granted by the FCA, but this period can extend up to 12 months. The FCA expects to have assessed all applications by March 2017.

Home Retail Group Card Services Limited has applied to the FCA for full authorisation. The FCA is currently considering the grant of such full authorisation and, while it is understood that this should be granted, it cannot guarantee that this will be the case.

If a company carries on regulated consumer credit activities without permission it commits a criminal offence under FSMA and the company will be at risk of enforcement action. In addition, any agreements made may be unenforceable. Customers may have recourse to the Financial Ombudsman Service on consumer credit matters. The scheme is mandatory for all businesses authorised for consumer credit activities under the FCA. The documentary and information requirements for consumer credit agreements under the CCA include provisions setting out information that must be supplied to customers before they enter into consumer credit agreements and during the lifetime of the facility. It is understood that the Combined Group's selling processes are in compliance with these requirements.

Insurance mediation

Following completion of the Acquisition, the Combined Group will include a UK authorised insurance intermediary, Home Retail Group Insurance Services Limited, which is subject to sole regulation by the FCA. In addition to meeting the Threshold Conditions and Principles for Businesses, and complying with conduct of business rules and rules relating to systems and controls, UK authorised insurance intermediaries must also comply with the FCA's prudential sourcebook for Mortgage and Home Finance Firms and Insurance Intermediaries ("**MIPRU**"). The rules in MIPRU include requirements regarding the maintenance of capital resources by insurance intermediaries and the responsibilities and suitability of management and persons involved in insurance mediation activities.

Insurance mediation activities are also carried on by Argos Limited as an appointed representative of Home Retail Group Card Services Limited and Hastings Insurance Services Limited.

Conduct of business rules

The ICOBS within the FS Handbook regulate the day-to-day conduct of business standards to be observed by authorised firms carrying out insurance mediation activities (currently carried out by Home Retail Group Insurance Services Limited, Argos Limited and Sainsbury's Bank). Generally, the obligations imposed on an authorised firm (and its appointed representatives) by the ICOBS rules include the need to provide clients with information about the firm, meet certain standards of product disclosure, ensure that promotional materials which it produces are clear, fair and not misleading, assess suitability when advising on certain products, manage conflicts of interest, report appropriately to its clients and provide certain protections in relation to client assets. However, the precise scope and range of obligations imposed on an authorised firm under the ICOBS rules vary according to the scope of the firm's business and the nature of its clients.

In this regard, Home Retail Group Insurance Services Limited—but not Sainsbury's Bank—has permissions to provide advice on insurance products, meaning that the ICOBS requirements relating to suitability when advising on insurance products will in practice only apply to Home Retail Group Insurance Services Limited.

The Banking Conduct of Business Sourcebook ("**BCOBS**") of the FCA Handbook applies to firms accepting deposits from banking customers in the UK, including Sainsbury's Bank. BCOBS contains rules and guidance on a variety of activities including communications with banking customers and financial promotions, distance communications, information to be communicated to banking customers including appropriate information and the right to cancel and effects of cancellation.

The Mortgages and Home Finance: Conduct of Business Sourcebook ("**MCOB**") of the FCA Handbook applies to authorised firms carrying on regulated mortgage activities in the UK—including Sainsbury's Bank. Although Sainsbury's Bank does not currently write new mortgage business, it must comply with MCOB in respect of its existing residential mortgaged back book. Among other things, in relation to existing residential mortgages, MCOB imposes requirements relating to the provision of client statements, charges (such as early repayment charges), and to dealing with customers in arrears and in other situations.

Senior Managers Regime, Certification Regime and Conduct Rules

On 7 March 2016, new Senior Managers and Certification Regimes (and associated Conduct Rules) entered into force. The new regimes are being implemented by the FCA and the PRA and apply to specific individuals at banks, building societies, credit unions and PRA regulated investment firms. The purpose of these new regimes is threefold: to increase and better delineate the responsibilities of those at the highest levels of management within banks; to extend the class of individuals subject to sanctions for misconduct to all employees within institutions who pose a risk of significant harm to the institution or its customers; and to make it easier for the regulators to hold individuals accountable for breaches.

The Senior Managers Regime requires more detailed and clearer allocation of responsibilities between a smaller cohort of individuals than previously covered by the approved persons regime, with particular emphasis placed on key documents—Statements of Responsibilities and Responsibilities Maps—to record the allocation of responsibility to individuals performing "senior management functions" ("**Senior Managers**") and to demonstrate to the regulators that there are no gaps or excessive overlaps.

The Certification Regime requires firms to certify employees performing roles relating to the firm's regulated activities ("**Certified Persons**") as fit and proper on an annual basis based on qualifications, competence and personal characteristics. Populations covered by the FCA and PRA Certification Regimes vary, but in either case extend further downwards into institutions than the current approved persons regime. Conduct Rules will cover all individuals subject to Senior Managers and Certification Regimes, although there is some differentiation between the rules applicable to each. The FCA and the PRA are able to enforce rules against Senior Managers and Certified Persons and there is an obligation on banks to provide tailored training to Senior Managers and Certified Persons and to notify breaches to the PRA and/or FCA.

Change of control

In the UK, the approval of the PRA or the FCA is required under FSMA for any person proposing to acquire or increase "control" over a UK regulated firm. Supervisory approval is also required where a person who is already a controller of a UK regulated firm, proposes to increase its control in excess of certain thresholds set out in FSMA. Approval of the PRA and FCA will be required for the Acquisition. "Control" over a UK regulated firm is acquired if the acquirer:

(a) holds 10 per cent. or more (or 20 per cent. or 33 per cent. or more if the UK regulated firm is an insurance intermediary or a certain type of consumer credit broker respectively) of the shares or voting power in that UK regulated firm or in its parent undertaking; or

(b) is able to exercise significant influence over the management of the firm by virtue of the acquirer's shares or voting power in the UK regulated firm or its parent undertaking.

Where a UK regulated firm is dual regulated, the PRA will process the change of control application, although the FCA may make representations to the PRA and/or may require the PRA to object to, or impose conditions on the approval in certain circumstances. Where the UK regulated firm is solely regulated by the FCA (such as an insurance intermediary), the FCA will process the change of control application, and the PRA will have a similar role in this process to that described above. However, if the FCA regulated firm is part of a group which contains a PRA regulated firm, the PRA must be consulted when processing the change of control application.

The Bank levy

From 1 January 2011 banks have been required to pay the so-called "bank levy", in addition to the fees that they pay to the PRA and FCA. The bank levy aims to ensure that banks contribute at a level that reflects the risk that bank failure poses to the UK economy and aims to encourage banks to reduce riskier funding. Banks are required to contribute based on their equity and liabilities (subject to some exceptions) or that of their group for a given chargeable period. From 17 July 2014 the legislation which sets out the bank levy has been amended to ensure that the bank levy rules can be kept in line with other regulatory requirements introduced or amended by UK and/or EU legislation.

Financial crime

It is one of the FCA's statutory objectives to protect and enhance the integrity of the UK financial system and the FCA is under a duty to consider the importance of minimising the risk of the firms it regulates being used for financial crime. It therefore looks at the measures a firm takes to monitor, detect, and prevent financial crime. This includes measures in respect of money laundering, terrorist financing, data security, bribery and corruption, fraud and sanctions breaches.

All the FSMA authorised firms are required to undertake certain administrative procedures and checks, which are designed to prevent money laundering. The FCA's Senior Management Arrangements, Systems and Controls sourcebook ("**SYSC**") contains rules which require firms to take reasonable care to establish and maintain effective systems and controls for countering the risk that the firm might be used to further financial crime. For these purposes, financial crime includes any offence involving fraud or dishonesty, misconduct in, or misuse of information relating to, a financial market or handling the proceeds of crime, as well as bribery and corruption offences.

Data Protection

All personal data held by the Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group, including their respective customer databases, is subject to numerous laws, including laws in relation to data protection. The primary current EU law in relation to data protection, the European data protection Directive 95/46/EC, has been implemented in the UK by the Data Protection Act 1998 (the "**DPA**"). The DPA regulates the use of personal data in accordance with eight key principles, which include, amongst others, that personal data shall: be processed fairly and lawfully; only be processed for specified purposes; be processed in accordance with the rights of individuals; be subject to appropriate technical and organisational measures; and not be transferred outside of the European Economic Area unless certain conditions or exceptions apply. Additionally, the Privacy and Electronic Communications (EC Directive) Regulations 2003 (the "**PECR**s") implement the privacy and electronic communications Directive 2002/58/EC. The PECRs apply to the sending of any electronic marketing messages in the UK (including by telephone, email, text message or by using an automated calling system). Broadly, the PECRs prevents unsolicited marketing material being sent to individuals without their prior consent, subject to exceptions.

The DPA is to be replaced with effect from 25 May 2018 by the new EU General Data Protection Regulation 2016/679 (the "**EU GDPR**"). The EU GDPR, although broadly similar to the DPA, will impose more onerous requirements and restrictions in some respects, including some entirely new requirements and restrictions, and will also impose more severe sanctions for breach. The specific effect of the EU GDPR will not be clear in all respects until UK legislation has been passed to support its implementation (for example, with regard to local exceptions) and EU data protection authorities have published guidance on its interpretation and enforcement. Directive 2002/58 is also under review by the European Commission, which is likely to lead to replacement of or amendment to the PECRs over the coming years.

It is uncertain what impact these changes to the UK / EU data protection regime will have on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's operations, and no assurance can be given that these or other future changes in the requirements or enforcement and interpretation of the regulations will not have a material adverse effect on the Sainsbury's Group's, the Home Retail Group's and, following completion of the Acquisition, the Combined Group's business, results of operations or financial condition.

OTHER BODIES IMPACTING THE REGULATORY REGIME

The Bank of England and HM Treasury

The agreed framework for co-operation in the field of financial stability in the financial markets is detailed in the Memorandum of Understanding published jointly by HM Treasury, the then FSA and the Bank of England. The Bank of England has specific responsibilities in relation to financial stability, including:

(a) ensuring the stability of the monetary system;

(b) oversight of the financial system infrastructure, in particular payments systems in the UK and abroad; and

(c) maintaining a broad overview of the financial system through its monetary stability role and the deputy governor's membership of the FCA's Board.

HM Treasury, the FCA and the Bank of England (including the PRA) work together to achieve stability in the financial markets.

UK Financial Ombudsman Service

The FSMA established the Financial Ombudsman Service ("**FOS**"), which provides customers with a free and independent service designed to resolve disputes where the customer is not satisfied with the response received from the regulated firm. The FOS resolves disputes for eligible persons that cover most financial products and services provided in (or from) the UK. The jurisdiction of the FOS extends to include firms conducting activities under the CCA. The maximum level of money awarded by the FOS is £150,000 for complaints received by the FOS on or after 1 January 2012. The FOS may also make directions awards, which direct the business to take steps as the FOS considers just and appropriate.

Although the FOS takes account of relevant regulation and legislation, its guiding principle is to resolve cases on the basis of what is fair and reasonable; in this regard, the FOS is not bound by law or even its own precedent. The decisions made by the FOS are binding on regulated firms.

The FSCS

The Financial Services Compensation Scheme ("**FSCS**") was established under the FSMA and is the UK's statutory fund of last resort for customers of authorised financial services firms. The FSCS can pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it. For deposits, the level of compensation for claims against firms declared in default is 100 per cent. of the first £75,000.

The FSCS only pays compensation for financial loss. Compensation limits are per person, per firm and per type of claim. The FSCS is funded by levies on authorised firms.

EU AND EEA REGULATORY ENVIRONMENT

There are a large number of current EU legislative initiatives in respect of financial services, some of which may affect the business of the Sainsbury's Group, the Home Retail Group and, following completion of the Acquisition, the Combined Group. Some of this regulation will apply directly in the UK while others require UK national implementation. Certain initiatives that are expected to be of significance are discussed below. It is noted that on 23 June 2016 the UK voted in a referendum to leave the European Union. Accordingly, the extent to which the initiatives set out below will apply, or continue to apply, to the Combined Group in the future is uncertain.

The Basel Committee introduced significant changes to the existing capital framework in 2011 to 2013, including new capital and liquidity requirements intended to reinforce capital standards with heightened requirements for global systemically important banks and to establish minimum liquidity standards for credit institutions (such changes being commonly referred to as "**Basel III**"). The changes refer to, among other things, new requirements for the capital base, measures to strengthen the capital requirements for counterparty credit exposures arising from certain transactions and the introduction of a leverage ratio as well as short-term and longer-term standards for funding liquidity (the liquidity coverage ratio and the net stable funding ratio). Basel III also introduced the credit valuation adjustment measure. This capital charge aims to quantity the risk that counterparties to derivatives transactions may be more or less credit worthy at any given time during the life of a transaction.

The Basel III reforms have been implemented in Europe by a Capital Requirements Regulation (the "**Capital Requirements Regulation**") and an associated Capital Requirements Directive (the "**CRD IV Directive**", known together with the Capital Requirements Regulation as "**CRD IV**") which were adopted by the European Parliament and European Council on 26 June 2013. CRD IV substantially reflects the Basel III capital and liquidity standards. CRD IV introduced new capital limits and buffers for banks, and includes a requirement to hold common equity tier 1 capital to account for capital conservation, countercyclical and systemic risk buffers. Certain details remain to be clarified in further binding technical standards, reports and guidelines to be issued by the European Banking Authority. The legislation entered into force on 1 January 2014 although many provisions will be phased in with full implementation of CRD IV required by January 2024; however the proposals allow individual Member States to implement the stricter requirements of contributing instruments and/or implement increases to the required levels of capital more quickly than envisaged. The CRD IV Directive and national discretions contained in the text of the Capital Requirements Regulation have been transposed into national law in the UK and are set out in the (amended) FCA and PRA Handbooks and PRA Rulebook. As a regulation, the Capital Requirements Regulation is directly effective in EU Member States. The Capital Requirements Regulation has not been copied out in the (amended) FCA and PRA Handbooks and PRA Rulebook. Institutions are required to refer directly to the Capital Requirements Regulation text and related European Banking Authority technical standards, reports and guidelines.

The FCA and PRA also introduced a new remuneration code to reflect the changes required under CRD IV in relation to remuneration of employees. These changes aimed to align the remuneration principles in banks across the EU and promote sound and effective risk management. The remuneration code applies to almost all employees of a bank, and amongst other things, imposes restrictions on the quantum of variable remuneration, guaranteed bonuses and ensures that termination payments are not a reward for failure or misconduct. There are certain "de minimis concessions" under which employees who meet certain conditions (for example, earn less than £500,000) are subject to more relaxed requirements— to the extent that such remuneration is consistent with the general principle of promoting effective risk management. Following further consultations, the FCA and PRA issued new remuneration rules on 23 June 2015 that are designed to better balance risk and reward. Key changes included extending current deferral and clawback requirements, prohibiting non-executive directors from receiving variable remuneration, and providing guidance on meeting the ex-post risk adjustment requirements. Provisions in respect of clawback and deferral apply for variable remuneration awarded for performance periods beginning on or after 1 January 2016 and the other requirements applied from 1 July 2015.

On 15 May 2014 the European Parliament and European Council adopted legislation for the establishment of an EU wide framework for the recovery and resolution of credit institutions and investment firms (the Bank Recovery and Resolution Directive or "**BRRD**"). Amongst other things, the BRRD requires EU Member States to ensure that regulatory authorities have powers to intervene in failing banks, and contemplates the introduction of a package of minimum early intervention and resolution-related tools and powers for relevant authorities. The BRRD also provides, among other things, for resolution authorities in EU Member States to have the power to require institutions (which will include Sainsbury's Bank plc) or groups (which will include the Sainsbury's Bank and, following completion of the Acquisition, the Combined Group) to make structural changes so as to ensure legal and operational separation of "critical functions" from other functions where necessary, or to require institutions to limit or cease existing or proposed activities in certain circumstances and requires banks to maintain a minimum amount of "bail-in-able" liabilities expressed as a percentage of the institution's total liabilities on its balance sheet. The national implementation deadline for BRRD was January 2015 (other than the bail-in provisions which were implemented on Member States by 1 January 2016).

On 15 May 2014 the European Parliament and European Council adopted a directive and associated regulation on markets in financial instruments (together "**MiFID II**"). MiFID II introduces a variety of changes to the banking sector's market infrastructure and conduct rules, with the majority of provisions under MiFID II required to enter into force from 3 January 2017 (although there are likely to be delays). MiFID II bans firms who provide advice on an independent basis from accepting or receiving fees, commissions or any other monetary benefits paid or provided by any third party, and also introduces new investor protection measures which include product governance requirements and enhanced suitability requirements.

Distance Marketing Directive

Under the Distance Marketing Directive, EU member states are required to implement a framework of rules and guidance in order to protect consumers by:

(a) setting minimum standards for information that must be provided to consumers before entering into a financial services contract by means of distance communication, which includes sales taking place on-line, by email, post or telephone; and

(b) for certain products and services, giving a cooling-off period in which a consumer may cancel a contract without penalty.

Insurance Mediation Directive

Since 14 January 2005, the Insurance Mediation Directive ("**IMD**") has required EEA Member States to apply a registration requirement to insurance mediation activities and requires insurance intermediaries to meet certain professional requirements in relation to their competence, good repute, professional indemnity cover and financial capacity.

On 8 July 2012, the European Commission published a legislative proposal for major changes to the IMD. The proposed directive, known as the Insurance Distribution Directive ("**IDD**"), will be a minimum harmonisation directive like the IMD (meaning that Member States have discretion to adopt or retain further measures), but will raise the minimum standards of the IMD significantly. The European Commission from 2005 to 2008 found inconsistent application of IMD at the level of national regulations, with some Member States gold-plating measures and others implementing the bare minimum necessary for compliance. The IDD will repeal and replace the IMD and is an attempt to rectify these identified failings and seeks to improve regulation in the retail insurance market by ensuring a level playing field between all participants involved in the selling of insurance products and strengthening policyholder protections. The Commission considers that the IDD will significantly raise the minimum standards of the IMD. On 30 June 2015, the European Parliament's Committee on Economic and Monetary Affairs ("**ECON**") announced that an "informal deal" had been reached with the Latvian Presidency of the European Council on the IDD. ECON explained that the political agreements will now be subject to "technical finalisation". The European Parliament has formally approved the text of the IDD. If the European Council approve the IDD without further change, the new regime is likely to be implemented late 2017.

Recent and future developments

Fourth Anti Money Laundering Directive

In February 2013 the European Commission adopted a legislative proposal for a fourth money laundering directive ("**MLD4**"). MLD4 was published in the Official Journal during June 2015 and will take effect in June 2017. Key changes introduced by MLD4 will include changes to the scope of the anti-money laundering regime, measures designed to provide enhanced clarity and accessibility with regard to beneficial owner information, a tightening of the rules on when simplified due diligence can be used and a strengthening of the sanctioning powers of national supervisors through the introduction of a set of minimum principles-based rules. It remains unclear how MLD4 will be implemented both at a European and Member State level.

GUERNSEY REGULATION

Change of control

The Home Retail Group includes a Guernsey incorporated company, Global (Guernsey) Limited which acts as general partner to Home Retail Group (Guernsey) LP. Home Retail Group (Guernsey) LP is licensed with the GFSC as a licensed insurer under the Insurance Business (Bailiwick of Guernsey) Law, 2002. The GFSC confirmed on 24 May 2016 that it had no objection to the acquisition of control over the GFSC licensed insurer Home Retail Group (Guernsey) LP.

PART 5
DIRECTORS, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE

1. **Directors**

Name	Age	Position
David Tyler	63	Chairman
Mike Coupe	56	Chief Executive Officer
John Rogers	47	Chief Financial Officer
Matt Brittin	47	Independent Non-Executive Director
Brian Cassin	48	Independent Non-Executive Director
Mary Harris	50	Independent Non-Executive Director
David Keens	62	Independent Non-Executive Director
John McAdam	68	Senior Independent Non-Executive Director[8]
Susan Rice	70	Independent Non-Executive Director[9]
Jean Tomlin	61	Independent Non-Executive Director

David Tyler (Chairman)

Appointed to the Sainsbury's Board on 1 October 2009, David became Chairman on 1 November 2009. He is also non-executive Chairman of Hammerson plc and Domestic and General Group Limited. He was previously Finance Director of GUS plc (1997–2006) and has held senior financial and general management roles with Christie's International Plc (1989–96), County NatWest Limited (1986–89) and Unilever PLC (1974–86). He was Chairman of Logica plc (2007–12) and of 3i Quoted Private Equity PLC (2007–09), and a Non-Executive Director of Experian plc (2006–12), Reckitt Benckiser Group plc (2007–09) and Burberry Group Plc (2002–2015). He has also been Chairman of Hampstead Theatre since 2012.

Mike Coupe (Chief Executive Officer)

Appointed Chief Executive Officer on 9 July 2014, Mike has been a member of the Operating Board since October 2004 and an Executive Director since 1 August 2007. 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. Mike is also a Non-Executive Director at Greene King plc.

John Rogers (Chief Financial Officer)

Appointed Chief Financial Officer on 19 July 2010, John is also a member of the Board of Sainsbury's Bank plc, and in June 2015, his role was expanded to include business development. John joined Sainsbury's in November 2005 as Director of Corporate Finance and then became Director of Group Finance from March 2007 to July 2008. In July 2008, he was appointed to the Operating Board as Property Director. John is Co-Chair of the Chief Financial Officer Leadership Network, established by the Accounting for Sustainability (A4S) Project founded by HRH The Prince of Wales. 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. John is a Non-Executive Director of Travis Perkins plc and a director of Insight 2 Communication LLP.

Matt Brittin (Independent Non-Executive Director)

Appointed to the Sainsbury's Board on 27 January 2011, Matt is Google's President—Europe, Middle East and Africa. 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.

[8] John McAdam will stand down from the Sainsbury's board at Sainsbury's 2016 annual general meeting on 6 July 2016.

[9] Susan Rice will be appointed Senior Independent Director at Sainsbury's 2016 annual general meeting on 6 July 2016.

Brian Cassin (Independent Non-Executive Director)

Appointed to the Sainsbury's Board on 1 April 2016. Brian joined Experian plc in April 2012 as Chief Financial Officer and Executive Director before being appointed Chief Executive Officer in July 2014. Prior to joining Experian, Brian built his skills and experience in investment banking, holding senior roles, including Managing Director and Partner at Greenhill & Co (1998–2012), Baring Brothers International (1992–1998) and the London Stock Exchange (1988 to 1992).

Mary Harris (Independent Non-Executive Director)

Appointed to the Sainsbury's Board on 1 August 2007, Mary is a member of the supervisory board of Unibail-Rodamco S.E., and is a Non-Executive Director of ITV plc and Reckitt Benckiser Group plc. Until recently, she was a Supervisory Board member of TNT Express NV. Mary previously 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.

David Keens (Independent Non-Executive Director)

Appointed to the Sainsbury's Board on 29 April 2015, 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 (1991–2015) and their Group Treasurer (1986–1991). Previous management experience includes nine years in the UK and overseas operations of multinational food manufacturer Nabisco (1977–1986) and, prior to that, seven years in the accountancy profession.

John McAdam (Senior Independent Non-Executive Director)

Appointed to the Sainsbury's Board on 1 September 2005, John is the Senior Independent Director. He is Chairman of Rentokil Initial plc and United Utilities plc and also a Non-Executive Director of Rolls-Royce Group plc. John joined Unilever PLC as a management trainee in 1974 and went on to hold a number of senior positions in Birds Eye Walls, Quest and Unichema, before the sale of the Specialty Chemical Businesses to ICI in 1997. He was Chief Executive of ICI plc, until its sale to Akzo Nobel, and was formerly a Non-Executive Director of Sara Lee Corporation (2008–12) and Severn Trent plc (2000–05). John will stand down at Sainsbury's 2016 annual general meeting on 6 July 2016.

Susan Rice (Independent Non-Executive Director)

Appointed to the Sainsbury's Board on 1 June 2013, Susan is also Chairman of Scottish Water, President of the Scottish Council for Development and Industry, and a Non-Executive Director of Big Society Capital Limited, the North American Income Trust and the Banking Standards Board. She is the first Chairman of Scotland's new Fiscal Commission and a lay member of Court of Edinburgh University. She also chairs the Boards of Edinburgh's Festivals Forum and the Governors of the National Galleries of Scotland. Susan was formerly Chief Executive Officer and an Executive Director of Lloyds TSB Scotland plc (2000–2009), and a Non-Executive Director of Bank of England (2007–2014), SSE plc (2003–2014), the Edinburgh International Book Festival (2001–2015), and Scotland's Futures Forum. Susan will be appointed Senior Independent Director when John McAdam steps down at Sainsbury's 2016 annual general meeting on 6 July 2016.

Jean Tomlin (Independent Non-Executive Director)

Appointed to the Sainsbury's Board on 1 January 2013, Jean is an Independent Board member of Michael Kors Holdings Limited, a Trustee of The Join In Trust and Step Up To Serve, and a Council Member at Loughborough University. Formerly, she was 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.

2. **Senior Management**

The following table lists the names, positions and ages of the Company's Senior Management who are all members of the Operating Board:

Name	Age	Position
Mike Coupe	56	Chief Executive Officer
John Rogers	47	Chief Financial Officer
Tim Fallowfield	52	Company Secretary & Corporate Services Director
Peter Griffiths	57	Chief Executive Officer, Sainsbury's Bank
Jon Hartland	59	Acting Retail and Operations Director
Paul Mills-Hicks	44	Food Commercial Director
Angie Risley	58	Group HR Director
Jon Rudoe	37	Digital and Technology Director
Sarah Warby	45	Marketing Director

Mike Coupe (Chief Executive Officer)

Please see "*Mike Coupe (Chief Executive Officer)*" above.

John Rogers (Chief Financial Officer)

Please see "*John Rogers (Chief Financial Officer)*" above.

Tim Fallowfield (Company Secretary & Corporate Services Director)

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 (1994–2001). He began his career at the international law firm Clifford Chance for six years and is a qualified solicitor.

Peter Griffiths (Chief Executive Officer, Sainsbury's Bank)

Peter was appointed Chief Executive Officer 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 13^{th} largest building society in the UK to the 7^{th} during his decade in charge. He previously worked for NatWest (1977–2000), 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.

Jon Hartland (Acting Retail and Operations Director)

Jon was a regional manager for Fine Fare (part of Associated of British Foods) before joining Sainsbury's SavaCentres in 1986 as a store director for several stores. He became an area manager in northern England and later became the Zone Managing Director for the East of England. Jon then progressed through various roles within Sainsbury's until he was appointed Director for Non Food Operations in May 2011. Since October 2015, he has been covering the Retail and Operations Director role. He sits on the GS1 Apparel Europe board.

Paul Mills-Hicks (Food Commercial Director)

Paul joined the Operating Board in May 2014 as Food Commercial Director having spent over 10 years at Sainsbury's. He started his career at Sainsbury's as Head of Group Strategy and then went on to perform a number of roles in commerce 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. Paul is a qualified Chartered Accountant and a Trustee of the Institute of Grocery Distribution.

Angie Risley (Group HR Director)

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. 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.

Jon Rudoe (Digital and Technology Director)

Jon joined the Operating Board in March 2014 with responsibility for Digital and the IT function. He joined Sainsbury's in July 2011 as Director of Online and, in March 2013, took responsibility for Digital. Jon joined Sainsbury's from Ocado where he led marketing, user experience, trading, own-brand and supply chain. Previously, Jon was a management consultant at Bain & Company and worked in venture capital. He has an MBA from the Harvard Business School.

Sarah Warby (Marketing Director)

Sarah joined Sainsbury's and the Operating Board on 30 January 2012 as Marketing Director. She has responsibility for all Sainsbury's marketing activity: brand communications, own-brand marketing, in-store, loyalty and customer insight. She also has responsibility for Customer Service and Experience. Sarah previously held a number of senior positions at Heineken and was their UK Marketing Director, where she was responsible for a number of the UK's most high-profile FMCG brands. Prior to this, she was Innovation Director at Heineken where she led the combined technical and marketing team. Earlier in her career, Sarah worked for several marketing agencies and was a graduate employee at Unilever PLC. She is currently a director of Insight 2 Communications LLP.

3. **Corporate Governance**

3.1 ***UK Corporate Governance Code***

The Sainsbury's Board seeks to comply with the UK Corporate Governance Code. The UK Corporate Governance Code recommends that at least half the board of directors of a UK-listed company, excluding the chairman, should comprise non-executive directors determined by the board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, their judgement. As of the date of this Prospectus, the Sainsbury's Board consists of a non-executive Chairman, two Executive Directors and seven Non-Executive Directors[10].

The Sainsbury's Board considers that all of its Non-Executive Directors are independent in the manner required within the meaning of the UK Corporate Governance Code and are free from any business or other relationship that could materially interfere with the exercise of their independent judgement. The Chairman satisfied the independence criteria of the UK Corporate Governance Code on his appointment to the Sainsbury's Board in October 2009.

The UK Corporate Governance Code recommends that the board of directors of a company with a premium listing on the Official List of the FCA should appoint one of the non-executive directors to be a senior independent director to provide a sounding board for the chairman and to serve as an intermediary for the other directors when necessary. The senior independent director should be available to shareholders if they have concerns which contact through the normal channels of the chairman or executive directors has failed to resolve or for which such contact is inappropriate. As at the date of this Prospectus, John McAdam is the Senior Independent Director of Sainsbury's[11].

During the 52 week period to 12 March 2016, the Sainsbury's Board held eight scheduled meetings.

The Sainsbury's Board has established four committees: the Audit Committee, the Corporate Responsibility and Sustainability Committee, the Nomination Committee, and the Remuneration Committee. The Chief Executive Officer is responsible for the day-to-day management of the Sainsbury's Group and executing the strategy, once agreed by the Sainsbury's Board. The Chief Executive Officer chairs an Operating Board to assist him with implementing strategy and managing the Sainsbury's Group's

[10] John McAdam will stand down from the Sainsbury's Board at Sainsbury's 2016 annual general meeting on 6 July 2016.

[11] John McAdam will stand down from the Sainsbury's Board at Sainsbury's 2016 annual general meeting on 6 July 2016, following which Susan Rice will be appointed Senior Independent Director.

performance. During the 52 week period to 12 March 2016, the Operating Board held 11 scheduled meetings. The Operating Board has formal terms of reference setting out its key responsibilities.

The Operating Board has delegated certain powers to the Trading Board, the Investment Board, the Group Safety Committee, the Corporate Responsibility and Sustainability Steering Group, the Diversity Steering Group and the Data Governance Committee, each of which has approved terms of reference setting out its areas of responsibility.

Sainsbury's Bank operates appropriately independent governance arrangements within the overall governance structure of the Sainsbury's Group, which include its board of directors, and its audit, nomination, remuneration and risk committees. These also operate according to formal terms of reference.

3.2 ***Committees of the Sainsbury's Board***

The four Sainsbury's Board committees, together with the Sainsbury's Board, the Operating Board and the board and committees of Sainsbury's Bank, are the principal governance bodies of the Sainsbury's Group. The UK Corporate Governance Code recommends that at least three members of the Audit and Remuneration Committees, and in the case of the Nomination Committee a majority of members, be non-executive directors, independent in character and judgement and free from any relationships or circumstances which may, could or would be likely to, or appear to, affect their judgement. The UK Corporate Governance Code also recommends that at least one member of the Audit Committee has recent and relevant financial experience. The Sainsbury's Board considers that Sainsbury's complies with the requirements of the UK Corporate Governance Code in these regards.

(a) *Audit Committee*

The Audit Committee's role is to assist the Sainsbury's Board with the discharge of its responsibilities by monitoring and reviewing the effectiveness of the Sainsbury's Group's risk management arrangements and internal controls, overseeing the internal and external audit programmes and auditor independence, and reviewing the interim and annual financial statements and certain key disclosures. The Audit Committee will normally meet not less than four times a year. During the 52 week period to 12 March 2016, the Audit Committee held four formal meetings. The Audit Committee is chaired by David Keens and its other members are Matt Brittin and Brian Cassin.

(b) *Nomination Committee*

The Nomination Committee ensures that the Sainsbury's Board has an effective balance of skills and experience. It is also responsible for keeping under review the succession planning for the Sainsbury's Board and senior leadership, and Sainsbury's Group diversity, and it identifies potential candidates to be appointed to the Sainsbury's Board as the need may arise. Meetings of the Nomination Committee are held as necessary but will have at least one formal meeting each year. During the 52 week period to 12 March 2016, the Nomination Committee held two formal meetings.

The Nomination Committee is chaired by David Tyler and comprises all of the independent Non-Executive Directors. Whilst Mike Coupe is not a member of the Nomination Committee, he is invited to attend meetings.

(c) *Remuneration Committee*

The Remuneration Committee determines and agrees with the Sainsbury's Board the remuneration policy (which must be approved by Sainsbury's Shareholders), and sets the individual remuneration arrangements, for the Chairman, Executive Directors and members of the Operating Board. The Remuneration Committee considers and recommends the content of the Directors' Remuneration Report to be approved by the members of Sainsbury's at the annual general meeting. Meetings of the Remuneration Committee are held as necessary, but not less than three times a year. During the 52 week period to 12 March 2016, the Remuneration Committee held four formal meetings. The Remuneration Committee is chaired by Mary Harris and its other members are John McAdam, Susan Rice and Jean Tomlin.

(d) *Corporate Responsibility and Sustainability Committee*

The Corporate Responsibility and Sustainability Committee overseas the governance of the Sainsbury's Group's corporate responsibility activities and the sustainability targets set out in Sainsbury's *Sustainability Plan*. The Corporate Responsibility and Sustainability Committee oversees the progress and development of Sainsbury's five corporate values: Best for food and health, Sourcing with integrity, Respect for our environment, Making a positive difference to our community, and A great place to work.

The Corporate Responsibility and Sustainability Committee is chaired by Jean Tomlin and its other members are Mike Coupe and Mary Harris. It meets at least twice a year.

3.3 *Share dealing code*

The Company has adopted a set of rules for dealing in securities which is in compliance with the Market Abuse Regulation. The rules adopted apply to the directors, senior management and other relevant employees of the Sainsbury's Group.

3.4 *Description of any conflicts for any Sainsbury's Directors*

Save as disclosed in this paragraph, there are no potential conflicts of interest between any duties owed by the Sainsbury's Directors or Senior Management to the Company and their private interests or other duties which the Sainsbury's Directors consider sufficiently relevant to be drawn to investors' attention.

The Sainsbury's Group has a policy in place that requires any Sainsbury's Director or member of Senior Management to absent themselves from any discussions relating to commercial arrangements with companies or businesses in relation to which they have an actual or relevant potential conflict of interest. The Board has specifically considered the executive or non-executive roles that some of the Sainsbury's Directors have with companies who may be suppliers to, or in competition with, the Sainsbury's Group. The Board is satisfied that no actual conflicts exist, that potential conflicts are appropriately managed, and that the independence of such Sainsbury's Directors and the commercial interests of the Sainsbury's Group are not compromised.

Name	Interest	Potential Conflicts
David Tyler	Non-executive chairman of Hammerson plc	Hammerson leases property to the Sainsbury's Group
Mike Coupe	Non-executive director of Greene King plc	Greene King provides goods for resale through Sainsbury's supermarkets
Matt Brittin	President EMEA Business & Operations—Google	Google is a supplier of advertising, media and technology to the Sainsbury's Group, and has activities in technology and consumer areas including payments and other services.
Brian Cassin	Chief Executive Officer of Experian plc	Experian provides data and credit reference services to Sainsbury's Bank.
Mary Harris	Non-executive director of ITV plc	ITV is a supplier of advertising to the Sainsbury's Group.
	Non-executive director of Reckitt Benckiser Group plc	Reckitt Benckiser provides goods for resale through Sainsbury's supermarkets.
John McAdam	Chairman of Rentokil Initial PLC	Rentokil Initial supplies property-related services to the Sainsbury's Group.

PART 6
SAINSBURY'S FINANCIAL INFORMATION

Historical financial information

The following documents, which have been filed with the FCA and are available for inspection in accordance with paragraph 27 of Part 11 "*Additional Information*" of this Prospectus, contain financial information which is relevant to the Acquisition:

- Sainsbury's Annual Report and Financial Statements 2016 (which includes Sainsbury's audited financial statements for the 52 weeks to 12 March 2016) ("**Sainsbury's Annual Report and Accounts 2016**");
- Sainsbury's Annual Report and Financial Statements 2015 (which includes Sainsbury's audited financial statements for the 52 weeks to 14 March 2015) ("**Sainsbury's Annual Report and Accounts 2015**"); and
- Sainsbury's Annual Report and Financial Statements 2014 (which includes Sainsbury's audited financial statements for the 52 weeks to 15 March 2014) ("**Sainsbury's Annual Report and Accounts 2014**").

Information incorporated by reference

The tables below set out the various sections of the documents referred to above which are incorporated by reference into, and form part of, this Prospectus so as to provide certain information required pursuant to the Prospectus Rules, and only the parts of the documents identified in the tables below are incorporated into, and form part of, this Prospectus. The parts of these documents which are not incorporated by reference are either not relevant for investors or are covered elsewhere in this Prospectus. To the extent that any part of any information referred to below itself contains information which is incorporated by reference, such information shall not form part of this Prospectus.

For the 52 weeks to 12 March 2016

Information incorporated by reference into this Prospectus	Reference document	Page number in reference document
Independent auditor's report to the members of J Sainsbury plc	Sainsbury's Annual Report and Accounts 2016	83–87
Group income statement	Sainsbury's Annual Report and Accounts 2016	88
Group statement of comprehensive income	Sainsbury's Annual Report and Accounts 2016	89
Balance sheets	Sainsbury's Annual Report and Accounts 2016	90
Cashflow statements	Sainsbury's Annual Report and Accounts 2016	91
Group statement of changes in equity	Sainsbury's Annual Report and Accounts 2016	92–93
Company statement of changes in equity	Sainsbury's Annual Report and Accounts 2016	94
Notes to the financial statements	Sainsbury's Annual Report and Accounts 2016	95–150

For the 52 weeks to 14 March 2015

Information incorporated by reference into this Prospectus	Reference document	Page number in reference document
Independent auditors' report to the members of J Sainsbury plc	Sainsbury's Annual Report and Accounts 2015	77–81
Group income statement	Sainsbury's Annual Report and Accounts 2015	82
Group statement of comprehensive income	Sainsbury's Annual Report and Accounts 2015	83
Balance Sheets	Sainsbury's Annual Report and Accounts 2015	84
Cash flow statements	Sainsbury's Annual Report and Accounts 2015	85
Group statement of changes in equity	Sainsbury's Annual Report and Accounts 2015	86
Company statement of changes in equity	Sainsbury's Annual Report and Accounts 2015	87
Notes to the financial statements	Sainsbury's Annual Report and Accounts 2015	88–140

For the 52 weeks to 15 March 2014

Information incorporated by reference into this Prospectus	Reference document	Page number in reference document
Independent auditor's report to the members of J Sainsbury plc	Sainsbury's Annual Report and Accounts 2014	77–79
Group income statement	Sainsbury's Annual Report and Accounts 2014	80
Group statement of comprehensive income	Sainsbury's Annual Report and Accounts 2014	81
Balance sheets	Sainsbury's Annual Report and Accounts 2014	82
Cashflow statements	Sainsbury's Annual Report and Accounts 2014	83
Group statement of changes in equity	Sainsbury's Annual Report and Accounts 2014	84
Company statement of changes in equity	Sainsbury's Annual Report and Accounts 2014	85
Notes to the financial statements	Sainsbury's Annual Report and Accounts 2014	86–138

PART 7
SAINSBURY'S OPERATING AND FINANCIAL REVIEW

This Part 7 "Sainsbury's Operating and Financial Review" should be read in conjunction with "Important Information—Presentation of Financial and Other Information", Part 2 "Information on the Sainsbury's Group" and Part 6 "Sainsbury's Financial Information". Prospective investors should read the entire Prospectus (including the information incorporated into this Prospectus by reference) and not just rely on the summary information set out below. The financial information included or incorporated by reference in this Part 7 "Sainsbury's Operating and Financial Review" is extracted from the financial information referred to in Part 6 "Sainsbury's Financial Information" (which has been incorporated into this Prospectus by reference) or has been extracted without material adjustment from Sainsbury's accounting records, which formed the underlying basis of the financial information referred to in Part 6 "Sainsbury's Financial Information" (which has been incorporated into this Prospectus by reference).

Some of the information in this Part 7 "Sainsbury's Operating and Financial Review", including information in respect of Sainsbury's plans and strategies for its business and expected sources of financing, contains forward-looking statements that may involve risks and uncertainties. The Sainsbury's Group's actual results could differ materially from those that it discusses in these forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this Prospectus, particularly under "Risk Factors" and "Important Information—Information Regarding Forward-looking Statement".

1. RESULTS OF OPERATIONS

The table below sets out the sections of Sainsbury's Annual Report and Accounts 2016, Sainsbury's Annual Report and Accounts 2015 and Sainsbury's Annual Report and Accounts 2014 which contain information in respect of Sainsbury's operating and financial review and which are incorporated by reference into, and form part of, this Prospectus. The parts of these documents which are not incorporated by reference are either not relevant for investors or are covered elsewhere in this Prospectus. To the extent that any part of any information referred to below itself contains information which is incorporated by reference, such information shall not form part of this Prospectus.

Results of operations for the 52 weeks to 12 March 2016 against the 52 weeks to 14 March 2015

Reference Document	Topic		Information incorporated by reference into this document	Page number in reference document
Sainsbury's Annual Report and Accounts 2016	Business overview	(i)	Business model	2–3
		(ii)	Market context	12–13
	Key performance indicators	(i)	Strategic key performance indicators	16, 18, 23–24
			- All text under the headings "Sales growth by area", "Like-for-like transactions", "Product quality", "Price perception", "Sales growth by area", "Sales growth by channel", "Availability" and "Customer Service" as well as the charts under such headings in respect of the 52 weeks ended 12 March 2016 and the 52 weeks ended 14 March 2015 periods	
		(ii)	Financial KPIs	10–11

Reference Document	Topic	Information incorporated by reference into this document	Page number in reference document
		- All text under the headings "Group measures", "Maintaining balance sheet strength" and "Retail" as well as the charts under such headings in respect of the 52 weeks ended 12 March 2016 and the 52 weeks ended 14 March 2015 periods	
	Principal risks and uncertainties	Principal risks and uncertainties	36–38
	Operating results	Financial Review	40–47
	Liquidity and capital resources	(i) Net debt and cash flows	45–46
		(ii) Note 27b—Cash and cash equivalents	124
		(iii) Note 33—Operating lease commitments	147
		(iv) Note 34—Capital commitments	147
		(v) Note 35—Financial commitments	147
		(vi) Note 36—Contingent liabilities	147
		(vii) Retail capital expenditure	46
		(viii) Note 20—Borrowings	118–119
		(ix) Note 28—Analysis of net debt	125
	Principal financial risks	(i) Liquidity risk	126–127
		(ii) Liquidity and funding risk	131
		(ii) Counterparty credit risk	128, 131–132
		(iii) Market risk	129, 133
		(iv) Commodity risk	131
		(v) Capital risk management	131
		(vi) Interest rate risk	129, 133
	Accounting policies	Accounting policies—(2) Significant accounting judgements, estimates and assumptions	101–102
	Dividend policy	Financial review—Dividends	41

Results of operations for the 52 weeks to 14 March 2015 against the 52 weeks to 15 March 2014

Reference Document	Topic	Information incorporated by reference into this document	Page number in reference document
Sainsbury's Annual Report and Accounts 2015	Business overview	(i) Business model	2–3
		(ii) Market context	8–9

Reference Document	Topic	Information incorporated by reference into this document	Page number in reference document
	Key performance indicators	(i) Strategic key performance indicators - All text under the headings "Product quality", "Like-for-like transactions", "Price perception", "Sales growth by area", "Sales growth by channel", "Availability" and "Customer Service" as well as the charts under such headings in respect of the 52 weeks ended 14 March 2015 and the 52 weeks ended 15 March 2014 periods	24–25
		(ii) Financial key performance indicators - All text under the headings "Group measures", "Maintaining balance sheet strength" and "Retail" as well as the charts under such headings in respect of the 52 weeks ended 14 March 2015 and the 52 weeks ended 15 March 2014 periods	26–27
	Principal risks and uncertainties	Principal risks and uncertainties	28–30
	Operating results	Financial Review	31–39
	Liquidity and capital resources	(i) Net debt and cash flows	36–37
		(ii) Note 26b—Cash and cash equivalents	115
		(iii) Note 33—Operating lease commitments	138
		(iv) Note 34—Capital commitments	139
		(v) Note 35—Financial commitments	139
		(vi) Retail capital expenditure	37
		(vii) Note 20—Borrowings	109–111
		(viii) Note 27—Analysis of net debt	116
	Principal financial risks	(i) Liquidity risk	117
		(ii) Liquidity and funding risk	122
		(ii) Counterparty credit risk	119, 122–123
		(iii) Market risk	120, 123
		(iv) Commodity risk	122
		(v) Capital risk management	122
		(vi) Interest rate risk	123
	Accounting policies	Accounting policies—(c) Judgements and estimates	94

Results of operations for the 52 weeks to 15 March 2014 against the 52 weeks to 16 March 2013

Reference Document	Topic	Information incorporated by reference into this document		Page number in reference document
Sainsbury's Annual Report and Accounts 2014	Key performance indicators	Key performance indicators		22–23
		- the charts (and associated footnotes) under the heading "Financial KPIs" in respect of the 52 weeks ended 15 March 2014 and the 52 weeks ended 16 March 2013 periods		
	Operating results	Financial Review		28–35
	Liquidity and capital resources	(i)	Net debt and cash flows	33–34
		(ii)	Note 26b—Cash and cash equivalents	112
		(iii)	Note 33—Operating lease commitments	136
		(iv)	Note 34—Capital commitments	136
		(v)	Note 35—Financial commitments	136
		(vi)	Retail capital expenditure	34
		(vii)	Note 20—Borrowings	106–107
		(viii)	Note 27—Analysis of net debt	113

2. LIQUIDITY AND CAPITAL RESOURCES

2.1 Capital management and Liquidity

The Sainsbury's Group's key financing objectives are to diversify funding sources, to minimise refinancing risk and to maintain appropriate contingent liquidity. As at 4 June 2016, the Sainsbury's Group had drawn debt facilities of £2.9 billion (including the perpetual securities) and undrawn but committed borrowing facilities of £1.2 billion at its disposal.

2.2 Capitalisation and indebtedness

2.2.1 ***Gross indebtedness***

The following table sets out Sainsbury's gross indebtedness as at 9 April 2016. The figures have extracted without material adjustment from Sainsbury's unaudited management accounts:

	9 April 2016 (£m)
Current Debt	
Secured	227
Unguaranteed/unsecured	21
Total current debt	248
Non-current debt (excluding current portion of long-term debt)	
Secured	1,770
Unguaranteed/unsecured	418
Total non-current debt	2,188
Total gross indebtedness	2,436

2.2.2 *Capitalisation*

The following table sets out Sainsbury's capitalisation as at 12 March 2016. The figures have been extracted without material adjustment from Sainsbury's Annual Report and Accounts 2016:

	As at 12 March 2016 (£m)
Shareholders' equity	
Called up share capital	550
Share premium reserve	1,114
Other reserves and capital redemption reserve	835
Total equity attributable to ordinary shareholders of the parent	2,499
Perpetual capital securities and convertible bonds	496
Total equity attributable to equity holders of the parent	2,995
Total gross indebtedness	2,414
Total capitalisation	**5,409**

There has been no material change in Sainsbury's capitalisation since 12 March 2016.

2.2.3 *Indebtedness*

The following table sets out Sainsbury's net indebtedness as at 9 April 2016. The figures have been extracted without material adjustment from Sainsbury's unaudited management accounts:

	As at 9 April 2016 (£m)
Cash	218
Cash equivalent	419
Derivative financial instruments	60
Current financial receivable	697
Current bank debt	(75)
Current portion of non-current debt	(172)
Bonds issued—current	(1)
Derivative financial instruments	(52)
Current financial debt	(300)
Net current financial liquidity	**397**
Interest-bearing available-for-sale financial assets	36
Derivative financial instruments	14
Non-current financial receivable	50
Non-current bank loans	(1,770)
Bonds issued	(418)
Derivative financial instruments	(34)
Non-current financial debt	(2,222)
Net non-current financial indebtedness	(2,172)
Net financial indebtedness	**(1,775)**

2.3 **Borrowings and indebtedness**

The principal elements of the Sainsbury's Group's drawn debt facilities comprise two long-term loans of £742 million maturing 2018 and £770 million maturing 2031, both secured over property assets. In addition, the Sainsbury's Group has further secured loans of £200 million maturing August 2019 and €50 million maturing September 2016, a five-year £450 million Convertible Bond maturing November 2019 and £170 million hire purchase facilities and finance leases.

On 5 May 2015, the Sainsbury's Group refinanced its unsecured revolving credit facility with a secured recourse £1,150 million revolving credit facility, with a final maturity of 2020 (the "**Revolving Credit Facility**"). The Revolving Credit Facility is the same size as, and has substantially similar economic terms to, the previous unsecured facility. The Revolving Credit Facility is secured against supermarket properties, and contains no financial covenants. The facility is split into two tranches, a £500 million Facility (A) maturing in May 2019 and a £650 million Facility (B) maturing in May 2020. As at 12 March 2016, £nil had been drawn from Facility (A) (14 March 2015: £120 million) and £nil from Facility (B) (14 March 2015: £nil). As part of this transaction, two further bank loans totalling £244 million were secured on supermarket properties. On 18 March 2016, Sainsbury's entered into an amendment and restatement agreement in respect of the Revolving Credit Facility, details of which are set out in paragraph 15 of Part 1 "*Details of the Acquisition*", of this Prospectus. On 16 May 2016, Sainsbury's, pursuant to a mechanism under the Revolving Credit Facility, extended the final maturity date of Facility (A) from April 2018 to May 2019. There are no financial covenants in relation to the Sainsbury's Group's debt.

On 30 July 2015, the Sainsbury's Group issued £250 million of Perpetual Subordinated Non-Convertible Bonds and £250 million of Perpetual Subordinated Convertible Bonds. In line with accounting standards, both instruments have been accounted for as equity and the coupon cost as dividends.

3. CURRENT TRADING AND PROSPECTS

The Sainsbury's Group announced in its first quarter trading statement for the 12 weeks ended 4 June 2016 on 8 June 2016, that:

(a) Total retail sales for the first quarter increased by 0.3 per cent. (excluding fuel) and decreased by 0.1 per cent. (including fuel) compared to the same quarter in the previous year; Sainsbury's like-for-like retail sales for the first quarter decreased by 0.8 per cent. (excluding fuel) and decreased by 1.0 per cent. (including fuel) year-on-year. Sainsbury's also achieved like-for-like transaction growth across all channels in the quarter;

(b) Sainsbury's is focused on delivering its multi-channel, multi-product strategy. Sainsbury's has a clear and simple trading strategy focusing on lower regular prices which is resonating with customers; is reducing promotional participation levels and continues to lower the prices of everyday products. The Sainsbury's Group is investing in improving the quality and range of its own-brand food and non-food products and continues to see encouraging results from Sainsbury's Bank;

(c) Sainsbury's convenience business achieved growth of over six per cent and opened seven new convenience stores in the quarter. Groceries online performed well with over eight per cent. sales growth and nearly a 13 per cent, increase in orders. Sainsbury's also launched its new groceries online app in the quarter; and

(d) Market conditions remain challenging, with food price deflation continuing to impact the Sainsbury's Group's sales and pressures on pricing meaning the market will remain competitive for the foreseeable future. However, the Sainsbury's Directors are confident that the Sainsbury's Group's strategy to be a trusted multi-channel, multi-product and services retailer is delivering and will enable the Sainsbury's Group to continue to outperform its major peers.

PART 8
HOME RETAIL GROUP FINANCIAL INFORMATION

Historical financial information

The following document, which has been filed with the FCA and is available for inspection in accordance with paragraph 27 of Part 11 "*Additional Information*" of this Prospectus, contains financial information in relation to the Home Retail Group which is relevant to the Acquisition:

- Home Retail Group's Annual Report and Financial Statements 2016 (which includes Home Retail Group's audited financial statements for the 52 weeks ended 27 February 2016) ("**Home Retail Group's Annual Report and Accounts 2016**").

Information incorporated by reference

The tables below set out the various sections of the document referred to above which, in relation to the Home Retail Group historical financial information relating to 52 weeks ended 27 February 2016 only, is incorporated by reference into, and forms part of, this Prospectus solely in connection with the Pro Forma Financial Information contained in Part 9 "*Unaudited Pro Forma Financial Information On The Combined Group*" so as to provide certain information required pursuant to the Prospectus Rules, and only the parts of the document identified in the table below are incorporated into, and form part of, this Prospectus. The parts of this document which are not incorporated by reference are either not relevant for investors or are covered elsewhere in this Prospectus. To the extent that any part of any information referred to below itself contains information which is incorporated by reference, such information shall not form part of this Prospectus.

Home Retail Group financial information for the 52 weeks ended 27 February 2016

Information incorporated by reference into this Prospectus	Reference document	Page number in reference document
Independent auditors' report to the members of Home Retail Group plc for the 52-weeks ended 27 February 2016	Home Retail Group's Annual Report and Accounts 2016	57–62
Consolidated Income Statement	Home Retail Group's Annual Report and Accounts 2016	63
Consolidated Statement of Comprehensive Income	Home Retail Group's Annual Report and Accounts 2016	64
Consolidated Balance Sheet	Home Retail Group's Annual Report and Accounts 2016	65
Consolidated Statement of Changes in Equity	Home Retail Group's Annual Report and Accounts 2016	66
Consolidated Statement of Cash Flows	Home Retail Group's Annual Report and Accounts 2016	67
Analysis of Net Debt / (Cash)	Home Retail Group's Annual Report and Accounts 2016	68
Notes to the Financial Statements	Home Retail Group's Annual Report and Accounts 2016	69–107

PART 9
UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE COMBINED GROUP

The unaudited consolidated pro forma income statement and statement of net assets of the Combined Group set out in Section A and Section B, respectively, of this Part 9 "*Unaudited Pro Forma Financial Information on the Combined Group*" (the "**Pro forma financial information**") have been prepared in a manner consistent with the accounting policies adopted by Sainsbury's in preparing the Sainsbury's Group's audited historical consolidated financial statements for the 52 weeks ended 12 March 2016, incorporated into this Prospectus by reference as set out in Part 6 "*Sainsbury's Financial Information*", on the basis set out in the notes to the Pro forma financial information in accordance with Annex II to the Prospectus Directive Regulation.

The unaudited consolidated pro forma income statement has been prepared to illustrate the effect on the income statement of Sainsbury's of the Acquisition and any related adjustments (the "**Transaction**") as if it had taken place on 15 March 2015. The unaudited pro forma statement of net assets of the Combined Group has been prepared to illustrate the effect on the balance sheet of Sainsbury's of the Acquisition as if it had taken place as at 12 March 2016.

The Pro forma financial information does not constitute financial statements within the meaning of section 434 of the 2006 Act. No adjustment has been made to reflect trading results or any other change in financial position since, in the case of Sainsbury's, 12 March 2016, and, in the case of Home Retail Group, 27 February 2016.

The Pro forma financial information has been prepared for illustrative purposes only and, by its nature, addresses a hypothetical situation and, therefore, does not represent Sainsbury's or the Combined Group's actual financial position or results.

SECTION A: UNAUDITED PRO FORMA INCOME STATEMENT

Full year pro forma income statement

	Sainsbury's for the 52 weeks to 12 March 2016(1)	Home Retail Group for the 52 weeks to 27 February 2016(2)	Transaction Adjustments(3)	Pro forma for the Combined Group
	£(m)			
Revenue	23,506	4,235	—	27,741
Cost of sales	(22,050)	(3,154)	—	(25,204)
Gross profit	1,456	1,081	—	2,537
Net operating expenses	(749)	(1,920)	(39)	(2,708)
Operating profit/(loss)	707	(839)	(39)	(171)
Finance income	19	2	—	21
Finance costs	(167)	(3)	—	(170)
Net finance costs	(148)	(1)	—	(149)
Negative goodwill on acquisition, before fair value adjustments	—	—	283	283
Share of post-tax loss from joint ventures and associates	(11)	—	—	(11)
Profit/(loss) before tax	548	(840)	244	(48)
Income tax expense	(77)	(9)	—	(86)
Profit/(loss) for the financial period	471	(849)	244	(134)
Underlying profit before tax(5)(6)	587	72	—	659
Underlying EBITDAR(5)(7)	1,830	337	—	2,167

Notes:

(1) Sainsbury's financial information has been extracted, without material adjustment, from Sainsbury's audited financial statements for the 52 weeks ended 12 March 2016, which are incorporated into this Prospectus by reference, as set out in Part 6 "*Sainsbury's Financial Information*".

(2) Home Retail Group's financial information has been extracted, without material adjustment, from Home Retail Group's audited financial statements for the 52 weeks ended 27 February 2016, which are incorporated into this Prospectus by reference, as set out in Part 8 "*Home Retail Group Financial Information*", reflecting the results of continuing operations. Underlying profit before tax reflects Home Retail Group's benchmark profit before tax from continuing operations, excluding the benchmark profit before tax of discontinued operations.

(3) (a) The transaction adjustment to operating profit comprises the fees related to the Transaction for Sainsbury's post the 52 weeks ended 12 March 2016 (£18 million) and for Home Retail Group post the 52 weeks ended 27 February 2016 (£19 million), together with the portion of stamp duty on the non-share element of the offer consideration (£2 million).

(b) The pro forma income statement does not reflect the fair value adjustments to the acquired assets and liabilities, as the fair value measurement of these items will only be performed subsequent to completion of the Acquisition. The pro forma income statement, in arriving at the pro forma loss before tax, reflects the excess of the acquired net assets, adjusted for accounting policy alignment, the de-recognition of acquired goodwill and the proposed capital return, over the offer consideration (as explained in Part 1 "*Details of the Acquisition*" of this Prospectus), as set out below:

	£(m)
Net assets as at 27 February 2016	1,838
Accounting policies alignment adjustments	35
Less: Goodwill de-recognised	(301)
Less: Proposed capital return	(226)
Pro forma net assets acquired	1,346
Less: Offer consideration—cash (55 pence per share × 813.4 million Home Retail Group Shares)	(447)
Less: Offer consideration—shares (0.321 New Sainsbury's Shares per share × 236.10 pence per share as at 1 July 2016 × 813.4 million Home Retail Group Shares)	(616)
Negative goodwill on acquisition	283

On apportionment of the purchase price, fair values ascribed to assets acquired or liabilities assumed may result in material changes to the negative goodwill and the net asset position as recorded in the pro forma financial information.

As part of this fair value exercise, the Combined Group will conduct its own assessment of Home Retail Group's post year-end increased estimate to c. £30 million for the Financial Services customer redress provision detailed in "*Risk Factors—The Home Retail Group and, following completion of the Acquisition, the Combined Group faces risks relating to redress issues in relation to the* *collection of late payment fees from customers of the Home Retail Group's Financial Services business. Existing provisions made in the Home Retail Group's financial statements for the 52 weeks ended 27 February 2016 for such issues are unlikely to cover all potential costs and losses*" of this Prospectus, which has not been included as an adjustment in the pro forma financial information.

(c) No adjustment has been made in respect of the reduction in the IAS 19 pension financing charge as this is considered to be immaterial. No adjustment has been made in respect of the impact on the tax charge of the remaining portion of the Home Retail Group contribution to the Home Retail Group Pension Scheme, pursuant to the disposal of Homebase and the capital return (£24 million), and the £50 million contribution to the Home Retail Group Pension Scheme related to the transaction, as there is no net impact on the income statement.

(d) These items are all treated as non-underlying in nature.

(4) There are no material adjustments required to Home Retail Group's income statement in order for the Home Retail Group's income statement to be prepared in accordance with Sainsbury's accounting policies. Specifically, no adjustment has been made in respect of the accounting policies adjustment reflecting the inclusion in inventories of the relevant portion of warehousing and distribution costs incurred in respect of closing inventories of Home Retail Group, as the year-on-year impact is considered to be immaterial.

(5) Certain non-IFRS measures have been presented in the pro forma financial information, as the Sainsbury's Directors believe that these provide important alternative measures with which to assess the Combined Group's performance. These measures include underlying profit before tax and underlying EBITDAR, which are key performance indicators and described in "*Important Information*" of this Prospectus.

(6) **Reconciliation of underlying profit before tax**

	Sainsbury's for the 52 weeks to 12 March 2016[(1)]	Home Retail Group for the 52 weeks to 27 February 2016[(2)]	Transaction Adjustments[(3)]	Pro forma for the Combined Group
		£(m)		
Underlying profit before tax	587	72	—	659
Profit on disposal of properties	101	—	—	101
Investment property fair value movements	(18)	—	—	(18)
Financing fair value movements	(22)	(2)	—	(24)
IAS 19 pension financing charge and scheme expenses	(28)	(5)	—	(33)
Perpetual securities coupons	15	—	—	15
Acquisition adjustments	3	—	—	3
Argos goodwill impairment	—	(852)		(852)
Negative goodwill on acquisition, before fair value adjustments	—	—	283	283
Habitat goodwill and brand intangible impairment	—	(12)	—	(12)
Argos transformation charges	—	(10)	—	(10)
Financial Services customer redress	—	(17)	—	(17)
Amortisation of acquisition intangibles	—	(2)	—	(2)
Adjustments in respect of store impairments and property provisions	—	(12)	—	(12)
One-off items	(90)	—	(39)	(129)
Total adjustments	(39)	(912)	244	(707)
Profit/(loss) before tax	548	(840)	244	(48)

(7) **Reconciliation of underlying EBITDAR**

	Sainsbury's for the 52 weeks to 12 March 2016[(1)]	Home Retail Group for the 52 weeks to 27 February 2016[(2)]	Pro forma for the Combined Group
		£(m)	
Underlying profit before tax	587	72	659
Underlying net finance costs/(income)[(8)]	121	(4)	117
Underlying share of post-tax profit from joint ventures and associates[(9)]	(8)	—	(8)
Underlying depreciation and amortisation[(10)]	574	102	676
Rents	556	167	723
Underlying EBITDAR	1,830	337	2,167

(8) Sainsbury's underlying net finance costs reflect the net financing expense before financing fair value movements (£20 million) and the IAS 19 pension financing charge (£22 million), but includes coupons on the perpetual capital securities and the perpetual convertible bonds (£15 million). Home Retail Group's underlying net finance income reflects the net financing expense from continuing operations, and excludes the non-benchmark (i) financing fair value remeasurements—net exchange losses (£2 million) and (ii) net finance expense on post-employment benefit obligations from continuing operations (£3 million).

(9) Sainsbury's underlying share of post-tax profit from joint ventures and associates is stated before investment property fair value movements (£18 million), financing fair value movements (£2 million) and profit on disposal of properties (£1 million).

(10) Sainsbury's underlying depreciation and amortisation is stated before the amortisation on acquired intangibles (£10 million) resulting from the Sainsbury's Bank acquisition fair value adjustments. Home Retail Group's underlying depreciation and amortisation is stated before the amortisation on acquired intangibles (£2 million).

SECTION B: UNAUDITED PRO FORMA NET ASSETS STATEMENT

	Sainsbury's as at 12 March 2016[1]	Home Retail Group as at 27 February 2016[2]	Adjustments: Accounting Policies Alignment Adjustments[3]	Adjustments: Transaction Adjustments[4]	Pro forma for the Combined Group
			£m		
Non-current assets					
Property, plant and equipment	9,764	260	—	—	10,024
Goodwill and other intangible assets	329	530	—	(301)	558
Investments in joint ventures and associates	327	—	—	—	327
Available-for-sale financial assets	340	10	—	—	350
Deferred income tax asset	—	26	—	—	26
Other receivables	103	—	—	—	103
Amounts due from Sainsbury's Bank customers	1,649	—	—	—	1,649
Derivative financial instruments	17	—	—	—	17
	12,529	826	—	(301)	13,054
Current assets					
Inventories	968	756	44	—	1,768
Trade and other receivables	508	830	—	—	1,338
Taxes receivable	—	5	—	—	5
Amounts due from Sainsbury's Bank customers	1,695	—	—	—	1,695
Available-for-sale financial assets	48	—	—	—	48
Derivative financial instruments	51	52	—	—	103
Cash and bank balances	1,143	623	—	(789)	977
	4,413	2,266	44	(789)	5,934
Assets held for sale	31	—	—	—	31
	4,444	2,266	44	(789)	5,965
Total assets	16,973	3,092	44	(1,090)	19,019
Current liabilities					
Trade and other payables	(3,077)	(1,062)	—	—	(4,139)
Amounts due to Sainsbury's Bank customers	(3,173)	—	—	—	(3,173)
Borrowings	(223)	—	—	—	(223)
Derivative financial instruments	(43)	(3)	—	—	(46)
Taxes payable	(158)	(5)	—	—	(163)
Provisions	(46)	(38)	—	—	(84)
	(6,720)	(1,108)	—	—	(7,828)
Liabilities held for sale	(4)	—	—	—	(4)
	(6,724)	(1,108)	—	—	(7,832)
Net current (liabilities)/assets	(2,280)	1,158	44	(789)	(1,867)
Non-current liabilities					
Trade and other payables	(269)	(17)	—	—	(286)
Amounts due to Sainsbury's Bank customers	(582)	—	—	—	(582)
Borrowings	(2,190)	—	—	—	(2,190)
Derivative financial instruments	(69)	—	—	—	(69)
Deferred income tax liability	(237)	(14)	(9)	—	(260)
Provisions	(129)	(21)	—	—	(150)
Retirement benefit obligations	(408)	(94)	—	74	(428)
	(3,884)	(146)	(9)	74	(3,965)
Net assets	6,365	1,838	35	(1,016)	7,222

Net debt/(cash)	1,826	(623)	—	789	1,992
Capitalised operating lease commitments[5]	5,500	677	—	—	6,177
Lease-adjusted net debt	7,326	54	—	789	8,169
Pro forma ratio of lease adjusted net debt to underlying EBITDAR[6]	4.0x	0.2x			3.8x

Notes:

(1) The net assets statement of Sainsbury's has been extracted, without material adjustment, from the audited financial statements of Sainsbury's as at 12 March 2016, which are incorporated into this Prospectus by reference, as set out in Part 6 *"Sainsbury's Financial Information"*.

(2) The net assets statement of Home Retail Group has been extracted, without material adjustment, from the audited financial statements of Home Retail Group as at 27 February 2016, which are incorporated into this Prospectus by reference, as set out in Part 8 "*Home Retail Group Financial Information*".

(3) The adjustments reflect the impact of the accounting policy alignment in respect of the inclusion in inventories of the relevant portion of warehousing and distribution costs incurred in respect of closing inventories of Home Retail Group as at 27 February 2016 and the related deferred tax liability effect. The impact on the income statement of adjusting for both opening and closing inventories, and tax thereon, are considered to be immaterial.

(4) (a) The pro forma net assets statement does not reflect the fair value adjustments to the acquired assets and liabilities, as the fair value measurement of these items will only be performed subsequent to completion of the Acquisition. However, the goodwill of £301 million within the net assets of Home Retail Group has been de-recognised as it does not meet the definition of an identifiable asset under IFRS 3. On apportionment of the purchase price, fair values ascribed to assets acquired or liabilities assumed, may result in material changes to the negative goodwill and the net asset position as recorded in the pro forma financial information.

As part of this fair value exercise, the Combined Group will conduct its own assessment of Home Retail Group's post year-end increased estimate to c. £30 million for the Financial Services customer redress provision detailed in "*Risk Factors—The Home Retail Group and, following completion of the Acquisition, the Combined Group faces risks relating to redress issues in relation to the collection of late payment fees from customers of the Home Retail Group's Financial Services business. Existing provisions made in the Home Retail Group's financial statements for the 52 weeks ended 27 February 2016 for such issues are unlikely to cover all potential costs and losses*" of this Prospectus, which has not been included as an adjustment in the pro forma financial information.

(b) The total consideration includes consideration in the form of cash and shares, as explained in Part 1 "*Details of the Acquisition*" of this Prospectus. The transaction adjustments to current assets reflect:

	£(m)
Offer consideration—cash (55 pence per share × 813.4 million Home Retail Group Shares)	(447)
Proposed capital return	(226)
Pension contribution on the transaction	(50)
Remaining pension contribution related to Homebase disposal	(24)
Sainsbury's transaction fees post 12 March 2016	(18)
Home Retail Group's transaction fees post 27 February 2016	(19)
Stamp duty	(5)
Total cash adjustment	(789)

Approximately £70 million is expected to be utilised by the Combined Group for future restructuring and separation costs, pursuant to the disposal of Homebase. However, these anticipated costs have not been included in the total cash adjustment above.

(c) Pension contributions, above, totalling £74 million, are shown as a reduction to the retirement benefit obligations. No adjustment has been made in respect of the pension contributions on current or deferred tax assets or liabilities as there is no net impact on net assets.

(5) The capitalised value of operating lease commitments for Sainsbury's have been discounted at its long-term borrowing rate of 5.5 per cent., whilst those of Home Retail Group have been discounted at its equivalent rate of 3.6 per cent.

If Sainsbury's discount rate was applied to the commitments of Home Retail Group, this would reduce the value by £45 million, to £632 million.

(6) The ratio of lease-adjusted net debt to underlying EBITDAR is calculated as the lease- adjusted net debt divided by the underlying EBITDAR.

SECTION C: ACCOUNTANT'S REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

Deloitte.

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The Board of Directors
on behalf of J Sainsbury plc
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London
EC1N 2HT

UBS Limited
1 Finsbury Avenue
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Morgan Stanley & Co. International plc
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5 July 2016

Dear Sirs,

J Sainsbury plc (the "**Company**")

We report on the pro forma financial information (the "**Pro forma financial information**") set out in Sections A and B of Part 9 of the prospectus dated 5 July 2016 (the "**Prospectus**"), which has been prepared on the basis described in the notes, for illustrative purposes only, to provide information about how the Acquisition and any related adjustments (the "**Transaction**") might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ended 12 March 2016. This report is required by the Commission Regulation (EC) No 809/2004 (the "**Prospectus Directive Regulation**") and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company (the "**Sainsbury's Directors**") to prepare the Pro forma financial information in accordance with Annex II items 1 to 6 of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, as to the proper compilation of the Pro forma financial information and to report that opinion to you in accordance with Annex II item 7 of the Prospectus Directive Regulation.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the Sainsbury's Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

Opinion

In our opinion:

(a) the Pro forma financial information has been properly compiled on the basis stated; and

(b) such basis is consistent with the accounting policies of the Company.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully

Deloitte LLP
Chartered Accountants

*Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("**DTTL**"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.*

PART 10
UK TAXATION

The following statements are intended only as a general guide to certain UK tax considerations and do not purport to be a complete analysis of all potential UK tax consequences of acquiring, holding or disposing of Sainsbury's Shares. They are based on current UK legislation and what is understood to be the current practice of HM Revenue & Customs ("**HMRC**") as at the date of this Prospectus, both of which may change, possibly with retroactive effect. Sainsbury's Shareholders should note that the following statements reflect proposed changes in law and tax rates set out in the Finance Bill 2016–17 (the "**Finance Bill**") as ordered to be printed on 19 May 2016. If the Finance Bill is not enacted in its current form or additional provisions are introduced, the tax position set out below may change.

These statements apply only to Sainsbury's Shareholders who are resident (and, in the case of individuals, domiciled) for tax purposes in (and only in) the UK (except insofar as express reference is made to the treatment of non-UK residents), who hold their Sainsbury's Shares as an investment (other than under an individual savings account) and who are the absolute beneficial owner of both the Sainsbury's Shares and any dividends paid on them. The tax position of certain categories of Sainsbury's Shareholders who are subject to special rules (such as persons acquiring their Sainsbury's Shares in connection with employment, dealers in securities, insurance companies and collective investment schemes or those who hold 10 per cent. or more of the Sainsbury's Shares) is not considered.

The statements in paragraphs 3 and 4 of this Part 10 "*UK Taxation*" apply to any holders of Sainsbury's Shares irrespective of their residence, summarise the current position and are intended as a general guide only.

Sainsbury's Shareholders or prospective investors who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the UK are strongly recommended to consult their own professional advisers.

1. TAXATION OF DIVIDENDS

The Company is not required to withhold UK tax when paying a dividend.

The amount of any liability to UK tax on dividends paid by the Company will depend upon the individual circumstances of a Sainsbury's Shareholder.

UK resident individual shareholders

Assuming that the Finance Bill is enacted in its current form, all dividends received by a UK resident individual Sainsbury's Shareholder from the Company or from other sources will form part of the Sainsbury's Shareholder's total income for income tax purposes and will constitute the top slice of that income. A nil rate of income tax will apply to the first £5,000 of taxable dividend income received by the Sainsbury's Shareholder in a tax year. Where the dividend income is above the £5,000 dividend allowance, the first £5,000 of the dividend income will be charged at the nil rate and any excess amount will be taxed at the rate that would apply to that amount if the nil rate did not exist. The rates are 7.5 per cent. to the extent that the excess amount falls within the basic rate tax band, 32.5 per cent. to the extent that the excess amount falls within the higher rate tax band and 38.1 per cent. to the extent that the excess amount falls within the additional rate tax band.

Other shareholders

Dividends paid by the Company to Sainsbury's Shareholders who are subject to UK corporation tax should fall within one or more of the classes of dividend qualifying for exemption from corporation tax, although the exemptions are not comprehensive and are also subject to anti-avoidance rules. Sainsbury's Shareholders within the charge to corporation tax should consult their own professional advisers.

Sainsbury's Shareholders who are not resident in the UK for UK tax purposes will not be liable to UK income or corporation tax on dividends paid on the Sainsbury's Shares unless they are carrying on a trade, profession or vocation in the UK and the dividends are either a receipt of that trade or, in the case of corporation tax, the Sainsbury's Shares are held by or for a UK permanent establishment through which the trade is carried on.

A Sainsbury's Shareholder resident outside the UK may be subject to taxation on dividend income under local law. A Sainsbury's Shareholder who is resident outside the UK for tax purposes should consult his own tax adviser concerning his tax position on dividends received from the Company.

2. CHARGEABLE GAINS

2.1 Consideration Shares

Home Retail Group Shareholders should refer to the Scheme Document which contains a summary of the consequences of acquiring New Sainsbury's Shares.

2.2 Subsequent disposals of Sainsbury's Shares

A disposal or deemed disposal of Sainsbury's Shares by a Sainsbury's Shareholder who is (at any time in the relevant UK tax year) resident in the UK for tax purposes may, depending upon the Sainsbury's Shareholder's circumstances and subject to any available exemption or relief (such as the annual exempt amount for individuals and indexation for corporate shareholders), give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of capital gains.

Sainsbury's Shareholders who are not resident in the UK for UK tax purposes will not generally be subject to UK taxation of capital gains on the disposal or deemed disposal of Sainsbury's Shares unless they are carrying on a trade, profession or vocation in the UK through a branch or agency (or, in the case of a corporate Sainsbury's Shareholder, a permanent establishment) in connection with which the Sainsbury's Shares are used, held or acquired.

An individual Sainsbury's Shareholder who has ceased to be resident for tax purposes in the UK (or has become treated as resident outside the UK for the purposes of a double tax treaty ("**Treaty non-resident**")) for a period of five years or less (or, in respect of departures before 6 April 2013, ceased to be resident or ordinarily resident or became Treaty non-resident for a period of less than five complete years of assessment) and who disposes of all or part of his Sainsbury's Shares during that period may be liable to UK capital gains tax on any gain on his return to the UK, subject to any available exemptions or reliefs.

3. STAMP DUTY AND STAMP DUTY RESERVE TAX ("SDRT")

3.1 The issue of New Sainsbury's Shares in connection with the Acquisition

Subject to paragraph 3.4 of this Part 10 "*UK Taxation*", the issue of Sainsbury's Shares in connection with the Acquisition will not generally give rise to stamp duty or SDRT.

3.2 Subsequent Transfers

Stamp duty at the rate of 0.5 per cent. (rounded up to the next multiple of £5) of the amount or value of the consideration given is generally payable on an instrument transferring Sainsbury's Shares. An exemption from stamp duty is available on an instrument transferring Sainsbury's Shares where the amount or value of the consideration is £1,000 or less, and it is certificated on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions in respect of which the aggregate amount or value of the consideration exceeds £1,000. Alternatively, a charge to SDRT will arise on an unconditional agreement to transfer Sainsbury's Shares (at the rate of 0.5 per cent. of the amount or value of the consideration payable). However, if within six years of the date of the agreement becoming unconditional an instrument of transfer is executed pursuant to the agreement, and stamp duty is paid on that instrument, any SDRT already paid will be refunded (generally, but not necessarily, with interest) provided that a claim for repayment is made, and any outstanding liability to SDRT will be cancelled. The liability to pay stamp duty or SDRT is generally satisfied by the purchaser or transferee.

3.3 Sainsbury's Shares held through CREST

Paperless transfers of Sainsbury's Shares within CREST are generally liable to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration. CREST is obliged to collect SDRT on relevant transactions settled within the system. The charge is generally borne by the purchaser or transferee. Under the CREST system, no stamp duty or SDRT will arise on a transfer of Sainsbury's Shares into the system unless such a transfer is made for a consideration in money or money's worth, in which case a liability to SDRT (usually at a rate of 0.5 per cent.) will arise.

3.4 **Sainsbury's Shares held through Clearance Systems or Depositary Receipt Arrangements**

Under current UK law, where Sainsbury's Shares are issued or transferred (a) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty (in the case or a transfer) or SDRT (in the case of an issue or a transfer) will be payable at the higher rate of 1.5 per cent. of the amount or value of the consideration payable or, in certain circumstances, the value of the Sainsbury's Shares (rounded up to the next multiple of £5 in the case of stamp duty). This liability for stamp duty or SDRT will strictly be accountable by the depositary or clearance service operator or their nominee, as the case may be, but will, in practice, generally be reimbursed by participants in the clearance service or depositary receipt system. Clearance services may opt, provided certain conditions are satisfied, for the normal rate of stamp duty or SDRT (0.5 per cent. of the amount or value of consideration given) to apply to issues or transfers of Sainsbury's Shares into, and to transactions within, such clearance services instead of the higher rate of 1.5 per cent. generally applying to an issue or transfer of Sainsbury's Shares into the clearance service and instead of the exemption from SDRT on transfers of Sainsbury's Shares while in the service.

However, following litigation HMRC have confirmed that they will no longer seek to apply the 1.5 per cent. SDRT charge on an issue of shares or securities to a clearance service or depositary receipt system anywhere in the world (or on a transfer of shares or securities to such entities where the transfer is an integral part of an issue of share capital) on the basis that the charge is not compatible with EU law. It is noted that on 23 June 2016 the UK voted in a referendum to leave the European Union. Accordingly, the extent to which this will remain the case is uncertain.

HMRC's view is that the 1.5 per cent. SDRT or UK stamp duty charge will continue to apply to a transfer of shares or securities to a clearance service or depositary receipt system where the transfer is not an integral part of an issue of share capital. Accordingly specific professional advice should be sought before paying the 1.5 per cent. charge.

4. **INHERITANCE TAX**

The Sainsbury's Shares will be assets situated in the UK for the purposes of UK inheritance tax. A gift or settlement of such assets by, or on the death of, an individual holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax regardless of their domicile status and tax residence status. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit.

A charge to inheritance tax may arise in certain circumstances where Sainsbury's Shares are held by UK or offshore close companies and by UK or offshore trustees of settlements. Sainsbury's Shareholders who are either close companies or trustees of settlements should consult an appropriate tax adviser as to any inheritance tax implications.

PART 11
ADDITIONAL INFORMATION

1. Responsibility

The Company and the Sainsbury's Directors, whose names and principal functions are set out in Part 5 "*Directors, Senior Management and Corporate Governance*", accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Company and the Sainsbury's Directors (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

2. Incorporation

2.1 The Company was incorporated and registered in England and Wales on 10 November 1922 as a company limited by shares under the Companies Acts of 1908 to 1917, as amended with the name Sainsbury's Limited and with the registered number 185647.

2.2 The Company was re-registered as a public company limited by shares on 1 March 1982 under the Companies Acts of 1908 to 1917 and the Companies Acts 1948 to 1981, as amended, with the name J Sainsbury plc.

2.3 The Company's registered office and principal place of business is at 33 Holborn, London, EC1N 2HT and its telephone number is +44 (0)20 7695 6000.

2.4 The principal laws and legislation under which the Company operates and the Sainsbury's Shares have been created, and under which the New Sainsbury's Shares to be issued pursuant to the Acquisition will be created, are the 2006 Act and regulations made thereunder.

3. Share capital

3.1 Share capital summary

(a) On 16 March 2013, being the beginning of the period covered by the historical financial information in this Prospectus, the issued share capital of the Company was made up as follows:

	Issued		
Class of Sainsbury's shares	**Number**	**Amount**	**Fully Paid**
Shares	1,892,990,218	£540,854,348.00	Fully Paid

(b) Between 17 March 2013 and 15 March 2014, the Company issued 14,220,697 Shares, after which the issued share capital of the Company was made up as follows:

	Issued		
Class of Sainsbury's shares	**Number**	**Amount**	**Fully Paid**
Shares	1,907,210,915	£544,917,404.29	Fully Paid

(c) Between 16 March 2014 and 14 March 2015, the Company issued 12,222,427 Shares, after which the issued share capital of the Company was made up as follows:

	Issued		
Class of Sainsbury's shares	**Number**	**Amount**	**Fully Paid**
Shares	1,919,433,342	£548,409,526.29	Fully Paid

(d) Between 15 March 2015 and 12 March 2016, the Company issued 4,643,852 Shares, after which the issued share capital of the Company was made up as follows:

	Issued		
Class of Sainsbury's shares	**Number**	**Amount**	**Fully Paid**
Shares	1,924,077,194	£549,736,341.14	Fully Paid

(e) As at the Last Practicable Date, the issued share capital of the Company is made up as follows:

	Issued		
Class of Sainsbury's shares	**Number**	**Amount**	**Fully Paid**
Shares	1,925,529,752	£550,151,357.71	Fully Paid

(f) Immediately following Admission, the issued and fully paid share capital of the Company will be made up as follows (based on the assumption that 261,115,846 New Sainsbury's Shares are issued in connection with the Acquisition, and that no other issues of Sainsbury's Shares occur between the date of this Prospectus and Admission):

	Issued		
Class of Sainsbury's shares	**Number**	**Amount**	**Fully Paid**
Shares	2,186,645,598	£624,755,885.14	Fully Paid

(g) The Sainsbury's Shares are in registered form and capable of being held in uncertificated form. The International Securities Identification Number (ISIN) for the Sainsbury's Shares is GB00B019KW72 and the SEDOL number for the Sainsbury's Shares is B019KW7. No temporary documents of title will be issued. It is expected that definitive share certificates will be posted to those Home Retail Group Shareholders who have requested the issue of New Sainsbury's Shares in certificated form within 14 days of the New TopCo Reduction Effective Time.

(h) The Company does not have in issue any shares not representing share capital and save as set out below there are no outstanding debentures, convertible securities, exchangeable securities or securities with warrants issued or proposed to be issued by the Company.

(i) In November 2014, Sainsbury's issued £450 million of unsecured convertible bonds (the "**Convertible Bonds**"), due November 2019. The Convertible Bonds pay a coupon of 1.25 per cent. payable annually. Each bond is convertible into Sainsbury's Shares at any time up to 21 November 2019 at a conversion price of 353 pence. The ISIN of the Convertible Bonds is XS1139087933.

(j) In July 2015, Sainsbury's issued £250 million perpetual subordinated convertible bonds (the "**Subordinated Convertible Bonds**") which have no fixed redemption date. The Subordinated Convertible Bonds pay a coupon of 2.875 per cent. payable annually. Each bond is convertible into Sainsbury's Shares at the option of the holder until the seventh day prior to 30 July 2021. The ISIN of the Subordinated Convertible Bonds is XS1268412993.

(k) As at the Last Practicable Date, the Company held no treasury shares.

3.2 **Existing Sainsbury's Shareholder authorities**

(a) Pursuant to the 2006 Act, with effect from 1 October 2009, the concept of authorised share capital was abolished and accordingly there is no limit on the maximum amount of shares that may be allotted by the Company.

(b) Pursuant to an ordinary resolution of the Company dated 8 July 2015, the Sainsbury's Directors are generally and unconditionally authorised, in substitution of all subsisting authorities, pursuant to section 551 of the 2006 Act, to:

(i) allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £183,032,000; and

(ii) so that the Sainsbury's Directors may in connection with such a rights issue make such exclusions or other arrangements as they consider expedient in relation to fractional entitlements, record dates, legal or practical problems under the law of, or the requirements of any regulatory body or stock exchange in, any territory, or any matter whatsoever, such authorities will expire at the end of the annual general meeting to be held on 6 July 2016, but so that the Company may make offers and enter into agreements during this period which would, or might require equity securities to be allotted as if such authority had not expired.

(c) Pursuant to a special resolution of the Company dated 8 July 2015, the Sainsbury's Directors are generally and unconditionally empowered, pursuant to section 570 and 573 of the 2006 Act, to allot equity securities (as defined in section 560(2) of the 2006 Act) in the Company pursuant to the authority conferred by the resolution in paragraph (b) above as if section 561(1) of the 2006 Act did not apply to any such allotment, provided that this power is limited to:

(i) the allotment of equity securities in connection with a rights issue in favour of the holders of Sainsbury's Shares where the equity securities respectively attributable to the interests of all such holders are proportionate (as nearly as may be practicable) to the respective numbers of Sainsbury's Shares held by them, but including, in connection with such an issue, the making of such arrangements as the Sainsbury's Directors may deem necessary or expedient in relation to treasury shares. Fractional entitlements, record dates or legal, regulatory or practical problems in, or under the laws of any territory; and

(ii) the allotment (other than pursuant to the powers conferred pursuant to the resolution in paragraph (i) above) of equity securities up to an aggregate nominal amount equal to £27,454,000 being approximately 5 per cent. of the aggregate nominal amount of the issued share capital of the Company as at 18 May 2015 and such authority will expire at the end of the annual general meeting to be held on 6 July 2016, save that the Sainsbury's Directors may, at any time before such expiry, make offers, agreements or other arrangements which would or might require equity securities to be allotted after such expiry and the Sainsbury's Directors may allot equity securities pursuant to any such offer, agreement or other arrangements as if the power conferred hereby had not expired.

(d) Pursuant to a special resolution of the Company dated 8 July 2015 and in accordance with the Sainsbury's Articles and section 701 of the 2006 Act, the Company is unconditionally and generally authorised for the purposes of section 693 of the 2006 Act to make market purchases (as defined in section 693(4) of the 2006 Act) of Sainsbury's Shares provided that:

(i) the maximum aggregate number of shares authorised to be purchased is 192,184,000;

(ii) the minimum price which may be paid for an ordinary share is 28⁴⁄₇ pence (being the nominal value of an ordinary share) exclusive of associated expenses;

(iii) the maximum price (exclusive of expenses) which may be paid for such shares is an amount equal to the higher of: (i) 105 per cent of the average of the middle market quotations of the Company's ordinary shares derived from the Daily Official List of the London Stock Exchange for the five Business Days immediately before the day on which the purchase is made and (ii) the higher of the price of the last independent trade and the highest current bid as stipulated by Article 5(1) of Commission Regulation (EC) 22 December 2003 implementing the Market Abuse Directive as regards exemptions for buy-back programmes and stabilisation of financial instruments (No. 2273/2003) (exclusive of associated expenses); and

(iv) the authority shall expire at the end of the annual general meeting to be held on 6 July 2016, save that the Company may make a contract to purchase ordinary shares under this authority before the expiry of the authority which will or may be completed wholly or partly thereafter and a purchase of shares may be made in pursuance of any such contract.

(e) The provisions of section 561 of the 2006 Act (to the extent not disapplied pursuant to section 570 of the 2006 Act) confer on Sainsbury's Shareholders certain rights of pre-emption in respect of the allotment of equity securities (as defined in section 560(1) of the 2006 Act) which are, or are to be paid up in cash and apply to the authorised but unissued equity share capital of the Company. These provisions have been disapplied to the extent referred to above.

(f) At the Company's annual general meeting to be held on 6 July 2016 Sainsbury's Shareholders will be asked to approve certain resolutions authorising the Sainsbury's Directors to allot Sainsbury's Shares and to make market purchases of Sainsbury's Shares, subject to certain conditions, such authorities to expire at the end of Sainsbury's annual general meeting in 2017 or on 12 September 2017, whichever is the earlier.

4. **Articles of Association**

The Sainsbury's Articles, which were adopted pursuant to a special resolution of Sainsbury's passed on 14 July 2010 and amended by a special resolution on 8 July 2015, contain, amongst other things, provisions to the following effect:

(a) *Objects*

Section 31 of the 2006 Act provides that the objects of a company are unrestricted unless any restrictions are set out in its Articles. There are no such restrictions in the Sainsbury's Articles and the objects of Sainsbury's are therefore unrestricted.

(b) *Rights attaching to Shares*

(i) Voting rights

(A) The holders of Sainsbury's Shares will be entitled in respect of their holding of such Sainsbury's Shares to receive notice of any general meeting and vote at any such general meeting on a show of hands. At any such meeting, on a show of hands, every holder of Sainsbury's Shares present in person and every proxy present who has been duly appointed by a member entitled to vote on the resolution shall have one vote and every such holder present in person or by proxy shall upon a poll have one vote for every share of which he is the holder. On a show of hands, a proxy has one vote for and one vote against the resolution if the proxy has been duly appointed by more than one member entitled to vote on the resolution, and the proxy has been instructed (i) by one or more of those members to vote for the resolution and by one or more other of those members to vote against it, or (ii) by one or more of those members to vote either for or against the resolution and by one or more other of those members to use his discretion as to how to vote.

(B) On a poll, every member present in person or by proxy has one vote in respect of every Share of which he is the holder. No member of Sainsbury's shall, unless the directors otherwise determine, be entitled to vote at any general meeting, either personally or by proxy, or to exercise any privilege as a member, unless the directors otherwise determine, unless all calls or other sums presently payable by him in respect of Sainsbury's Shares in Sainsbury's have been paid. On a poll a member entitled to more than one vote need not, if he votes, use all his votes or cast all the votes he uses in the same way.

(ii) Joint holders

In the case of joint holders of a Sainsbury's Share, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of the Sainsbury's Share.

(iii) Dividends

Subject to the rights attaching to any new share, the holders of the Sainsbury's Shares will be entitled to be paid any profits available for distribution and determined to be distributed. However, no such dividends shall exceed the amount recommended by the directors.

Except as otherwise provided by the Sainsbury's Articles or by the rights attached to Sainsbury's Shares, all dividends shall be apportioned and paid pro rata according to the amounts paid up on the Sainsbury's Shares during any portion or portions of the period in respect of which the dividend is paid.

Interim dividends may be paid provided that they appear to the directors to be justified by the profits available for distribution and are permitted by the 2006 Act.

Sainsbury's in general meeting may, on the recommendation of the directors, by ordinary resolution direct that payment of any dividend declared may be satisfied wholly or partly by the distribution of specific assets, and in particular of paid-up shares, debentures or other securities or rights of any other company.

The directors may at their discretion and subject to the provisions of the Sainsbury's Articles, decide at the same time as they resolve to announce the intention to pay or (in the case of a final dividend) they resolve to recommend any dividend on the Sainsbury's Shares that each holder of the Sainsbury's Shares shall have the option to elect not to participate in such dividend and to receive instead an issue of Sainsbury's Shares credited as fully paid (to the extent and within the limits and on the terms and conditions set out in the Sainsbury's Articles).

All unclaimed dividends may be invested or otherwise made use of by the directors for the benefit of Sainsbury's until claimed and the payment of any such dividend into a separate account or the investment of such dividend shall not constitute Sainsbury's a trustee in respect thereof. No dividend shall bear interest as against Sainsbury's. Any dividend which has remained unclaimed for a period of twelve years from the date of payment thereof shall at the expiration of that period be forfeited and cease to remain owing by Sainsbury's and shall therefore belong to Sainsbury's absolutely.

(c) *Transfer of Shares*

Every transfer of uncertified Sainsbury's Shares must be carried out by means of a relevant system. All transfers of Sainsbury's Shares, which are in certificated form, must be affected by an instrument of transfer in writing in the usual common form or in any such other form approved by the directors and need not be under seal. In respect of certified Sainsbury's Shares, the instrument of transfer shall be signed by or on behalf of the transferor and (except in the case of fully paid Sainsbury's Shares) by or on behalf of the transferee. The transferor shall be deemed to remain the holder of the Sainsbury's Shares until the name of the transferee is entered in the register of members. The directors may, in their absolute discretion, refuse to register any transfer of Sainsbury's Shares (not being fully paid Sainsbury's Shares) and they may also refuse to register any transfer of Sainsbury's Shares on which Sainsbury's has a lien provided that such restrictions do not prevent dealings in the partly paid or fully paid Sainsbury's Shares in Sainsbury's from taking place on an open and proper basis.

The directors may also decline to recognise any instrument of transfer, unless:

(i) the instrument of transfer duly stamped is deposited by Sainsbury's office or such other place as the directors may appoint, accompanied (save where not required by law) by the certificate for the Sainsbury's Shares to which it relates and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer;

(ii) the instrument of transfer is in respect of only one class of share; and

(iii) the instrument of transfer is in favour of not more than four transferees.

The directors can refuse to register a transfer of uncertificated Sainsbury's Shares in the circumstances set out in the Uncertificated Securities Regulations 2001.

If the directors refuse to register a transfer they shall as soon as practical and in any event within two months after the date on which the transfer was lodged with Sainsbury's, or in the case of uncertificated Sainsbury's Shares, after the date in which Sainsbury's received instructions from the operator of the relevant system, send notice of the refusal to the transferee giving reasons for refusal.

There exist no provisions in the Sainsbury's Articles that would delay, defer or prevent a change in control of Sainsbury's.

The Sainsbury's Shares issued are, and the New Sainsbury's Shares to be issued will be, in registered form. Title to the Sainsbury's Shares in issue or to be issued may be transferred by means of a relevant system such as CREST.

(d) *Disclosure of interests in Sainsbury's Shares*

If any member, or any other person appearing to be interested in Sainsbury's Shares held by such member, has been duly served with a notice under Section 793 of the 2006 Act and is in default for a period of 14 days in supplying to Sainsbury's the information required, then (unless the directors otherwise determine) in respect of (i) the Sainsbury's Shares comprising the shareholding account in the register which comprises or includes the Sainsbury's Shares in relation to which the default occurred (all or the relevant number as appropriate of such Sainsbury's Shares being the "**default shares**", which expression shall include any further Sainsbury's Shares which are issued in respect of such Sainsbury's Shares), and (ii) any other Sainsbury's Shares held by the member:

(i) the member shall not (for so long as the default continues) nor shall any transferee to whom any such Sainsbury's Shares are transferred (other than pursuant to an approved transfer pursuant to sub-paragraph (ii) below) be entitled to attend or vote either personally or by proxy at shareholders' meeting or to exercise any other right conferred by membership in relation to Sainsbury's Shareholders' meetings; and

(ii) where the default shares represent 0.25 per cent or more of the issued Sainsbury's Shares of the class in question, the directors may in their absolute discretion by notice in writing (a "**direction notice**") to such member direct that (a) any dividend or part thereof or other money which would otherwise be payable in respect of the default shares shall be retained by Sainsbury's without any liability to pay interest thereon when such dividend or other money is finally paid to the member and the member shall not be entitled to elect to receive Sainsbury's Shares in lieu of dividend, and/or (b) no transfer of any of the Sainsbury's Shares held by such member shall be registered unless the transfer is an approved transfer or (i) the member is not himself in default as regards supplying the information required, and (ii) the transfer is of part only of the member's holding and, when presented for registration, is accompanied by a certificate by the member in a form satisfactory to the directors to the effect that after due and careful enquiry the member is satisfied that none of the Sainsbury's Shares the subject of the transfer are default shares,

provided that, in the case of Sainsbury's Shares in uncertificated form, the directors may only exercise their discretion not to register a transfer if permitted to do so by the Regulations.

(e) *Reduction in share capital*

Sainsbury's may by special resolution reduce its share capital and any capital redemption reserve and any share premium account or other undistributable reserve in any manner subject to the provisions of the 2006 Act.

(f) *Variation of rights*

Subject to the provisions of the 2006 Act and of the Sainsbury's Articles, if at any time the capital of Sainsbury's is divided into different classes of Sainsbury's Shares, the rights attached to any class may be varied or abrogated, whether or not Sainsbury's is being wound up, with the consent in writing of the holders of three quarters in nominal value of the issued Sainsbury's Shares of that class, or with the sanction of a special resolution passed at a separate meeting of the holders of the Sainsbury's Shares of the class, (in each case excluding any Sainsbury's Shares held as treasury shares). The quorum for such separate general meeting of the holders of the Sainsbury's Shares of the class shall be not less than two persons at least holding or representing by proxy at least one-third of the nominal amount paid up on the issued Sainsbury's Shares of the relevant class (but so that if at any adjourned meeting of such holders a quorum as above defined is not present, those holders who are present in person or by proxy shall be a quorum), and that the holders of Sainsbury's Shares of the class or a duly appointed proxy entitled to vote on the resolution shall, on a poll, have one vote in respect of every share of the class held by them respectively.

(g) *General meetings*

Subject to the provisions of the 2006 Act and of the Sainsbury's Articles, Sainsbury's shall in each period of six months beginning with the day following Sainsbury's accounting reference date hold a general meeting as its annual general meeting. The directors may convene any other general meeting whenever it thinks fit. General meetings may also be convened on the requisition of members in accordance with the 2006 Act.

Pursuant to the 2006 Act, 21 clear days' notice of every annual general meeting and 14 clear days' notice of every other general meeting is required to be given (unless, at the relevant time, either of the conditions set out in sub-section 307A(2)and sub-section 307A(3) of the 2006 Act have not been met by Sainsbury's, in which case at least 21 clear days' notice will be required).

The accidental failure to send, or the non-receipt by any person entitled to, any notice of or other document or information relating to any meeting or other proceeding shall not invalidate the relevant meeting or proceeding.

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business. Subject to the provisions contained in the Sainsbury's Articles, two members present in person or by proxy and entitled to vote at the meeting constitutes a quorum.

With the consent of any meeting at which a quorum is present the chairman may (and shall be directed by the meeting) adjourn the meeting from time to time and from place to place. No business may be transacted at any adjourned meeting other than the business which might have been transacted at the meeting from which the adjournment took place.

The chairman of any meeting at which a quorum is present may adjourn any general meeting from time to time and from place to place if:

(i) he considers it necessary to restore order or to otherwise facilitate the proper conduct of the meeting; or

(ii) if he considers it necessary for the safety of the people at the meeting (including if there is insufficient room at the meeting venue to accommodate everyone who wishes to attend).

No business shall be transacted at any adjourned meeting except business which might lawfully have been transacted at the meeting from which the adjournment took place.

Notice of adjournment or of the business to be transacted at the adjourned meeting is not required unless the meeting is adjourned for 30 days or more, in which case at least seven days' notice is required.

(h) *Sainsbury's Board's authorisation of conflicts*

For the purposes of Section 175 of the 2006 Act, the directors shall have the power to authorise any matter which would or might otherwise constitute or give rise to a breach of the duty of a director under that Section to avoid a situation in which he has, or can have, a direct or indirect interest in that conflicts, or possibly may conflict, with the interest of Sainsbury's. Authorisation of a matter shall be effective only if:

(i) the matter in question has been proposed in writing for consideration at a meeting of the directors or in such other manner as the directors may determine;

(ii) any requirement as to the quorum at the meeting of the directors at which the matter is considered is met without counting the director in question and any other interested director (together the "**interested directors**"); and

(iii) the matter was agreed to without the interested directors voting or would have been agreed to if the votes of the interested directors had not been counted.

(i) *Directors' ability to vote and count for quorum*

Save as provided below, a director shall not be entitled to vote on, or be counted in the quorum in relation to, any resolution of the directors or any committee of the directors in respect of any contract, transaction or arrangement in which he (or a person connected with him) is interested. A director shall be entitled to vote (and be counted in the quorum) in respect of any resolution concerning any contract, transaction or arrangement, or any other proposal:

(i) in which he has an interest of which he is not aware;

(ii) in which an interest which cannot reasonably be regarded as likely to give rise to a conflict of interest;

(iii) in which he has an in interest only by virtue of interests in Sainsbury's Shares, debentures or other securities of Sainsbury's, or by reason of any other interest in or through Sainsbury's;

(iv) which involves the giving to him of any guarantee, security or indemnity in respect of (a) money lent or obligations incurred by him at the request of or for the benefit of Sainsbury's or any of its subsidiary undertakings or (b) a debt or other obligation of Sainsbury's or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;

(v) concerning an offer of shares or debentures or other securities of or by Sainsbury's or any of its subsidiary undertakings (a) in which offer he is or may be entitled to participate as a holder of securities, or (b) in the underwriting or sub-underwriting of which he is to participate;

(vi) concerning any other body corporate in which he is interested, directly or indirectly and whether as an officer, shareholder, creditor, employee or otherwise, provided that he (together with persons connected with him) is not the holder of, or beneficially interested in, one per cent or more of the issued equity share capital of any class of such body corporate or of the voting rights available to members of the relevant body corporate;

(vii) relating to an arrangement for the benefit of the employees or former employees of Sainsbury's or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates;

(viii) concerning the purchase or maintenance by Sainsbury's of insurance for any liability for the benefit of directors or for the benefit of persons who include directors;

(ix) concerning the giving of indemnities in favour of directors;

(x) concerning the funding of expenditure by any director or directors on (a) defending criminal, civil or regulatory proceedings or actions against him or them, (b) in connection with an application to the court for relief, or (c) defending him or them in any regulatory investigations;

(xi) concerning the doing of anything to enable any director or directors to avoid incurring expenditure as described in sub-paragraph (x) above; and

(xii) in respect of which his interest, or the interest of directors generally, has been authorised by ordinary resolution.

Where proposals are under consideration concerning the appointments (including fixing or varying the terms of the appointment) of two or more directors to offices or places of profit with Sainsbury's (or any company in which Sainsbury's is interested), the proposals may be divided and considered in relation to each director separately. In such case, each such director (if not otherwise debarred from voting under sub-paragraph (vi) above) shall be entitled to vote, and be counted in the quorum, in respect of each resolution except that resolution concerning his own appointment or the fixing or variation of the terms thereof.

(j) *Remuneration of directors*

The directors shall be entitled to fees at such rate as the directors may from time to time determine subject to a maximum in respect of all directors of £750,000 per annum in aggregate or such higher amount as Sainsbury's may by ordinary resolution from time to time determine, provided that, unless otherwise agreed by the directors, no such fees shall be payable to a director for the time being employed by or holding executive office with Sainsbury's. All of the directors are entitled to be repaid all travelling, hotel and other expenses properly incurred by them in connection with the business of Sainsbury's, or in attending and returning from meetings of the directors or of committees of the directors or general meetings.

(k) *Indemnification of directors*

Subject to the provisions of, and so far as may be permitted by and consistent with, the 2006 Act, rules made by the UKLA or other legislation, every director and officer of Sainsbury's and of each associated company of Sainsbury's shall (subject to the discretion of Sainsbury's where such company or associated company of Sainsbury's is an occupational pension scheme) be indemnified by Sainsbury's out of Sainsbury's own funds against:

(i) any liability incurred by or attaching to him in connection with any negligence, default, breach of duty or breach of trust by him in relation to Sainsbury's or any associated company of Sainsbury's in the actual or purported execution and/or discharge of his duties and/or the exercise or purported exercise of his powers other than (a) any liability to Sainsbury's or any associated company of Sainsbury's and (b) in relation to a director of Sainsbury's or any associated company of Sainsbury's and, if Sainsbury's in its discretion considers appropriate in relation to an officer of Sainsbury's or any associated company of Sainsbury's, any liability of the kind referred to in Section 234(3) of the 2006 Act; and

(ii) any other liability incurred by or attaching to him in the actual or purported execution and/or discharge of his duties and/or the exercise or purported exercise of his powers and/or otherwise in relation to or in connection with his duties, powers or office.

Such indemnity shall extend to liability arising after a person ceases to be a director or an officer in respect of acts or omissions while he was a director or an officer.

(l) *Borrowing powers*

Subject to the provisions of the relevant legislation and to the provisions set out in the Sainsbury's Articles, the directors may exercise all the powers of Sainsbury's to borrow money and to mortgage or charge its undertaking, property (present or future), assets and uncalled capital and, subject to the provisions of the relevant legislation, to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of Sainsbury's or any third party.

5. **Major shareholders in Sainsbury's**

5.1 Insofar as it is known to the Company (based on voteholder notifications made under the Disclosure and Transparency Rules), the following persons are, or will be at Admission, interested directly or indirectly in three per cent. or more of the voting rights in respect of the issued ordinary share capital of the Company based on the assumption that the holdings of such persons in the Company or Home Retail Group plc (as relevant) as at the Last Practicable Date do not change, 261,115,846 New

Sainsbury's Shares are issued in connection with the Acquisition and that no other issues of Sainsbury's Shares occur between the date of this Prospectus and Admission:

Name	As at the Last Practicable Date: Number of Sainsbury's Shares	As at the Last Practicable Date: Percentage of Sainsbury's issued share capital	Immediately following Admission: Number of Sainsbury's Shares	Immediately following Admission: Percentage of Sainsbury's issued share capital
Qatar Holding LLC	481,746,132	25.02	481,746,132	22.03
Portrait (Judith Susan)	63,646,783	3.31	63,646,783	below 3 per cent.

5.2 Save as disclosed above, the Sainsbury's Directors are not aware (based on voteholder notifications made under the Disclosure and Transparency Rules and/or the Market Abuse Regulation) of any person who is or will be interested directly or indirectly in three per cent. or more of the voting rights in respect of the issued share capital of the Company or the issued share capital of the Company following Admission.

5.3 As at the Last Practicable Date, the Company was not aware of any person or persons who, directly or indirectly, jointly or severally, exercise or could exercise control over Sainsbury's, nor is it aware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.

5.4 The Company's share capital consists of one class of ordinary shares with equal voting rights (subject to the Sainsbury's Articles). None of the Company's major shareholders has or will have different voting rights attached to the shares they hold in the Company.

6. Directors and Senior Management Shareholdings

6.1 The following table sets out the interests in the share capital of the Company of the Sainsbury's Directors and Senior Management (including beneficial interests or interests of a person connected with a Sainsbury's Director or a member of Senior Management) (i) as at the Last Practicable Date; and (ii) immediately following Admission, based on the assumption that the holdings of such person in the Company or Home Retail Group plc (as relevant) as at the Last Practicable Date do not change and 261,115,846 New Sainsbury's Shares are issued in connection with the Acquisition, and that no other issues of Sainsbury's Shares occur between the date of this Prospectus and Admission, are as follows:

Director / Member of Senior Management	As at the Last Practicable Date: Number of Sainsbury's Shares(1)	As at the Last Practicable Date: Percentage of Sainsbury's issued share capital	Immediately following Admission: Number of Sainsbury's Shares	Immediately following Admission: Percentage of Sainsbury's issued share capital
David Tyler	53,599(2)	0.00	53,599	0.00
Mike Coupe	1,143,027	0.06	1,143,027	0.05
John Rogers	659,725	0.03	659,725	0.03
Matt Brittin	1,000	0.00	1,000	0.00
Brian Cassin	Nil	Nil	Nil	Nil
Mary Harris	13,458	0.00	13,458	0.00
David Keens	100,000	0.01	100,000	0.00
John McAdam	1,000	0.00	1,000	0.00
Susan Rice	1,000	0.00	1,000	0.00
Jean Tomlin	1,315	0.00	1,315	0.00
Tim Fallowfield	512,958	0.03	512,958	0.02
Peter Griffiths	17,903	0.00	17,903	0.00
Jon Hartland	79,547	0.00	79,547	0.00
Paul Mills-Hicks	109,036	0.01	109,036	0.00
Angie Risley	52,763	0.00	52,763	0.00
Jon Rudoe	84,785	0.00	84,785	0.00
Sarah Warby	51,651	0.00	51,651	0.00

(1) This includes shares held through the SIP but not options or awards granted under the other Sainsbury's Employee Share Plans.

(2) Of this holding, 3,599 shares are beneficially owned by a close relative of David Tyler.

6.2 Details (where relevant) of awards under the Sainsbury's Employee Share Plans (as summarised in paragraph 12 of this Part 11 "*Additional Information*") held by the Sainsbury's Directors and members of the Senior Management as at the Last Practicable Date (excluding Shares held through the SIP) are set out below:

Director/Member of Senior Management	Plan	Number of Sainsbury's Shares over which options granted	Exercise price (if any)	Vesting date
Mike Coupe	2006 LTIP	*599,740	Nil	50% 15.05.2017
				50% 15.05.2018
	2006 LTIP	*828,880	Nil	50% 14.05.2018
				50% 14.05.2019
	2006 LTIP	*876,936	Nil	50% 12.05.2019
				50% 12.05.2020
	DSA	165,907	Nil	17.03.2017
	DSA	304,121	Nil	16.03.2018
	Sharesave	4,518	332p	01.03.2019
John Rogers	2006 LTIP	*359,344	Nil	50% 15.05.2017
				50% 15.05.2018
	2006 LTIP	*442,068	Nil	50% 14.05.2018
				50% 14.05.2019
	2006 LTIP	*517,112	Nil	50% 12.05.2019
				50% 12.05.2020
	DSA	101,665	Nil	17.03.2017
	DSA	183,410	Nil	16.03.2018
	Sharesave	6,302	238p	01.03.2017
Tim Fallowfield	2006 LTIP	*165,476	Nil	50% 15.05.2017
				50% 15.05.2018
	2006 LTIP	*203,572	Nil	50% 14.05.2018
				50% 14.05.2019
	2016 LTIP	*224,164	Nil	50% 12.05.2019
				50% 12.05.2020
	DSA	46,238	Nil	17.03.2017
	DSA	75,446	Nil	16.03.2018
	Sharesave	3,042	213p	01.03.2018
Peter Griffiths	2006 LTIP	*194,044	Nil	50% 15.05.2017
				50% 15.05.2018
	2006 LTIP	*260,680	Nil	50% 14.05.2018
				50% 14.05.2019
	2016 LTIP	*339,648	Nil	50% 12.05.2019
				50% 12.05.2020
	DSA	49,529	Nil	17.03.2017
	DSA	85,742	Nil	16.03.2018
	Sharesave	2,710	332p	01.03.2017
Jon Hartland	2006 LTIP	*88,036	Nil	50% 15.05.2017
				50% 15.05.2018
	2006 LTIP	*77,360	Nil	50% 14.05.2018
				50% 14.05.2019
	2016 LTIP	*81,844	Nil	50% 12.05.2019
				50% 12.05.2020
	DSA	13,837	Nil	17.03.2017
	DSA	38,706	Nil	16.03.2018
Paul Mills-Hicks	2006 LTIP	*161,704	Nil	50% 15.05.2017
				50% 15.05.2018
	2006 LTIP	*265,240	Nil	50% 14.05.2018
				50% 14.05.2019
	2016 LTIP	*305,680	Nil	50% 12.05.2019
				50% 12.05.2020

Director/Member of Senior Management	Plan	Number of Sainsbury's Shares over which options granted	Exercise price (if any)	Vesting date
	DSA	55,032	Nil	17.03.2017
	DSA	98,301	Nil	16.03.2018
	Sharesave	2,086	195p	01.03.2019
Angie Risley	2006 LTIP	*225,308	Nil	50% 15.05.2017 50% 15.05.2018
	2006 LTIP	*277,176	Nil	50% 14.05.2018 50% 14.05.2019
	2016 LTIP	*288,912	Nil	50% 12.05.2019 50% 12.05.2020
	DSA	62,957	Nil	17.03.2017
	DSA	102,725	Nil	16.03.2018
	Sharesave	4,225	213p	01.03.2018
Jon Rudoe	2006 LTIP	*161,704	Nil	50% 15.05.2017 50% 15.05.2018
	2006 LTIP	*248,664	Nil	50% 14.05.2018 50% 14.05.2019
	2016 LTIP	*263,080	Nil	50% 12.05.2019 50% 12.05.2020
	DSA	56,480	Nil	17.03.2017
	DSA	92,158	Nil	16.03.2018
	Sharesave	4,225	213p	01.03.2018
Sarah Warby	2006 LTIP	*175,180	Nil	50% 15.05.2017 50% 15.05.2018
	2006 LTIP	*228,092	Nil	50% 14.05.2018 50% 14.05.2019
	2016 LTIP	*241,320	Nil	50% 12.05.2019 50% 12.05.2020
	DSA	48,950	Nil	17.03.2017
	DSA	84,534	Nil	16.03.2018
	Sharesave	2,086	195p	01.03.2019

* maximum number that could be received based on the performance multiplier of up to four times

7. **Directors' and Service Agreements and Letters of Appointment**

7.1 The Sainsbury's Directors and their functions are set out in Part 5 *"Directors, Senior Management and Corporate Governance"*.

7.2 Sainsbury's Executive Directors

(a) The salaries of the Executive Directors are £915,750 per annum for Mike Coupe effective from 15 March 2015 increased to £929,486 for the 2016/2017 financial year and £675,000 per annum for John Rogers effective from 31 July 2015 increased to £685,125 for the 2016/2017 financial year. The Executive Directors are eligible to participate in the Savings-Related Share Option Scheme (Sharesave), the Share Incentive Plan, the Long Term Incentive Plan 2006 and the Deferred Share Award 2009 (see paragraph 12 of this Part 11 "*Additional Information*"). The Executive Directors will also be eligible to participate in the 2016 Long Term Incentive Plan if it is approved by Sainsbury's Shareholders at Sainsbury's 2016 annual general meeting on 6 July 2016.

(b) Each Executive Director is entitled to a cash pension supplement in lieu of pension. Mike Coupe receives a cash pension supplement of 30 per cent. of salary and John Rogers 25 per cent. of salary. Company car cash allowance amounted to £15,250 for each Executive Director in the 52-week period ended 12 March 2016. They also receive private medical cover, long-term disability insurance, life assurance and colleague discount benefits.

(c) Each Executive Director's service agreement is terminable on 12 months' notice given by either party. Sainsbury's is entitled to terminate the Executive Director's employment by payment of a cash sum in lieu of notice, equal to (i) his basic salary that would have been payable, and (ii) the value of contractual benefits (other than basic salary, annual bonus and share plan awards but including payments in respect of pension) that would have been received by or accrued during the notice period. Sainsbury's can also choose to continue providing the benefits under item (ii) instead of paying the cash sum representing their cost.

(d) Each Executive Director is eligible for an annual bonus. Sainsbury's bonus plans are based on profit, sales, a customer-focused measure and personal performance. Any such bonus is discretionary and subject to achievement of a combination of individual and corporate performance measures. For further detail see paragraph 12 of this Part 11 "*Additional Information*".

(e) Each Executive Director is entitled to 28 working days' paid holiday per annum in addition to bank and public holidays.

(f) Each of the Executive Directors is subject to a confidentiality undertaking without limitation in time and to non-competition, non-solicitation, non-dealing and non-hiring restrictive covenants for a period of 12 months after the termination of his employment.

(g) Each Executive Director will have the benefit of a qualifying third-party indemnity from the Company (the terms of which are in accordance with the 2006 Act) and appropriate directors' and officers' liability insurance.

7.3 Sainsbury's Non-Executive Directors

(a) David Tyler is entitled to receive an annual fee of £500,000 as Chairman, effective from 27 September 2015. His appointment as chairman of the Sainsbury's Board commenced on 1 November 2009 and is terminable by either party giving to the other six months' written notice. It may also be terminated at any time if he is removed as a director by resolution at a general meeting or pursuant to the Sainsbury's Articles.

(b) The appointment to the Sainsbury's Board of Matt Brittin was effective on 27 January 2011, the appointment of Mary Harris was effective on 1 August 2007, the appointment of David Keens was effective 29 April 2015, the appointment of John McAdam was effective on 1 September 2005, the appointment of Susan Rice was effective on 1 June 2013, the appointment of Jean Tomlin was effective on 1 January 2013 and the appointment of Brian Cassin was effective on 1 April 2016. The appointments of all Non-Executive Directors and the Chairman are subject to re-election when appropriate by the Company in general meeting. John McAdam will stand down at Sainsbury's 2016 annual general meeting on 6 July 2016. Susan Rice will be appointed Senior Independent Director at Sainsbury's 2016 annual general meeting on 6 July 2016.

(c) Effective 27 September 2015, each Non-Executive Director other than David Tyler was entitled to receive an annual fee of £65,000. In addition to this annual fee of £65,000, John McAdam was entitled to an additional fee of £18,500 as Senior Independent Director. Each of Mary Harris and David Keens were entitled to an additional fee of £18,500 for their roles as Chairmen of the Remuneration and Audit committees, respectively, and Jean Tomlin was entitled to an additional fee of £13,000 for her role as Chairman of the Corporate Responsibility and Sustainability committee.

(d) The appointment of each Non-Executive Director (other than the Chairman) may be terminated by either party giving three months' notice or at any time with immediate effect if he/she is removed as a director by resolution at a general meeting or pursuant to the Sainsbury's Articles. The Non-Executive Directors are not entitled to receive any compensation on termination of their appointment.

(e) The Chairman receives benefits of private medical cover and a colleague discount card.

(f) Non-Executive Directors receive no benefits other than a colleague discount card.

(g) The Company has appropriate directors' and officers' indemnity insurance in place in respect of the Chairman and the Non-Executive Directors.

(h) Each of the Chairman and the Non-Executive Directors will have the benefit of a qualifying third-party indemnity (the terms of which are in accordance with the 2006 Act).

(i) The Chairman and each of the Non-Executive Directors is subject to a confidentiality undertaking without limitation in time and to non-competition and non-solicitation restrictive covenants for a period of 12 months for the Chairman and six months for the other Non-Executive Directors after the termination of their appointment.

7.4 Save as set out in paragraph 7 of this Part 11 (*Additional Information*), there are no existing or proposed service agreements or letters of appointment between the Sainsbury's Directors and any member of the Sainsbury's Group.

8. Remuneration

8.1 Approach to remuneration

The Sainsbury's Group's employees are central to the Company's ongoing success and the Company's overall reward strategy supports this. The Company's objective is to have a fair, equitable and competitive total reward package that supports the vision of being the most trusted retailer where people love to work and shop, encourages employees to perform in ways that deliver great service for customers, drives sales and provides opportunities for employees to share in Sainsbury's success. This overall reward strategy is the foundation for the remuneration policy for Sainsbury's Directors and Senior Managers.

The over-arching objectives of the remuneration policy are to ensure rewards are performance-based and encourage long-term shareholder value creation. The remuneration policy for Sainsbury's Directors and Senior Managers:

- is linked to business strategy;
- supports Sainsbury's values;
- drives long-term growth by encouraging the right behaviours;
- secures high calibre leaders who can deliver operational excellence; and
- encourages share ownership by enabling executives to become shareholders in the Company.

8.2 Executive Directors' Remuneration Policy

The Directors' Remuneration Policy was approved by Sainsbury's Shareholders at the general meeting on 9 July 2014 and consists of the following elements:

(a) *Base salary*

- core element of remuneration which is typically reviewed every March, taking account of business and individual performance, role, responsibilities, scope, market positioning, inflation and colleague pay increases.

(b) *Benefits*

- competitive benefits provided including company car benefits (or cash equivalent), private medical cover, life assurance, long-term disability insurance, all-employee share plan participation and colleague discount;
- reviewed regularly to ensure the value of benefits provided is reasonable in the context of relevant market practice for comparable roles and taking account of individual circumstances (e.g. relocation).

(c) *Pension*

- provides an income following retirement and assists employees building wealth for their future through the JS Self Invested Pension Plan ('SIPP', a defined contribution plan) and/or a cash salary supplement;
- maximum cash supplement value of up to 30 per cent. of salary per annum for existing Executive Directors.

(d) *Annual bonus*

- rewards performance on an annual basis against key financial (e.g. profit), operational (e.g. customer, availability) and individual objectives payable in cash after the year-end with maximum opportunity of up to 125 per cent. of salary per annum.

(e) *Deferred Share Awards 2009*

- recognises and rewards delivery of short-term strategic and financial objectives which contribute towards long-term sustainable growth;

- performance measured over one year based on the Remuneration Committee's judgement of performance achieved, after which an award is made as conditional shares (or equivalent) vesting after two years with maximum opportunity of up to 125 per cent. of salary per annum.

(f) *Long Term Incentive Plan—Future Builder*

- recognises and rewards delivery of Company performance and shareholder value over the longer term;
- vesting of awards dependent on performance measured over at least three financial years with maximum award of up to 250 per cent. of salary per annum;
- awards structured as core award (up to 62.5 per cent. of salary per annum) with a performance multiplier of up to four times;
- 50 per cent. of awards vest following the end of the performance period and 50 per cent. is deferred for a further year.

(g) *Malus and Clawback*

- for Executive Directors, the annual bonus, DSA and the LTIPs are subject to malus and clawback.
- in the case of material mis-statement of financial results, serious reputational damage, serious misconduct and/or fraud, the Remuneration Committee may reduce, cancel or impose additional conditions on an unvested award or may require repayment of an award which has already vested where the event occurs within two years of the end of the performance period.

(h) *Non-Executive Director Fees*

- set at a level appropriate to attract experienced individuals, may be paid in cash or Sainsbury's Shares and typically reviewed every September, taking account of responsibilities, market positioning, inflation and colleague pay increases.

9. **Directors and Senior Management Remuneration and Benefits**

9.1 The aggregate remuneration and benefits in kind granted to Sainsbury's Directors and Senior Management in the 52 weeks ended 12 March 2016 was £5,542,000 and £6,071,000 respectively of which £47,000 was set aside or accrued by Sainsbury's to provide pension, retirement or other similar benefits to the current Senior Managers. The Sainsbury's Directors only received a salary supplement in lieu of pension.

9.2 Under the terms of their service agreements, letters of appointment and Sainsbury's Employee Share Plans, in the 52 weeks ended 12 March 2016, the remuneration and benefits in kind granted to each Director is set out below:

Name	Salary and fees	Benefits[(1)]	Pension	Annual Bonus[(2)]	Deferred[(3)] Share Award	Long Term Incentive Plan[(4)]	Total
(£000)							
Executive							
Mike Coupe[(5)]	916	38	275	767	806	—	2,802
John Rogers[(5)]	650	17	163	472	486	—	1,788
Non-Executive							
David Tyler	495	1	—	—	—	—	496
Matt Brittin	64	—	—	—	—	—	64
Mary Harris	82	4	—	—	—	—	86
David Keens[(6)]	68	—	—	—	—	—	68
John McAdam	82	—	—	—	—	—	82
Susan Rice	64	14	—	—	—	—	78
Jean Tomlin	76	2	—	—	—	—	78

(1) Benefits for Executive Directors include a combination of cash and non-cash benefits, valued at the taxable value. For Mike Coupe and John Rogers, this includes a cash car allowance (£15,250) and private medical cover. Also included is a value for Sharesave options based on a 20 per cent discount on the savings in the year. The 2015/16 figure for Mike Coupe includes a one-off payment for the reimbursement of costs incurred as a result of Company commitments (£21,160). David Tyler received a non-cash benefit of private medical cover. The benefits for the other Non-Executive Directors relate to the reimbursement of travelling expenses to Board meetings held at the Company's registered office.

(2) Annual bonus relates to performance during the financial year, paid in May following the relevant year-end.

(3) The Deferred Share Award relates to performance during financial year, shares are granted in May following the relevant year-end and vest after a two-year deferral period.

(4) The Long Term Incentive Plan refers to Future Builder awards.

(5) The Executive Directors are entitled to retain the fees earned from non-executive appointments outside the Company. Mike Coupe was appointed a Non-Executive Director of Greene King plc on 26 July 2011 and received £45,744 for his services during 2015/16. John Rogers was appointed a Non-Executive Director of Travis Perkins plc on 1 November 2014 and received £56,240 for his services during the year.

(6) David Keens was appointed to the Sainsbury's Board on 29 April 2015.

(7) Brian Cassin was appointed to the Sainsbury's Board on 1 April 2016 and received no remuneration or benefits in kind from Sainsbury's in the 52 weeks ended 12 March 2016.

10. **Directors' and Senior Management's Directorships**

10.1 Set out below are the directorships (unless otherwise stated) and partnerships held by the Sainsbury's Directors and members of Senior Management (other than, where applicable, directorships held in the Company and/or in any subsidiaries of the Company), in the five years prior to the date of this Prospectus:

Name	Current directorships / partnerships	Past directorships / partnerships
David Tyler	• Allsop Place Management Limited • Domestic & General Insurance plc • Hammerson plc • Hampstead Theatre Limited • Nightingale Hammerson Trustee Company Limited	• Burberry Group plc
Mike Coupe	• Greene King plc	• GS1 UK Limited • IDG Services Limited • Insight 2 Communication LLP • The Invicta Film Partnership LLP
John Rogers	• Insight 2 Communication LLP • Travis Perkins plc	• Hanover Acceptances Limited
Matt Brittin	• Google • Collectively Limited • The Media Trust	• The Climate Change Organisation
Brian Cassin	• Experian plc	• Greenhill & Co. International LLP
Mary Harris	• ITV plc • Reckitt Benckiser Group plc • Unibail—Rodamco S.E.	• McKinsey & Company • Scotch and Soda NV • TNT Express NV
David Keens	• Auto Trader Group	• Capita Customer Management Limited • Cotton Traders Holdings Limited • NEXT Group plc
John McAdam	• Rentokil Initial plc • United Utilities Group PLC • Rolls-Royce PLC	• Biffa Group Limited • Sara Lee Corporation • Varnish Bidco Limited
Susan Rice	• Banking Standards Board • Big Society Capital	• Bank of England • The Council for Industry

Name	Current directorships / partnerships	Past directorships / partnerships
	Limited • North American Income Trust PLC • Scottish Water	and Higher Education • The Edinburgh International Book Festival Limited • Scotland's Future Forum Limited • SSE plc
Jean Tomlin	• Chanzo Limited • Michael Kors Holdings Limited • The Join in Trust Limited • Step up to Serve Limited • T&CO International Limited • Trivandi Chanzo Limited • TRL CPT FIDCo Limited	• CIDA Foundation
Tim Fallowfield	• Beaconsfield Educational Trust Limited • British Retail Consortium • The Sainsbury's Archive	None
Peter Griffiths	None	• Principality Building Society
Jon Hartland	None	None
Paul Mills-Hicks	• IGD Services Limited	None
Angie Risley	• Serco Group plc	• Heath Mount School Trust Limited
Jon Rudoe	None	• Good Ventures Limited
Sarah Warby	• Insight 2 Communication LLP	• Heineken UK Limited • Warby Associates Limited

10.2 Within the period of five years preceding the date of this Prospectus, none of the Sainsbury's Directors and members of Senior Management:

(i) has had any convictions in relation to fraudulent offences;

(ii) has been a member of the administrative, management or supervisory bodies or director or senior manager (who is relevant in establishing that a company has the appropriate expertise and experience for management of that company) of any company at the time of any bankruptcy, receivership or liquidation of such company; or

(iii) has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of affairs of a company.

10.3 In respect of the declaration in paragraph 10.2 above, certain of the Sainsbury's Directors and Senior Managers have been directors of Sainsbury's Group companies and companies in other groups of companies which have been dissolved or liquidated. No such Sainsbury's Group company or other company was, upon its dissolution or liquidation (as applicable) insolvent or owed any amounts to creditors.

11. **Employees**

11.1 The average number of employees employed by the Sainsbury's Group for the three years ended 12 March 2016, 14 March 2015 and 15 March 2014 is set out below:

52-week period ended	Average number of employees
12 March 2016	162,700
14 March 2015	161,100
15 March 2014	160,500

11.2 As at 12 March 2016, the Sainsbury's Group had approximately 165,100 employees. Temporary employees represented 1.03 per cent. of the Sainsbury's Group employees.

As at 12 March 2016, the Sainsbury's Group's colleagues were employed as follows:

Central	6,900
Logistics	4,240
Retail	154,016
Total	165,156

12. **Sainsbury's Employee Share Plans**

12.1 The Company operates the following employee share plans: the 1980 Savings-Related Share Option Scheme ("**Sharesave**"), the Sainsbury's Share Incentive Plan ("**SIP**") (known as the Sainsbury's Share Purchase Plan), the Long Term Incentive Plan 2006, ("**2006 LTIP**"), the Deferred Share Award 2009 ("**DSA**"), the Bonus Share Award Plan 2011 ("**BSAP**"), the Restricted Share Plan ("**RSP**") and the Conditional Share Award 2010 ("**CSA**"). The Company also operates the 2016 Long Term Incentive Plan ("**2016 LTIP**" and together with the 2006 LTIP, the "**LTIPs**") which will be put to Sainsbury's Shareholders for approval at the Sainsbury's 2016 annual general meeting on 6 July 2016.

12.2 The principal features of these plans are summarised below.

12.3 **Terms common to the Sainsbury's Employee Share Plans**

(a) *Timing of awards*

With the exception of the SIP and RSP, awards may normally only be granted within the six week period beginning with the Company's announcement of its results for any period. Awards may be granted outside these periods in exceptional circumstances, as determined by the Sainsbury's Board.

(b) *General*

Awards granted under the Sainsbury's Employee Share Plans are personal to participants and, except on death, may not be transferred.

Awards will not form part of pensionable earnings.

12.4 **Terms common to the Sainsbury's Employee Share Plans approved or to be approved by Sainsbury's Shareholders—the LTIPs, Sharesave and SIP**

(a) *Overall plan limits*

In any 10-year period, not more than 10 per cent. of the issued share capital of the Company may be issued or issuable under the LTIPs, Sharesave and SIP and all other employees' share plans adopted by the Company. This limit does not include awards which have lapsed but will include awards satisfied with treasury shares as if they were newly issued Sainsbury's Shares for so long as required by UK institutional investor guidelines.

(b) *Source of shares*

Awards under the 2006 LTIP, Sharesave and SIP may be granted over newly issued Sainsbury's Shares, Sainsbury's Shares held in treasury or Sainsbury's Shares purchased in the market. Until the 2016 LTIP is approved by Sainsbury's Shareholders, only Sainsbury's Shares purchased on the market can be used to satisfy awards granted under the 2016 LTIP. If approval is obtained, newly issued and treasury shares may be used to satisfy awards.

Any Sainsbury's Shares issued under the LTIPs, Sharesave and SIP will rank equally with Sainsbury's Shares of the same class in issue on the date of allotment except in respect of rights arising by reference to a prior record date.

(c) *Amendments*

The Sainsbury's Board can amend the LTIPs, Sharesave and SIP. However, shareholder approval will be required to amend certain provisions to the advantage of participants. These provisions relate to eligibility, individual and plan limits, the basis for determining a participant's entitlement to, and the terms of, the Sainsbury's Shares or cash comprised in awards, the adjustment of awards on any variation in the Company's share capital and the amendment powers. Minor amendments can however be made without shareholder approval to benefit the administration of the relevant plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment.

12.5 **Terms of Sharesave**

Sharesave, which is registered with HMRC, is an all-employee savings-related share option scheme under which participants save a monthly amount to buy Sainsbury's Shares.

(a) *Eligibility*

The Sainsbury's Board may invite all eligible employees to apply for options under Sharesave. An eligible employee is any employee or any director who is obliged to devote not less than 25 hours a week to his duties with that company who:

- is employed by the Company or a participating subsidiary and is tax resident in the UK on the date that options are granted; and
- has been continuously employed by the Company or a participating subsidiary for a qualifying service period (not exceeding five years) set by the Sainsbury's Board.

The Sainsbury's Board can nominate employees who do not satisfy these conditions to participate and can decide which subsidiaries participate.

(b) *Savings contracts*

An eligible employee who applies for an option under Sharesave must also enter into a savings contract for a period of three or five years. The Sainsbury's Board has discretion to determine which savings contract will be made available under any invitation to apply for options. Under the savings contract, the employee agrees to make monthly savings contributions of at least £5 but not more than £250 per month. Sainsbury's Shares can only be bought using the amount saved plus any bonus paid under the savings contract.

(c) *Option Price*

The option price must not be less than 80 per cent. of the market value of the Sainsbury's Shares on the date specified in the invitation.

(d) *Scaling down*

Applications to participate in Sharesave may be scaled down by the Sainsbury's Board if they exceed the number of Sainsbury's Shares available for the grant of options.

(e) *Exercise of options*

Options are normally exercisable for a period of six months after the third or fifth anniversary of the start of the savings contract. Special provisions allow early exercise in certain "good leaver" circumstances (e.g. death, illness, retirement, redundancy). If a participant ceases employment for any other reason within three years of the grant date, his option will lapse.

(f) *Change of control, merger or other reorganisation*

Options may generally be exercised early in the event of a change of control, scheme of arrangement or on the winding up of the Company. Internal reorganisations do not automatically trigger the early exercise of options.

(g) *Variation of capital*

Options may be adjusted in the event of any variation in the share capital of the Company.

(h) *Termination of plan*

No awards may be granted more than 10 years after Sharesave was approved by Sainsbury's Shareholders.

12.6 **Terms of the SIP**

The SIP, which is registered with HMRC, is an all-employee share plan which offers three ways to provide Sainsbury's Shares to employees based in the UK on a tax-favoured basis: free, partnership and matching Sainsbury's Shares. The Sainsbury's Board has the power to decide which, if any, of them should be operated. The Sainsbury's Board may also allow a participant to reinvest any dividends paid in buying additional Sainsbury's Shares. The SIP operates in conjunction with a trust, which holds Sainsbury's Shares on behalf of employees.

(a) *Eligibility*

All UK tax-resident employees of the Company and any participating subsidiaries must be offered the opportunity to join the SIP. The Sainsbury's Board can set a minimum qualifying period of employment which may not exceed 18 months or, in certain circumstances, six months.

(b) *Partnership Shares*

The Sainsbury's Board may invite participants to buy Sainsbury's Shares using contributions from pre-tax salary ("**Partnership Shares**") up to a maximum limit set by the Sainsbury's Board which cannot exceed the lower of £1,800 or 10 per cent. of pre-tax salary in any tax year. A participant may stop and start deductions at any time.

Participants' contributions can be used to buy Sainsbury's Shares immediately or can be accumulated for up to 12 months before being used to buy Sainsbury's Shares.

Partnership Shares may be withdrawn from the plan by the participant at any time and are not forfeitable in any circumstances but the participant will have to pay income tax if the Sainsbury's Shares are taken out of the plan within five years of being bought (unless the participant is a "good leaver" (e.g. due to injury, disability, redundancy, transfer of the employing business or company out of the Sainsbury's Group, retirement or on death)).

(c) *Matching Shares*

Where a participant buys Partnership Shares, the Sainsbury's Board may award the participant free, additional Sainsbury's Shares (known as "**Matching Shares**"). Participants may currently be awarded a maximum of two Matching Shares for every Partnership Share purchased.

There is a holding period of between three and five years during which the participant cannot withdraw the Matching Shares from the plan unless the participant leaves employment or a change of control event occurs.

The Sainsbury's Board can provide that Matching Shares will be forfeited if the employee leaves employment, other than where he leaves as a "good leaver".

(d) *Free Shares*

Free Shares ("**Free Shares**") up to a maximum of £3,600 can be awarded to each participant in any tax year. Free Shares must be awarded on similar terms, although the number of Free Shares awarded to each participant may be varied by reference to remuneration, length of service and hours worked. An award of Free Shares can be subject to performance targets.

Free Shares must be held in the plan for a period of between three and five years at the discretion of the Sainsbury's Board and will be free of income tax if held in the plan for five years. During this period the participant cannot withdraw the Free Shares from the trust unless he leaves employment or a change of control event occurs.

The Sainsbury's Board can provide that the Free Shares will be forfeited if the employee leaves employment, other than where he leaves due to certain "good leaver" reasons.

(e) *Dividends*

The Sainsbury's Board may allow a participant to reinvest any dividends paid on Free, Partnership or Matching Shares in buying additional Sainsbury's Shares ("**Dividend Shares**") which must be held in the plan for three years, unless the participant leaves employment or a change of control event occurs. Dividend Shares are not forfeitable in any circumstances.

(f) *Voting rights*

Participants may direct the SIP trustees how to exercise the voting rights attributable to the Sainsbury's Shares held on their behalf. The SIP trustees will not exercise the voting rights unless they receive the participants' instructions.

(g) *Termination of plan*

No awards may be granted more than 10 years after the SIP was approved by Sainsbury's Shareholders.

12.7 **Terms common to the DSA and LTIPs**

(a) *Variation in share capital*

Awards may be adjusted following a variation in the share capital of the Company or a demerger.

(b) *Malus and Clawback*

Awards granted under the LTIPs and the DSA are subject to malus and, for Executive Directors only, clawback provisions. In certain cases including material mis-statement of financial results, serious reputational damage, serious misconduct and/or fraud, the Remuneration Committee may reduce the number of Sainsbury's Shares under an unvested award, cancel an unvested award in full or impose further conditions on an unvested award. In addition, the Remuneration Committee, may require a repayment in relation to share awards which have already vested where the event occurs within two years of the end of the relevant performance period.

12.8 **Terms of the DSA**

(a) *Eligibility*

The DSA is a discretionary award and, currently, the top 40 senior leaders in the Company, including Executive Directors, are eligible to participate, as selected by the Remuneration Committee.

(b) *Grant, Performance Period and Performance Conditions*

The grant of an award is based on performance conditions measured over the financial year before grant. The conditions currently include financial performance, returns to shareholders, relative performance against peers and strategic goals. No award is granted unless a profit gateway target is achieved. The award is granted in the form of a nil cost option over Sainsbury's Shares but may also be granted as a conditional award or forfeitable Sainsbury's Shares.

(c) *Individual Limits*

The current policy is that the maximum DSA opportunity per Executive Director per year is 125 per cent. of base salary.

(d) *Dividend equivalents*

The Remuneration Committee can decide to pay a cash payment equal to any dividend payable to Sainsbury's Shareholders during the vesting period on the number of Sainsbury's Shares under award or that the number of Sainsbury's Shares subject to a vested award shall be increased by assuming that dividends that would have been paid on the Sainsbury's Shares under the original award during the vesting period would have been used to buy further Sainsbury's Shares.

(e) *Vesting*

Awards normally vest over two financial years and, if granted in the form of an option, remain exercisable for eight years from vesting. The Remuneration Committee has discretion to cash settle awards. Awards can only be satisfied using market purchase shares.

(f) *Leavers*

If a participant ceases to be employed with the Sainsbury's Group due to resignation or dismissal for cause, their awards will lapse. If a participant ceases to be employed with the Sainsbury's Group as a "good leaver" (e.g. ill-health, injury, disability, redundancy, retirement or where the Remuneration Committee exercises its discretion), his award will usually vest on the normal vesting date subject to time pro-rating.

If a participant dies, his award will vest in full.

(g) *Change of control, merger or other reorganisation*

On a change of control, scheme of arrangement and certain other corporate reorganisations, awards will vest in full. Internal reorganisations do not automatically trigger the early vesting of awards.

12.9 **Terms common to the LTIPs**

(a) *Eligibility*

The LTIPs are discretionary plans and all levels of employee, including Executive Directors, are eligible to participate provided (in the case of the 2006 LTIP only) that the employee has not given or received notice of termination. Until the 2016 LTIP receives Sainsbury's Shareholder approval, Executive Directors will not be granted awards under the 2016 LTIP.

(b) *Grant*

All eligible participants in the LTIPs may be granted a "core award" which can, currently, grow by up to four times subject to the achievement of performance conditions. The awards are generally structured as a nil cost option over Sainsbury's Shares but may also be granted as a conditional award or forfeitable Sainsbury's Shares.

(c) *Overall limits of the LTIPs*

In any 10-year period, not more than five per cent. of the issued share capital of the Company may be issued or issuable under the LTIPs and any other discretionary employees' share plans adopted by the Company. This limit does not include awards which have lapsed but will include awards satisfied with treasury shares as if they were newly issued Sainsbury's Shares for so long as required by UK institutional investor guidelines.

(d) *Performance period and performance conditions*

The performance period will be at least three years. At the end of the performance period, the performance conditions are measured to determine the relevant multiplier applicable to the core award (currently up to four times). The awards will lapse to the extent that the performance conditions have not been satisfied at the end of the performance period and there is no retesting. The performance conditions for 2015 were based on return on capital, earnings per share, cash flow and strategic cost savings and the Remuneration Committee must also be satisfied that the Company's underlying performance over the period justifies the level of vesting. In light of the Acquisition, the Remuneration Committee has decided that, on a one-off basis, the setting of the performance criteria for the 2016 awards should be deferred until the outcome of the Acquisition is known.

(e) *Leavers*

If a participant ceases to be employed with the Sainsbury's Group, their award will lapse unless the participant leaves after the first six months of the performance period as a "good leaver" (e.g. due to ill health, injury, disability or where the Remuneration Committee exercises its discretion), in which case their award will continue to vest as normal subject to the performance conditions and, usually, time pro-rating.

(f) *Death of participants*

If a participant dies before the end of the performance period, the award will vest on the date of death to the extent the performance conditions have been met and time pro-rating. The participant's estate will have one year from the date of death or, in respect of the 2006 LTIP, if shorter three months from the grant of representation to exercise the award (if granted in the form of an option).

(g) *Termination of plan*

No awards may be granted more than 10 years after each LTIP was approved by Sainsbury's Shareholders.

12.10 **Terms of the 2006 LTIP**

(a) *Vesting*

Once the Remuneration Committee has determined the extent to which the performance conditions are met, half of the award will be released immediately and the balance will be released after a further year, provided the participant is still employed by the Company at that time. Once vested, options must be exercised within two years of the first vesting date and will lapse on the fifth anniversary of the grant date. The Remuneration Committee has discretion to cash settle awards.

(b) *Individual limits*

The maximum 2006 LTIP award opportunity per individual per year is 250 per cent. of base salary (that is the product of the core award at the maximum multiplier).

(c) *Dividend equivalents*

The number of Sainsbury's Shares subject to a vested award under the 2006 LTIP shall increase by assuming that dividends that would have been paid on the Sainsbury's Shares under the original award during the vesting period would have been used to buy further Sainsbury's Shares.

(d) *Change of control, merger or other reorganisation*

On a change of control, scheme of arrangement and certain other corporate reorganisations, awards will vest subject to the performance conditions.

Awards will be reduced depending on when in the performance period the change of control occurs, with the Remuneration Committee normally having regard to the following table:

Change of Control Date	Proportion of vested award which could be released
Within 12 months of grant date	33.3%
12–24 months	66.6%
After 24 months	100%

Internal reorganisations do not automatically trigger the early vesting of awards.

12.11 **Terms of the 2016 LTIP**

(a) *Vesting*

Awards that are subject to a performance condition will vest on the date that the Remuneration Committee determines that the performance condition has been satisfied or a later date at the discretion of the Remuneration Committee. Awards which are not subject to a performance condition will vest on the third anniversary of the grant date (or such other date as the Remuneration Committee may decide). The Remuneration Committee may decide that an award will vest in parts on a number of dates.

Once vested, options must be exercised within ten years of the grant date. The Remuneration Committee has discretion to cash settle awards.

(b) *Retention Period*

When granting an award under the 2016 LTIP the Remuneration Committee may set a retention period, commencing on the vesting date.

If a participant ceases to be employed with the Sainsbury's Group during a retention period, the award will be released at the normal time except in cases of summary dismissal (in which case the award will lapse on the date of such cessation) or where the Remuneration Committee determines that the award shall be released on another date.

(c) *Dividend equivalents*

The Remuneration Committee can decide to pay an amount in cash and/or additional Sainsbury's Shares equal to any dividend payable to Sainsbury's Shareholders during the vesting period on the number of Sainsbury's Shares subject to a vested award under the 2016 LTIP. This may assume reinvestment of dividends and may include or exclude special dividends.

(d) *Change of control, merger or other reorganisation*

On a change of control, scheme of arrangement and certain other corporate reorganisations, awards will vest subject to the performance conditions.

Awards will be reduced depending on when in the performance period the change of control occurs, with the Remuneration Committee normally having regard to any other performance factors considered relevant, including likely future performance.

Internal reorganisations do not automatically trigger the early vesting of awards.

12.12 **Terms of the RSP**

(a) *Eligibility*

The RSP is a discretionary recruitment plan usually used for buy-out awards for new recruits. The terms of each award are specific to the individual. Executive Directors do not receive awards under this plan.

(b) *Grant and Vesting*

Employees selected for an award may be granted conditional awards to acquire Sainsbury's Shares for free in the future. Awards are not generally subject to performance conditions.

The Remuneration Committee will set a vesting period for an award on such basis as it sees fit.

(c) *Leavers*

If a participant ceases to be employed with the Sainsbury's Group, their award will normally lapse unless the participant dies or is dismissed without cause, in which case their award will vest in full.

(d) *Change of control, merger or other reorganisation*

On a change of control, scheme of arrangement and certain other corporate reorganisations, awards will normally vest. Internal reorganisations do not automatically trigger the early vesting of awards.

(e) *Variation in share capital*

Awards may be adjusted following a variation in the share capital of the Company or a demerger.

12.13 **Terms of the CSA**

(a) *Eligibility*

The CSA is a discretionary retention plan and all levels of employee are eligible to participate provided that the employee has not given or received notice of termination. The CSA is used on an ad hoc basis and no regular awards are granted. Executive Directors do not receive awards under this plan.

(b) *Grant and Vesting*

Employees selected for an award may be granted conditional awards to acquire Sainsbury's Shares for free in the future.

One half of an award will vest after the end of the first retention period set by the Sainsbury's Board and the other half will vest after the end of a further retention period set by the Sainsbury's Board. Vesting is subject to the participant having a satisfactory performance rating.

(c) *Leavers*

If a participant ceases to be employed with the Sainsbury's Group due to resignation or dismissal for cause, their award will lapse. If a participant ceases to be employed with the Sainsbury's Group as a "good leaver" (e.g. due to ill health, injury, disability, retirement, redundancy or where the Remuneration Committee exercises its discretion), their award will vest on cessation subject to time pro-rating.

If a participant dies, the award will vest in full.

(d) *Change of control, merger or other reorganisation*

On a change of control, scheme of arrangement and certain other corporate reorganisations, awards will vest in full.

(e) *Variation in share capital*

Awards may be adjusted following a variation in the share capital of the Company or a demerger.

12.14 **Terms of the BSAP**

(a) *Eligibility*

The BSAP is a discretionary plan and all levels of employees are eligible to participate. Executive Directors do not receive awards under this plan.

(b) *Grant and Vesting*

Awards can be granted in the form of a nil cost option over Sainsbury's Shares, conditional awards or forfeitable Sainsbury's Shares.

Awards normally vest over three financial years and if granted in the form of an option, remain exercisable for two years from vesting. The Remuneration Committee has discretion to cash settle awards.

(c) *Dividend equivalents*

The number of Sainsbury's Shares subject to a vested award under the BSAP shall increase by assuming that dividends that would have been paid on the Sainsbury's Shares under the original award during the vesting period would have been used to buy further Sainsbury's Shares.

(d) *Leavers*

If a participant ceases to be employed with the Sainsbury's Group due to a resignation or dismissal for cause, their awards will lapse. If a participant ceases to be employed with the Sainsbury's Group as a "good leaver" (e.g. due to ill-health, injury, disability, redundancy, retirement or where the Remuneration Committee exercises its discretion), their award will vest on cessation, subject to time pro-rating.

(e) *Change of control, merger or other reorganisation*

On a change of control, scheme of arrangement and certain other corporate reorganisations, awards will vest subject to time pro-rating. Internal reorganisations do not automatically trigger the early vesting of awards.

12.15 **Employee Share Ownership Trust**

The Company operates an employee share ownership trust (the Sainsbury's Employee Share Ownership Trust). The beneficiaries of the trust are the employees of the Sainsbury's Group, including the Executive Directors, and the trust is used to satisfy awards granted under the Sainsbury's Employee Share Plans. As at the Last Practicable Date, there were 2,876,357 Sainsbury's Shares in the trust. The trustees have waived the right to vote and to receive dividends on the Sainsbury's Shares in the trust.

12.16 **Outstanding options and awards under the Sainsbury's Employee Share Plans**

Save as disclosed below, none of the share capital of any member of the Sainsbury's Group is under option or agreed conditionally or unconditionally to be put under option.

Plans	Exercise price (if any) (pence)	Number of options/awards outstanding as at the Last Practicable Date
Sharesave	195-332	55,132,412
LTIPs	Nil	6,051,252
DSA	Nil	3,248,633
RSP	Nil	428,559
CSA	—	3,393,430
BSAP	—	11,859,939
Total	—	80,114,225

13. **Subsidiaries**

The Company is the principal operating and holding company of the Sainsbury's Group. The principal subsidiaries and subsidiary undertakings of the Company are as follows:

Name	Proportion of share capital	Country of incorporation	Nature of business
Sainsbury's Bank plc	100%	UK	Financial Services
JS Insurance Limited	100%	Isle of Man	Insurance
JS Information Systems Limited	100%	UK	IT services
Sainsbury's Supermarkets Ltd	100%	UK	Retailing

14. **Statutory Auditors**

14.1 The statutory auditors for Sainsbury's for the period covered by the historical financial information are:

(a) PricewaterhouseCoopers LLP of 1 Embankment Place, London, WC2N 6RH for the historical financial information for the 52-week periods ended 14 March 2015 and 15 March 2014; and

(b) Ernst & Young LLP of 1 More London Place, London SE1 2AF for the historical financial information for the 52-week period ended 12 March 2016.

14.2 Ernst & Young LLP was appointed as the Sainsbury's Group's auditor for the 52 weeks ending 12 March 2016, replacing PricewaterhouseCoopers LLP, following completion of a tender process. The tender process was initiated by the Sainsbury's Group following changes made to the UK Corporate Governance Code in 2012, which recommended that the external audit is put out to tender at least every ten years (PricewaterhouseCoopers LLP having been the Sainsbury's Group's auditors since 1995).

15. **Material contracts of Sainsbury's**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or another member of the Sainsbury's Group: (a) within the two years immediately preceding the date of this Prospectus which are, or may be, material to the Company or any member of the Sainsbury's Group, or (b) at any time and contain provisions under which the Company or any member of the Sainsbury's Group has an obligation or entitlement which is, or may be, material to the Company or any member of the Sainsbury's Group as at the date of this Prospectus:

15.1 **Confidentiality Agreement**

The Confidentiality Agreement is described in paragraph 14 of Part 1 "*Details of the Acquisition*" of this Prospectus.

15.2 **Sponsors' Agreement**

On 5 July 2016, the Company, Morgan Stanley and UBS (together the "**Joint Sponsors**") entered into a sponsors' agreement, pursuant to which the Company appointed Morgan Stanley and UBS as joint sponsors in connection with the applications for Admission and the publication of the Prospectus (the "**Sponsors' Agreement**"). Under the terms of the Sponsors' Agreement, the Company has agreed to provide the Joint Sponsors with certain customary indemnities, undertakings, representations and warranties. The indemnities provided by the Company indemnify the Joint Sponsors and their associates against, inter alia, claims made against them or losses incurred by them in connection with the Acquisition, Admission or the arrangements contemplated by the Prospectus and other relevant documents, subject to certain exceptions. In addition, the Sponsors' Agreement provides that the Joint Sponsors may, in their absolute discretion (acting in good faith) and after prior consultation with the Company, terminate the Sponsors' Agreement before Admission in certain specified circumstances which are customary for an agreement of this nature.

15.3 **Co-operation Agreement**

The Co-operation Agreement is described in paragraph 14 of Part 1 "*Details of the Acquisition*" of this Prospectus.

15.4 **Clean Team Agreement**

The Clean Team Agreement is described in paragraph 14 of Part 1 "*Details of the Acquisition*" of the Prospectus.

15.5 **Transitional Services Agreement**

On 7 May 2013, Sainsbury's Bank and Sainsbury's entered into a transitional services agreement with the Bank of Scotland (the "**Transitional Services Agreement**"), pursuant to which the Bank of Scotland agreed to provide certain transitional services, including savings services, card services, loan services and mortgage services. The Transitional Services Agreement also governs the migration of existing services.

The initial term for each set of services provided pursuant to the Transitional Services Agreement varies with the latest expiring on 28 October 2016, and the Transitional Services Agreement is set to terminate on the expiry of the last such term. Each service term may be extended after the initial service term but at an increased charge.

Throughout the term of the Transitional Services Agreement, the Bank of Scotland will charge and invoice Sainsbury's Bank in respect of the defined product services, together with all connected supporting services, in accordance with a contractually defined charging schedule.

Sainsbury's Bank is entitled to terminate the Transitional Services Agreement on not more than 12 months written notice upon, among other grounds, a material breach by the Bank of Scotland or if the Bank of Scotland suffers an insolvency event. The Bank of Scotland is entitled to suspend services in certain circumstances if invoices remain unpaid.

The Transitional Services Agreement contains customary warranties from each party to the other.

Pursuant to the terms of the Transitional Services Agreement, Sainsbury's Bank agreed to indemnify any member of the Bank of Scotland group against any losses, claims or fines relating to employment or an employment relationship, including its termination, incurred by any member of the Bank of Scotland group, (i) in connection with any actions to suspend those identified as "key personnel" under the Transitional Services Agreement, or (ii) in connection with the transfer of services to a new provider.

The Bank of Scotland agreed to indemnify any new provider of a service against any claims, losses or fines incurred by the new provider in relation to employment or an employment relationship, including its termination, which arises in respect of the transfer.

Each party agreed to indemnify the other party in respect of any claims or losses:

(a) incurred in relation to claims that any licenses of intellectual property rights granted under the sale and purchase agreement entered into between the parties in relation to the sale by LBG of the shares it held in Sainsbury's Bank infringes the intellectual property rights of a third party; or

(b) arising out of or in connection to claims from third parties as a result of a failure to obtain consent if required in order to provide the services under the terms of the Transitional Services Agreement.

The warranties and indemnities provided pursuant to the Transitional Services Agreement are subject to customary limitations, including a minimum threshold for a single warranty claim by the Bank of Scotland against Sainsbury's Bank of £1,000,000 and an aggregate amount of £5,000,000, a maximum threshold of £15,000,000 for Sainsbury's and Sainsbury's Bank's liability in respect of all aggregate defaults and a maximum threshold of £30,000,000 for the Bank of Scotland's liability for any claim made in relation to delays in migration services.

The Transitional Services Agreement is governed by English Law, and each of the parties submit to the jurisdiction of the English Courts in relation to any claim or dispute which arises in connection with the Transitional Services Agreement.

15.6 Master Services Agreement

On 23 December 2013, Sainsbury's Bank entered into an agreement with Certegy Card Services Limited ("**Certegy**") (as amended on 24 December 2015, the "**Master Services Agreement**"). The Master Services Agreement is in the process of being updated to reflect the agreed terms in respect of the release of the next sets of deliverables by Certegy. These updates are expected to be finalised during 2016. Under the terms of the Master Services Agreement, Certegy agreed to provide certain services to enable Sainsbury's Bank to migrate from its current operating model to a new integrated banking platform.

As part of the Master Services Agreement, Sainsbury's Bank agreed to enter into a brand licence regulating Certegy's use of Sainsbury's branding in carrying out the respective activities under the agreement. Certegy also agreed to enter into a number of sub-contracts in relation to the provision of the services.

Under the terms of the Master Services Agreement, Certegy agreed to provide the following services, and any related documents and software to support that service, in accordance with certain milestones agreed between the parties:

(a) web services;

(b) customer service software;

(c) business process outsourced services, such as out-of-hours lost and stolen cards service, manual credit risk underwriting and fraud monitoring and case management;

(d) the provision of infrastructure required by Certegy to provide the other services;

(e) the provision of software in order to deliver the integrated banking platform;

(f) the management of IT hardware and software forming part of or all of the other services;

(g) the provision of data warehouse and supporting utilities;

(h) the provision of applications that support and enable the provision of credit cards to customers, the processing of card transactions and the provision of loans and savings products;

(i) disaster recovery, back-up and business continuity services;

(j) implementation of the agreed exit plan, whereby the services are terminated and transitioned to a new provider; and

(k) software maintenance and technical support.

Throughout the term of the Master Services Agreement, Certegy will charge and invoice Sainsbury's Bank in respect of the defined product services, together with all connected supporting services, in accordance with a contractually defined charging schedule.

The initial termination date of the Master Services Agreement is 22 December 2028, after which it will first be automatically extended for five years, and subsequently it will be automatically extended for an indefinite period, in either case unless Sainsbury's Bank gives six months' written notice, or the Master Services Agreement is terminated in accordance with the termination rights summarised below. At any other time Sainsbury's Bank is entitled to terminate the entire Master Services Agreement in whole or in part by giving twelve months' written notice to Certegy.

Sainsbury's Bank is entitled to terminate the Master Services Agreement, either in its entirety or only in respect of any part of the services, on immediate written notice on the occurrence of one of a number of events, including persistent or material breach, Certegy being subject to an insolvency event, or if Certegy, its agents or subcontractors commits a material breach in respect of any intellectual property rights owned or licensed to the Sainsbury's Bank group.

Certegy is entitled to terminate the Master Services Agreement on three months' written notice if Sainsbury's Bank fails to pay for the services within 15 days of receiving notice that an invoice is more than one month overdue (such notice to be paid within 15 days of the invoice becoming overdue by one month).

The Master Services Agreement contains customary warranties from Certegy to Sainsbury's Bank relating to the provision of the services.

Certegy agreed to indemnify Sainsbury's Bank against certain damages, claims and losses. Sainsbury's Bank agreed to indemnify Certegy against claims made in connection with intellectual property rights provided by Sainsbury's Bank under the terms of the agreement.

These warranties and indemnities are subject to customary limitations.

The Master Services Agreement is governed by English law, and each of the parties submits to the jurisdiction of the English Courts in relation to any claim or dispute which arises in connection with the Master Services Agreement, subject to an agreed initial expert determination procedure.

15.7 **Pharmacy Business Disposal Agreement**

On 29 July 2015, SSL entered into an agreement with Lloyds Pharmacy Limited ("**Lloyds**") for the sale and purchase of the pharmacy business owned and operated by SSL at a number of its supermarkets and a number of hospitals as a going concern (the "**Business**") (the "**Pharmacy Business Disposal Agreement**"). SSL also agreed to grant, and Lloyds agreed to accept the grant of, a lease or a sub-lease for each of the several properties used in the Business.

Closing is subject to the delivery of customary deliverables due at closing and is expected to take place on 31 August 2016.

The consideration for the disposal of the Business was the assumption of certain liabilities plus £125,000,000, subject to a post-closing working capital adjustment.

Either party is entitled to terminate by written notice if the other party fails to comply with any material obligation in relation to closing obligations or payment of the consideration, without liability on its part.

The Pharmacy Business Disposal Agreement is subject to customary warranties for the disposal of the Business, in relation to capacity and existence, preparation of accounts, business properties and ownership of assets, data protection, material contracts, employees and related warranties, legal compliance, material litigation, insurance and tax. These warranties are subject to customary limitations, including:

(a) matters disclosed in writing at the date of the Pharmacy Business Disposal Agreement;

(b) a four year time limit for bringing a claim in relation to tax warranties and SSL obligations in relation to the conduct of the Business between signing and closing, and an 18 month time limit for bringing any other warranty claim;

(c) a minimum threshold in respect of a warranty claim or series of warranty claims of £100,000 other than in relation to employment matters, and £15,000 for warranties in relation to employment matters, and SSL is not liable for any warranty claims unless the aggregate amount of all warranty claims exceeds one per cent. of the headline price; and

(d) a maximum threshold for all warranty claims of an amount equal to 35 per cent. of the headline price.

Lloyds has agreed to indemnify each member of the Sainsbury's Group against the liabilities assumed by Lloyds under the Pharmacy Business Disposal Agreement and any other liability which arises in connection with the conduct of the Business incurred after closing and against any losses which may arise in connection with such liabilities.

SSL has agreed to indemnify Lloyds against any liabilities not transferred to Lloyds under the terms of the Pharmacy Business Disposal Agreement and any losses which arise in connection with such liabilities.

The above indemnities are subject to limitations. There is no financial cap on the potential amount payable under the indemnities.

The Pharmacy Business Disposal Agreement is governed by English Law and the Courts of England have exclusive jurisdiction to settle any disputes arising in connection with the agreement.

15.8 **Nectar and related agreements with Aimia**

On 22 February 2012, SSL entered into the following and related ancillary agreements, in connection with SSL renewing its participation in the "Nectar" customer loyalty programme ("**Nectar**"), which is owned and operated by Aimia Coalition Loyalty UK Limited ("**Aimia**") in the United Kingdom, Channel Islands and Isle of Man:

(a) an agreement with Aimia Groupe Aeroplan Inc (the "**Guarantor**") dated 22 February 2012 pursuant to which SSL obtained the right to issue Nectar points to its customers and employees (the "**Nectar Sponsor Agreement**"); and

(b) an agreement with Aimia and the Guarantor dated 22 February 2012, (the "**Supplier Agreement**"), pursuant to which SSL agreed to provide redemption services to Aimia in connection with Nectar.

Nectar Sponsor Agreement

Under the Nectar Sponsor Agreement, Aimia granted SSL and Sainsbury's Bank the right to issue Nectar points to their customers and employees, and Aimia and the Guarantor agreed not to grant or permit any manufacturer or supplier of products being sold by SSL nor certain specified retailers the right to issue or redeem Nectar points, nor to operate or establish, and SSL agreed not to participate in, any other customer loyalty rewards programmes in the United Kingdom, Channel Islands or Isle of Man during the term of the Nectar Sponsor Agreement.

For each month of the term of the Nectar Sponsor Agreement, SSL agreed to pay Aimia a fee in respect of its participation in Nectar, which is an amount for each point issued by SSL and Sainsbury's Bank, which is subject to a minimum monthly financial commitment. SSL agreed to pay Aimia a quarterly Nectar support fee.

The Nectar Sponsor Agreement was entered into for a substantial initial term. The parties have agreed to meet at regular intervals to discuss extending the agreement. The Nectar Sponsor Agreement terminates automatically if the Supplier Agreement, summarised below, is terminated.

The Nectar Sponsor Agreement may be terminated by either party in certain prescribed circumstances.

The Nectar Sponsor Agreement contains customary warranties from Aimia to SSL.

SSL agreed to indemnify Aimia against any loss or damages incurred by Aimia in connection with the operation of employee incentive plans which are part of Nectar, and any other employee related claim arising from the termination of employee relationships which have transferred to Aimia by an operation of law.

Liability for these warranties and indemnities is subject to a maximum aggregate financial threshold of £35,000,000.

The Sponsor Agreement is governed by English law, and each of the parties submit to the non-exclusive jurisdiction of the English Courts.

Supplier Agreement

The services provided by SSL to Aimia pursuant to the Supplier Agreement include:

(a) processing points and redemption information for Aimia and enabling Aimia to provide rewards to collectors on redemption;

(b) providing Aimia with accurate information about SSL's rewards for inclusion in Nectar marketing

(c) redeeming points at the request of the collector under the terms of the Supplier Agreement and being responsible for all aspects of SSL's rewards;

(d) being responsible for all customer service issues arising out of SSL's rewards; and

(e) connecting with Aimia's systems and providing the relevant training to ensure Nectar can function and run effectively.

Aimia agreed to pay SSL for each point redeemed in a given month, a set amount in consideration of the provision of redemption services and a set amount in consideration of the provision of the SSL rewards to collectors. SSL agreed to pay Aimia any additional costs for hosting and managing services.

Under the terms of the Supplier Agreement, SSL indemnified Aimia against any damages or losses incurred as a result of the provision of the SSL rewards except to the extent Aimia has caused or contributed to the damages or losses.

The Supplier Agreement was entered into for a substantial initial term. The parties have agreed to meet at regular intervals to discuss extending the agreement. The Supplier Agreement terminates automatically if the Nectar Sponsor Agreement is terminated.

The Supplier Agreement may be terminated by either party in certain prescribed circumstances.

The Supplier Agreement contains customary warranties from Aimia to SSL.

SSL agreed to indemnify Aimia against any loss or damages incurred by Aimia in connection with the operation of employee incentive plans which are part of Nectar, and any other employee related claim arising from the termination of employee relationships which have transferred to Aimia by an operation of law.

Liability for these warranties and indemnities is subject to a maximum aggregate financial threshold of £35,000,000.

The Supplier Agreement is governed by English law, and each of the parties submit to the non-exclusive jurisdiction of the English Courts.

15.9 **Facilities**

(a) *Revolving credit facility*

On 18 March 2016, Sainsbury's entered into an amendment and restatement agreement (the "**Amendment and Restatement Agreement**") in respect of a £1,150,000,000 credit facility agreement originally dated 5 May 2015, between, amongst others, Sainsbury's as borrower, SSL as guarantor, HSBC Bank plc as facility agent, HSBC Corporate Trustee Company (UK) Limited as security agent and a syndicate of lenders named therein as original lenders (the "**Revolving Credit Facility**").

The Revolving Credit Facility provides a multicurrency revolving credit facility of £500,000,000 ("**Facility A**") and a multicurrency revolving credit facility of £650,000,000 ("**Facility B**"). The final maturity date of Facility A is 5 May 2019 and the final maturity date of Facility B is five years from the date of the Revolving Credit Facility. The Facility A final maturity date may be extended by a year at the request of Sainsbury's subject to certain conditions set out in the Revolving Credit Facility.

The Revolving Credit Facility may be drawn in sterling, euro, U.S. dollar or other currencies (subject to certain conditions specified therein) and is made available for general corporate purposes including, without limitation, the repayment of any financial indebtedness.

The rate of interest payable on loans made under the Revolving Credit Facility is the aggregate of the applicable margin plus LIBOR (or EURIBOR in relation to any loan denominated in euro). A facility agent's fee, security agent's fee, commitment fees and utilisation fees are also payable under the terms of the Revolving Credit Facility. The margin is between 0.45 per cent. and 1.05 per cent. for Facility A, and 0.60 per cent. and 1.20 per cent. for Facility B.

The Revolving Credit Facility contains customary representations, covenants, indemnities and events of default, each with appropriate carve-outs and materiality thresholds by Sainsbury's in favour of the lenders. Certain amendments were made to the Revolving Credit Facility pursuant to the Amendment and Restatement Agreement:

(i) to accommodate the Acquisition; and

(ii) in order for the financial advisers to Sainsbury's in connection with the Acquisition cash confirmation process to be satisfied that the Facility A is made available on a certain funds basis for the requisite period.

The secured parties under the Revolving Credit Facility receive the benefit of security including mortgages or equivalent local law security over certain properties held by SSL. The security provided in respect of the Revolving Credit Facility relates to a separate pool of assets from those secured in connection with the Term Facility and Green Loan Facility described at paragraphs 15.9(a) and 15.9(c) below.

(b) *Amended and restated term facility agreement*

On 5 May 2015, Sainsbury's entered into an amendment and restatement agreement in respect of a facility agreement originally dated 26 September 2011 between, amongst others, Sainsbury's as borrower, SSL as guarantor and RI-GD Investments as original lender and security agent (the "**Term Facility**").

The Term Facility made available a term loan facility in an aggregate amount equal to €50,000,000 which is fully drawn. The final maturity date of the Term Facility is the date falling 60 months from the utilisation date of the loan under the Term Facility (the "**Term Facility Loan**"). The Term Facility Loan is made available for general corporate purposes.

The rate of interest payable on the Term Facility Loan is the aggregate of the applicable margin plus EURIBOR. The margin is 1.85 per cent. per annum, and (in certain specified circumstances) there is an additional margin of 0.15 per cent.

The Term Facility contains customary representations, covenants, indemnities and events of default, each with appropriate carve-outs and materiality thresholds. The secured parties under the Term Facility receive the benefit of security including mortgages (or equivalent local security) over certain properties held by SSL. The security provided in respect of the Term Facility and the Green Loan Facility described below relates to a separate pool of assets from those secured in connection with the Revolving Credit Facility described at paragraph 15.9(a) above.

Certain amendments were made to the Term Facility pursuant to a consent request dated 14 March 2016 in order to permit the Acquisition.

(c) *Amended and restated £200 million green loan*

On 5 May 2015, Sainsbury's entered into an amendment and restatement agreement in respect of a facility agreement originally dated 17 July 2014 between, amongst others, Sainsbury's as borrower, SSL as guarantor and RI-GD Investments as original lender, facility agent and security agent (the "**Green Loan Facility**").

The Green Loan Facility made available a term loan facility in an aggregate amount equal to £200,000,000 which is fully drawn. The final maturity date of the Green Loan Facility is the date falling five years from the utilisation date of the loan under the Green Loan Facility (the "**Green Loan Facility Loan**"). The Green Loan Facility Loan is made available for general corporate purposes, it being acknowledged that the loan is expected to be used for purposes consistent with Sainsbury's framework to provide for investment in energy efficiency, renewable energy, water reduction, water management or carbon reduction projects when building, developing, refurbishing or modifying stores, depots or other premises.

The rate of interest payable on the Green Loan Facility Loan is the aggregate of the applicable margin plus LIBOR. The margin is 1.5 per cent. per annum.

The Green Loan Facility contains customary representations, covenants, indemnities and events of default, each with appropriate carve-outs and materiality thresholds. The secured parties under the Green Loan Facility receive the benefit of security including mortgages (or equivalent local security) over certain properties held by SSL. The security provided in respect of the Green Loan Facility and the Term Facility described in this paragraph 15.9(c) and paragraph 15.9(b) above relates to a different pool of assets from those secured in connection with the Revolving Credit Facility described at paragraph 15.9(a) above.

Certain amendments were made to the Green Loan Facility pursuant to a consent request dated 14 March 2016 in order to permit the Acquisition.

15.10 **Convertible and hybrid bonds**

£250,000,000 Perpetual Capital Securities

On 30 July 2015 Sainsbury's issued £250,000,000 Perpetual Capital Securities (the "**Perpetual Capital Securities**"). The Perpetual Capital Securities are perpetual securities and have no fixed redemption date. Up to (but excluding) 30 July 2020 (the "**Perpetual Capital Securities First Reset Date**"), the Perpetual Capital Securities bear interest on their principal amount at a rate of 6.500 per cent. per annum, payable annually in arrears on 30 July in each year. Thereafter, unless previously redeemed, the Perpetual Capital Securities will bear interest at a rate which shall be 9.727 per cent. per annum above the relevant five year swap rate, payable annually in arrears on 30 July in each year. The Perpetual Capital Securities are subordinated obligations of Sainsbury's, and Sainsbury's may (subject to certain customary exceptions) elect to defer any payment of scheduled interest at its discretion.

The Perpetual Capital Securities may be redeemed at the option of Sainsbury's in whole (but not in part) at their principal amount together with accrued but unpaid interest and any outstanding arrears of interest on the Perpetual Capital Securities First Reset Date or any fifth anniversary thereafter.

£450,000,000 1.25 per cent Convertible Bonds due 2019

On 21 November 2014 Sainsbury's issued £450,000,000 1.25 per cent Convertible Bonds due 2019 (the "**November 2014 Bonds**"). The November 2014 Bonds are unsubordinated obligations of Sainsbury's, and bear interest on their principal amount at a rate of 1.25 per cent. per annum, payable semi-annually in arrears on 21 May and 21 November in each year. Unless previously redeemed or purchased and cancelled, the November 2014 Bonds will be convertible, at the option of the bondholders, into new and/or existing ordinary shares of Sainsbury's, on the basis of the conversion price determined in accordance with the conditions of the November 2014 Bonds.

The November 2014 Bonds may be redeemed at the option of Sainsbury's in whole (but not in part) at their principal amount together with accrued but unpaid interest and any outstanding arrears of interest if (i) conversion rights shall have been exercised and/or purchases and/or redemptions effected in respect of 85 per cent. or more in principal amount of the November 2014 Bonds that were originally issued, or (ii) if the prevailing share price equals or exceeds 130 per cent. of the conversion price.

£250,000,000 Subordinated Perpetual Convertible Bonds

On 30 July 2015 Sainsbury's issued £250,000,000 Subordinated Perpetual Convertible Bonds (the "**July 2015 Bonds**"). The July 2015 Bonds are perpetual bonds and have no fixed redemption date. Up to (but excluding) 30 July 2021 (the "**Perpetual Capital Bonds First Reset Date**"), the July 2015 Bonds bear interest on their principal amount at a rate of 2.875 per cent. per annum, payable semi-annually in arrears on 30 January and 30 July in each year. Thereafter, unless previously redeemed or converted, the July 2015 Bonds will bear interest at a rate which shall be 9.727 per cent. per annum above the relevant five year swap rate, payable semi-annually in arrears on 30 January and 30 July in each year. The July 2015 Bonds are subordinated obligations of Sainsbury's, and Sainsbury's may (subject to certain customary exceptions) elect to defer any payment of scheduled interest at its discretion.

Unless previously redeemed or purchased and cancelled, the July 2015 Bonds will be convertible, at the option of the bondholders, into new and/or existing ordinary shares of Sainsbury's, on the basis of the conversion price determined in accordance with the conditions of the July 2015 Bonds.

The July 2015 Bonds may be redeemed at the option of Sainsbury's in whole (but not in part) at their principal amount together with accrued but unpaid interest and any outstanding arrears of interest: (i) on the Perpetual Capital Bonds First Reset Date or any fifth anniversary thereafter; or (ii) at any time, if conversion rights shall have been exercised and/or purchases and/or redemptions effected in respect of 85 per cent. or more in principal amount of the July 2015 Bonds that were originally issued.

15.11 **Securitisations**

Sainsbury's has previously raised finance by way of note issues under a securitisation structures. The securitisations relate to the assets and undertakings of a number of special purpose entities within the Sainsbury's Group. Amounts outstanding on the notes issued by the securitisation issuers are ultimately backed by rental cashflows guaranteed by Sainsbury's from a portfolio of properties let to Sainsbury's or a member of the Sainsbury's Group (the "**Securitised Estate**") and over which the special purpose entities within the Sainsbury's Group that own the Securitised Estate have granted fixed and floating security. Securitisation is a means used by the Sainsbury's Group to fund the Securitised Estate.

(a) Dragon Finance B.V. is the issuer of the £102,450,000 Class A floating rate notes due 2023, £30,000,000 Class B floating rate notes due 2023 and £100,000,000 Class C floating rate notes due 2023 (the "**Dragon Finance Notes**"). The Dragon Finance Notes are obligations solely of the issuer of the Dragon Finance Notes and have not been guaranteed by Sainsbury's or any member of the Sainsbury's Group.

(b) Highbury Finance B.V. is the issuer of the £335,500,000 fixed rate notes due 2023 (the "**Highbury Finance Notes**"). The Highbury Finance Notes are obligations solely of the issuer of the Highbury Finance Notes and have not been guaranteed by Sainsbury's or any member of the Sainsbury's Group.

(c) Eddystone Finance plc is the issuer of the £71,000,000 Class A1A floating rate notes due 2021, €504,600,000 Class A1B floating rate notes due 2021, £421,000,000 Class A2 floating rate notes due 2021, £140,000,000 Class B floating rate notes due 2021 and £221,000,000 Class C floating rate notes due 2021 (the "**Eddystone Finance Notes**"). The Eddystone Finance Notes are obligations solely of the issuer of the Eddystone Finance Notes and have not been guaranteed by Sainsbury's or any member of the Sainsbury's Group.

(d) Longstone Finance plc is the issuer of the £542,500,000 Class A floating rate notes due 2036, £46,500,000 Class B floating rate notes due 2036 and £279,000,000 Class C floating rate notes due 2036 (the "**Longstone Finance Notes**"). The Longstone Finance Notes are obligations solely of the issuer of the Longstone Finance Notes and have not been guaranteed by Sainsbury's or any member of the Sainsbury's Group.

To facilitate the operation of each of the securitisations, Sainsbury's and SSL have taken on a number of roles in each transaction, including:

(a) Sainsbury's as the managing agent of the Securitised Estate pursuant to the terms of property management agreements entered into whereby Sainsbury's, in its capacity as the managing agent, manages the Securitised Estate as to general upkeep and day-to-day operations on behalf of each securitisation borrower. Pursuant to the terms of each property management agreement, the relevant borrower security trustee will have the right to replace the managing agent following, *inter alia*, the occurrence of a loan event of default or certain insolvency events relating to Sainsbury's and each of the relevant securitisation borrowers have covenant to procure that the relevant managing agent manages the Securitised Estate in accordance with the standards that would be expected of a competent and reasonably prudent manager of properties similar to the Securitised Estate and in accordance with the principles of good estate management.

(b) Sainsbury's as the lease guarantor pursuant to the terms of the occupational leases in relation to the Securitised Estate. Under the terms of the occupational leases Sainsbury's, as lease guarantor, has certain guarantee obligations, including, *inter alia*, guaranteeing the rental income on the properties. *Inter alia*, a default in these obligations (and in relation to the Dragon Finance Notes and the

Highbury Finance Notes only, or the suspension by Sainsbury's of any indebtedness over a certain threshold) could result, *inter alia*, in the forfeiture of occupational leases. In relation to the Dragon Finance Notes and the Highbury Finance Notes only, Sainsbury's has also guaranteed the underlying bonds that back the issue of the Dragon Finance Notes and the Highbury Finance Notes and the terms of the financial guarantees contains a requirement to post collateral if there is, *inter alia*, a cross default or insolvency within the Sainsbury's Group.

(c) in relation to the Eddystone Notes and the Longstone Notes only, Sainsbury's as the subordinated loan provider pursuant to the terms of the subordinated loan agreements has agreed to make subordinated loans available to each of the securitisation borrowers. Under the terms of the subordinated loan, Sainsbury's, broadly, lent the securitisation borrowers the difference between the amount borrowed by the securitisation borrowers and the purchase price for the relevant part of the Securitised Estate. Under the terms of the subordinated loan agreements, all of Sainsbury's rights will be subordinated to the rights of the relevant issuer of the notes.

(d) Sainsbury's, in relation to the Eddystone Notes and the Longstone Notes only, has entered into tax deeds of covenant whereby it gives covenants with a view to protecting the relevant issuer of the notes and the securitisation borrowers from certain tax-related risks including risks relating to secondary tax liabilities, VAT grouping, surrendering losses, latent tax charges, transfer pricing and acquisitions and disposals of properties.

In addition, in relation to the Eddystone Notes and the Longstone Notes only, an insolvency event in relation to the Sainsbury's Group may result in a default being called in relation to the underlying borrower's obligations to each issuer of the notes.

16. Material contracts of Home Retail Group plc

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by Home Retail Group plc or another member of the Home Retail Group: (a) within the two years immediately preceding the date of this Prospectus which are, or may be, material to Home Retail Group plc or any member of the Home Retail Group, or (b) at any time and contain provisions under which Home Retail Group plc or any member of the Home Retail Group has an obligation or entitlement which is, or may be, material to Home Retail Group plc or any member of the Home Retail Group as at the date of this Prospectus:

16.1 Homebase Sale

On 18 January 2016, Home Retail Group plc announced that it and a wholly owned subsidiary of it, Home Retail Group (UK) Limited (the "**Seller**"), had entered into a share purchase agreement with Bunnings (UK&I) Holdings Limited (the "**Purchaser**") and Bunnings Group Limited (the "**Purchaser Guarantor**") with respect to the sale of the Homebase Group for the Consideration, being the bid amount of £340,000,000 (the "**Bid Amount**") after certain adjustments at the completion of the Homebase Sale (the "**Homebase Sale Completion**") to enable the Homebase Sale to be made on a cash-free and debt-free basis (the "**Consideration**") (the "**Homebase Share Purchase Agreement**"). The adjustments to the Bid Amount are set out in further detail in paragraph 16.1(a)(i) (*Consideration*) below. Homebase Sale Completion, which was conditional upon, *inter alia*, the approval of Home Retail Group Shareholders (which was obtained on 25 February 2016), took place on 27 February 2016.

In connection with the sale of Homebase, in addition to the Homebase Share Purchase Agreement, the Home Retail Group entered into the Homebase Transitional Services Agreement and the Homebase Tax Deed of Covenant, each as more fully described below (together, the "**Homebase Sale Agreements**"). Each of these agreements is governed by English law and the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the relevant agreement.

The following is a summary of the principal terms of the Homebase Sale Agreements.

(a) ***Homebase Share Purchase Agreement***

The principal terms of the Homebase Share Purchase Agreement are as follows:

(i) *Consideration*: The Consideration payable for the purchase of the shares of Homebase was the Bid Amount, subject to an adjustment mechanism based on the amounts of net working capital, debt and cash in the Homebase Group at Homebase Sale Completion, any interest accrued on the Bid Amount between a Period End Date and Homebase Sale Completion and any adjustment required to net off any cash left in the Homebase Group. The potential adjustments will be made in the following circumstances:

(A) if the working capital of the Homebase Group is less negative than a negative working capital balance of £58,633,000, the Bid Amount will be adjusted downwards and if the working capital of the Homebase Group is more negative than a negative working capital balance of £58,633,000, the Bid Amount will be adjusted upwards, in each case by the less negative or more negative difference versus the negative working capital balance of £58,633,000; and

(B) if and to the extent that the aggregate amount of cash in the Homebase Group exceeds the amount of indebtedness attributable to the Homebase Group on the most recent period end date prior to Homebase Sale Completion, the Bid Amount will be adjusted upwards by such amount and if the aggregate amount of cash in the Homebase Group is less than the amount of indebtedness attributable to the Homebase Group on the most recent Period End Date prior to Homebase Sale Completion, the Bid Amount will be adjusted downwards by such amount.

Within 25 Business Days after Homebase Sale Completion, the Purchaser shall prepare a draft closing statement of the Homebase Group. Home Retail Group plc and the Seller have the right to object to the determination of working capital, debt and/or cash together with any other adjustment. To the extent that Home Retail Group plc and the Purchaser are unable to resolve any disagreement, a final determination will be made by an independent accounting firm.

(ii) *Warranties and indemnities*: The Homebase Share Purchase Agreement contains warranties given by the Seller in favour of the Purchaser with respect to Homebase that are customary for a transaction of this nature and size. The warranties given by the Seller relate to the following: the shares of Homebase and Hampden Group Limited and its subsidiaries, constitutional documents, corporate registers and minutes books, accounts, financial obligations, real estate and other assets, intellectual property rights and information technology, contracts, distribution, agency, marketing and sales agreements, joint ventures, employees and employee benefits, pensions, legal compliance, the environment, litigation, insurance, tax, important business since 31 October 2015, disclosure of information, authority and capacity and solvency.

In addition to the warranties referred to above, the Seller has agreed to indemnify the Purchaser for specific liabilities, including in relation to the following:

(A) the pre-sale group reorganisation (insofar as the reorganisation relates to the separation of the Homebase Group from the Home Retail Group);

(B) environmental liabilities insofar as they relate to any hazardous substance at the properties of the Homebase Group prior to Homebase Sale Completion;

(C) liabilities arising as a result of employees transferring to or from the Purchaser's group in connection with the Homebase Sale;

(D) any funding deficit of the Hampden Group plc Pension Scheme in excess of £1.5 million calculated at Homebase Sale Completion on an IAS 19 basis, in a manner consistent with that employed in the accounts, using consistent principles, accounting, market driven and actuarial assumptions; and

(E) any exercise of power on behalf of the Pensions Regulator under the Pensions Act 2004 or any amount arising under section 75 of the Pensions Act 1995 in relation to the Home Retail Group Pension Scheme.

The maximum aggregate liability of the Home Retail Group and the Seller for all claims under the warranties is 25 per cent. of the Consideration, except in relation to claims for a breach of title or capacity warranty, which shall be capped at total Consideration.

Claims under the Homebase Tax Deed of Covenant and the indemnities are capped at total Consideration, except that the indemnities referred to in paragraphs (A) and (E) above are uncapped.

(b) ***Homebase Transitional Services Agreement***

(i) *Scope of the Homebase Transitional Services Agreement*: On 17 January 2016, the Seller and Homebase Limited entered into the Homebase Transitional Services Agreement as detailed below. The Homebase Transitional Services Agreement governs the provision of:

(A) certain services, including information systems, home delivery, distribution, customer contact centre, product sourcing, property, facilities, transport, legal, human resources and tax, that the Seller is to provide (or procure the provision of) to Homebase Limited and its affiliates to assist the transition of the Homebase Group into the Purchaser's ownership (the "**Home Retail Group Services**"); and

(B) certain reverse services, including information systems, finance and home delivery services, along with the right to continue the operation of certain Argos concessions in Homebase stores, that Homebase Limited is to provide (or procure the provision of) to the Seller and its affiliates to ensure an orderly separation of the Argos and Habitat business from Homebase (the "**Reverse Services**", and the Home Retail Group Services and the Reverse Services together being the "**Services**").

Each of the Services commenced on the date of Homebase Sale Completion, which was on 27 February 2016.

(ii) *Charges for the Services*:

(A) In respect of each of the Home Retail Group Services, Homebase Limited shall pay to the Seller either: (i) a fixed monthly fee; and/or (ii) a variable monthly fee; and/or (iii) the Seller's costs in providing the relevant Home Retail Group Service, save that a small number of Home Retail Group Services will be provided without charge.

(B) In respect of the Reverse Services, the Seller shall pay to Homebase either: (i) the costs incurred by Homebase in providing the Reverse Services; or (ii) a variable monthly fee, save that the Reverse Services provided in relation to the operation of the Argos concessions are provided without charge for the first 18 months following Homebase Sale Completion.

Provisions are included in the Homebase Transitional Services Agreement for potential increases and decreases in the fees payable by each party.

(iii) *Limitation of liability*: Subject to agreed carve-outs and exclusions, the Seller's aggregate liability under or in connection with the Homebase Transitional Services Agreement or the provision of the Home Retail Group Services is limited to £60 million and Homebase Limited's aggregate liability under or in connection with the Homebase Transitional Services Agreement or the provision of the Reverse Services is limited to £2 million.

(iv) *Term and Termination*:

(A) Each Home Retail Group Service is to be provided on an ongoing basis with minimum terms of up to 18 months. Each Reverse Service is to be provided on an ongoing basis, with a minimum specified term.

(B) Either party may terminate any Service for convenience following the minimum term for that Service, subject to a specified period of notice and, where provided in relation to a Home Retail Group Service, payment of a termination fee by Homebase Limited.

(c) ***Homebase Tax Deed of Covenant***

The Seller has entered into a customary tax deed of covenant with the Purchaser in relation to the Homebase Sale, which came into effect at Homebase Sale Completion (the "**Homebase Tax Deed of Covenant**"). Under this deed, the Seller has agreed to pay the Purchaser an amount equal to (very broadly) any tax liabilities of Homebase that are attributable to:

(i) the period up to and including the date of Homebase Sale Completion (i.e. 27 February 2016); or

(ii) the pre-sale group reorganisation.

This obligation is subject to customary limitations and exclusions. The maximum aggregate liability for the Seller for general claims under the Homebase Tax Deed of Covenant is capped at an amount equal to the total Consideration. For claims relating to tax liabilities attributable to the pre-sale group reorganisation, the liability of the Seller is uncapped.

The Homebase Tax Deed of Covenant also contains provisions relating to, amongst other things, notification of claims and conduct of disputes, secondary liabilities, the allocation of pre-completion tax reliefs and refunds, the administration of group relief, VAT and the conduct of Homebase's pre-completion tax affairs and computations.

16.2 **Offer-related documents**

Confidentiality Agreement

The Confidentiality Agreement is described in paragraph 14 of Part 1 "*Details of the Acquisition*" of this Prospectus.

Co-operation Agreement

The Co-operation Agreement is described in paragraph 14 of Part 1 "*Details of the Acquisition*" of this Prospectus.

Clean Team Agreement

The Clean Team Agreement is described in paragraph 14 of Part 1 "*Details of the Acquisition*" of this Prospectus.

17. **Related party transactions**

17.1 Save as described in the Sainsbury's Group's historical financial information for the 52-week periods to 12 March 2016, 14 March 2015 and 15 March 2014 as set out in each case in Notes 17 and 37 thereto, which are incorporated by reference into this Prospectus, there were no related party transactions (which for the purposes of this paragraph 17 are those set out in the standards adopted according to Regulation (EC) No 1606/2002) entered into by the Company during the 52-week periods to 12 March 2016, 14 March 2015 and 15 March 2014.

17.2 During the period since 12 March 2016 and up to the date of this Prospectus, the Company entered into the following transactions with related parties:

Transactions with Joint Ventures and Associates

	£m (unaudited)
Management services received	1
Revenue share received from joint ventures	8
Dividend income received	21
Investment in joint ventures and associates	(8)
Rental expenses paid	(18)

Balances arising from transactions with joint ventures and associates

	£m (unaudited)
Receivables	
Other receivables	18
Loans due from joint ventures	3
Payables	
Loans due to joint ventures	(5)

18. **Litigation**

Save as disclosed in the following paragraphs, there are no governmental, legal or arbitration proceedings (including such proceedings which are pending or threatened of which the Company is aware) during the 12 months preceding the date of this Prospectus, which may have, or have had a significant effect on the Company's and/or the Sainsbury's Group's financial position or profitability:

(a) SSL issued legal proceedings against MasterCard Incorporated, MasterCard International Incorporated and MasterCard Europe S.P.R.L. (together "**MasterCard**") on 19 December 2012 in relation to overcharges that it has paid on payment card processing fees (or interchange fees) in the UK. The European Commission issued a decision against MasterCard on 19 December 2007 establishing that MasterCard's interchange fees for cross-border payments within the EEA breached Article 101 of the Treaty of the Functioning of the European Union ("**TFEU**") (prohibiting anti-competitive agreements). This decision was appealed to the General Court and the European Court of Justice but upheld on both occasions.

The case was heard in the Competition Appeal Tribunal between 25 January 2016 and 11 March 2016. The judgment is expected in the second half of 2016.

SSL's claim for damages is to recover the level of interchange fees it has historically paid above where MasterCard's interchange fees could lawfully have been. SSL is seeking full compensation for this 'overcharge', including interest. SSL is also seeking exemplary damages on the basis that MasterCard should have known that its UK interchange fees were unlawful.

(b) SSL has issued legal proceedings against Visa Europe Services Inc, Visa Europe Limited and Visa UK Limited in relation to overcharges that it has paid on payment card processing fees (or interchange fees) in the UK. The equivalent MasterCard fees have been found to be unlawful by the European Commission, a decision which was upheld by the European Court of Justice.

According to the current timetable, the next hearing, to consider the liability issues, is expected to take place in October 2016. A trial of the quantum issues is expected to take place in January 2018.

(c) Sainsbury's is the subject of 197 claims in the Employment Tribunal for equal pay under the Equality Act 2010 and/or the Equal Pay Act 1970. The claimants, who are predominantly female, allege that their pay should be equal to Sainsbury's predominantly male depot employees on the basis that their work is of equal value to their depot comparators.

Typically claims of this nature take many years to be determined. Given the Sainsbury's claims are at a very early stage, and due to the uncertainty of the outcome, it is currently not possible to predict the scope and ultimate impact on the Sainsbury's Group.

19. **Working capital statement**

In the opinion of the Company, the working capital available to the Sainsbury's Group is sufficient for its present requirements, that is for at least the next 12 months following the date of this Prospectus.

20. **Sources and bases of selected financial information**

20.1 In this Prospectus unless otherwise stated:

(a) financial information relating to the Sainsbury's Group has been extracted (without material adjustment) from the audited historical financial information set out in Part 6 "*Sainsbury's Financial Information*" for the 52-week periods ended 12 March 2016, 14 March 2015 and 15 March 2014, each of which is incorporated by reference into this Prospectus as set out therein and which was prepared in accordance with IFRS; and

(b) financial information relating to the Home Retail Group has been extracted (without material adjustment) from the audited historical financial information set out in Part 8 "*Home Retail Group Financial Information*" for the 52-week period ended 27 February 2016, each of which is incorporated by reference into this Prospectus as set out therein and which was prepared in accordance with IFRS.

20.2 Where information contained in this Prospectus originates from a third party source, it is identified where it appears in this Prospectus together with the name of its source. Such third party information has been accurately reproduced and, so far as the Company is aware and is able to ascertain from information published by the relevant third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

21. **Pensions**

21.1 Sainsbury's operates a defined benefit pension scheme (the "**Sainsbury's Pension Scheme**") and has an unfunded pension liability relating to senior employees.

21.2 The Sainsbury's Pension Scheme is governed by a trustee board and the assets of the Sainsbury's Pension Scheme are held separately from the Sainsbury's Group's assets. The Sainsbury's Pension Scheme is a registered pension plan with HMRC, subject to UK legislation with oversight from the Pensions Regulator. The governance of the Sainsbury's Pension Scheme is the responsibility of the trustee board; the trustee board comprises eleven directors—five selected from members, five appointed by Sainsbury's and one independent chairman. In accordance with legislation, the trustee of the Sainsbury's Pension Scheme (the "**Sainsbury's Trustee**") consults with Sainsbury's regarding the Sainsbury's Pension Scheme's investment strategy and agrees an appropriate funding plan with Sainsbury's.

21.3 The Sainsbury's Pension Scheme has three different benefit categories: Final Salary, Career Average and Cash Balance. For Final Salary and Career Average members, benefits at retirement are determined by length of service and salary. For Cash Balance members, benefits are determined by the accrued retirement account credits.

21.4 The Sainsbury's Pension Scheme was closed to new employees on 31 January 2002 and closed to future accrual on 28 September 2013.

21.5 The Sainsbury's Pension Scheme was subject to a triennial actuarial valuation carried out by Towers Watson on 17 March 2012 on the projected unit basis. The results of this valuation were finalised in August 2013 and a recovery plan agreed. Under the Sainsbury's Pension Scheme's recovery plan, Sainsbury's will pay annual deficit contributions of £49 million per annum for eight consecutive financial years to 2020. This plan is reviewed once every three years with the next valuation effective date falling in March 2015 and Sainsbury's and the Sainsbury's Trustee are in the process of discussing the outcome of this latest review.

21.6 Further to the funding plan agreed with the Sainsbury's Trustee in 2010, Sainsbury's established the Sainsbury's Property Scottish Partnership (the "**Property Partnership**") into which properties with a fair value of £757 million were transferred in June 2010 and March 2011 pursuant to a 30 year sale and leaseback arrangement. The Sainsbury's Trustee has an interest in the Property Partnership which entitles the Sainsbury's Pension Scheme to an annual distribution from the Property Partnership for 20 years from 2010 to 2030, with the amount of such annual distribution being linked to the triennial valuation (but payable in addition to the Sainsbury's Group's normal cash contributions to the Sainsbury's Pension Scheme agreed as part of the triennial valuation recovery plan). The annual distribution in previous years has been approximately £33 million and for 2015/16 was £29 million. The properties transferred to the Property Partnership will revert to Sainsbury's ownership in 2030 in return for a cash payment equal to the amount of any remaining actuarial funding deficit of the Sainsbury's Pension Scheme at that time, up to a maximum of £600 million.

21.7 The Property Partnership is controlled by Sainsbury's and its results are consolidated by the Sainsbury's Group. The Sainsbury's Group's balance sheet, IAS 19 deficit and income statement are unchanged by the establishment of the Property Partnership. The investment held by the Sainsbury's Pension Scheme in the Property Partnership does not qualify as a plan asset for the purposes of the Sainsbury's Group's consolidated financial statements and is therefore not included within the fair value of plan assets. The value of the properties transferred to the Property Partnership remains included within the Sainsbury's Group's property, plant and equipment on the balance sheet. In addition, the Sainsbury's Group retains full operational flexibility to extend, develop and substitute the properties within the Property Partnership.

21.8 In connection with the refinancing of the Sainsbury's Group's £1,150 million revolving credit facility in May 2015, Sainsbury's agreed with the Sainsbury's Pension Scheme to make two additional payments of £125 million each into the Sainsbury's Pension Scheme in 2015 and 2016. The cash payments were agreed in addition to the amounts payable to the Sainsbury's Pension Scheme under the Property Partnership arrangements and the recovery plan put in place following the 2012 triennial valuation, but will be relevant when the recovery plan is reviewed in the context of the current valuation with its effective date in March 2015.

21.9 The Sainsbury's unfunded pension liability is unwound when each employee reaches retirement and takes their pension from the Sainsbury's Group payroll or is crystallised in the event of an employee leaving or retiring and choosing to take the provision as a one-off cash payment.

21.10 Home Retail Group also operates the Home Retail Group Pension Scheme (a defined benefit pension scheme which is closed to future accrual) and has an unfunded pension liability for certain directors and senior managers (also closed to future accrual). Details of the agreement in relation to the future funding of the Home Retail Group Pension Scheme, the terms of which will take effect conditional on completion of the Acquisition, are set out in paragraph 12 of Part 1 "*Details of the Acquisition*".

22. **No significant change statement**

22.1 There has been no significant change in the financial or trading position of the Sainsbury's Group since 12 March 2016, being the end of the period for which the Sainsbury's Group's last audited financial statements were published.

22.2 There has been no significant change in the financial or trading position of the Home Retail Group since 27 February 2016, being the end of the period for which the Home Retail Group's last audited financial statements were published.

23. **Consent**

23.1 Deloitte has given and has not withdrawn its written consent to the inclusion of its report set out in Section C of Part 9 "*Unaudited Pro Forma Financial Information on the Combined Group*", in the form and context in which it appears, and has authorised the contents of its report for the purposes of Rule 5.5.3R(2)(f) of the Prospectus Rules.

23.2 Morgan Stanley and UBS have each given and not withdrawn their written consent to the issue of this Prospectus with the inclusion of the reference to their respective names in the form and context in which they appear.

24. **Property, plant and equipment**

24.1 As at 12 March 2016, the Sainsbury's Group operated throughout the UK from 773 convenience store premises, 601 supermarket premises and 23 distribution centres (the "**Property Estate**"). The Property Estate comprises freehold, long leasehold and occupational leasehold properties.

24.2 The Property Estate together with fixtures and fittings comprise the material tangible assets of the Sainsbury's business.

24.3 There are fixed and floating charges in favour of Bank of New York Mellon, HSBC Corporate Trustee Company (UK) Limited, Law Debenture Corporate Services Limited, Law Debenture Trustees Limited and others that affect 225 of the properties. Sainsbury's is not aware of any other material encumbrances that affect the Sainsbury's Group's properties.

24.4 As part of the Sainsbury's Group's business, it acquires new sites from time to time, some of which require environmental remediation before the site is operational. Other than this, the Company is not aware of any environmental issues that may affect the Sainsbury's Group's utilisation of its tangible fixed assets

25. **Net proceeds and costs and expenses of the Acquisition**

The fees and expenses to be borne by the Company in connection with Admission including the FCA's fees, professional fees and expenses and the costs of printing and distribution of documents are estimated to amount to between £30.0 million and £30.6 million (excluding any applicable VAT and stamp duty).

26. **General**

26.1 Save as disclosed in this Prospectus, the Sainsbury's Directors are unaware of any exceptional factors which have influenced Sainsbury's activities.

26.2 Save as disclosed in this Prospectus, the Sainsbury's Directors are unaware of any trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the Sainsbury's Group's prospects for the current financial year.

26.3 Save as disclosed in this Prospectus, there are no investments in progress and there are no future investments on which the Sainsbury's Directors have already made firm commitments which are significant to the Sainsbury's Group.

26.4 Save as disclosed in this Prospectus, the Sainsbury's Directors believe that the Sainsbury's Group is not dependent on patents or licences, industrial, commercial or financial contracts or new manufacturing processes which are material to Sainsbury's business or profitability.

26.5 Sainsbury's is subject to the provisions of the Takeover Code, including the rules regarding mandatory takeover offers set out in the Takeover Code. Under Rule 9 of the Takeover Code, when: (i) a person acquires shares which, when taken together with shares already held by him or persons acting in concert with him (as defined in the Takeover Code), carry 30 per cent. or more of the voting rights of a company subject to the Takeover Code; or (ii) any person who, together with persons acting in concert with him, holds not less than 30 per cent. but not more than 50 per cent. of the voting rights of a company subject to the Takeover Code, and such person, or any person acting in concert with him, acquires additional shares which increases his percentage of the voting rights in the company, then, in either case, that person, together with the persons acting in concert with him, is normally required to make a general offer in cash at the highest price paid by him or any person acting in concert with him for shares in the company within the preceding 12 months for all of the remaining equity share capital of the company.

26.6 If Sainsbury's were to be subject to a takeover offer (within the meaning of Part 28 of the 2006 Act), the Sainsbury's Shares would also be subject to the compulsory acquisition procedures set out in sections 979 to 991 of the 2006 Act. Under section 979 of the 2006 Act, where an offeror makes a takeover offer and has, by virtue of acceptances of the offer, acquired or unconditionally contracted to acquire not less than 90 per cent. of the shares to which the offer relates and, in a case where the shares to which the offer relates are voting shares, not less than 90 per cent. of the voting rights carried by those shares, that offeror is entitled to compulsorily acquire the shares of any holder who has not acquired the offer on the terms of the offer.

26.7 No takeover offer (within the meaning of Part 28 of the 2006 Act) was or has been made for any Sainsbury's Shares during the Sainsbury's Group 's 52-week period ended 12 March 2016 or during its current financial year (the 52-week period ending 11 March 2017).

27. **Documents available for inspection**

Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of 12 months following Admission at the offices of Clifford Chance LLP at 10 Upper Bank Street, London E14 5JJ:

(a) the articles of association of the Company;

(b) this Prospectus;

(c) Sainsbury's Annual Report and Accounts 2016;

(d) Sainsbury's Annual Report and Accounts 2015;

(e) Sainsbury's Annual Report and Accounts 2014;

(f) Home Retail Group's Annual Report and Accounts 2016;

(g) the Scheme Document;

(h) the consent letters referred to in paragraph 23 of this Part 11 "*Additional Information*"; and

(i) the report by Deloitte set out in Section C of Part 9 "*Unaudited Pro Forma Financial Information on the Combined Group*."

Dated: 5 July 2016

PART 12
QUANTIFIED FINANCIAL BENEFITS STATEMENT

The Original Announcement included revised statements of estimated cost savings and synergies expected to arise from the Acquisition (together, the "**Quantified Financial Benefits Statement**"), which was repeated in paragraph 4 of Part 1 "*Details of the Acquisition*" of this Prospectus. A copy of the Quantified Financial Benefits Statement is set out below[8]:

Note:

(8) References to "Offer" and "HRG" in the Quantified Financial Benefits Statement set out in the Original Announcement have been replaced with "Acquisition" and "Home Retail Group plc" respectively.

"The Sainsbury's Directors now expect a higher level of EBITDA synergies in the third full year after Completion of not less than £160 million. This represents an increase of one third compared to the previous estimate of not less than £120 million EBITDA synergies. This higher EBITDA synergy estimate results from (i) an increase of £15 million in the estimated synergies from Argos concessions due to an increase in the number of concession opportunities and increased occupancy cost savings, offset by a reduction in the estimated Sainsbury's food and grocery halo sales; (ii) an increase of £30 million in the estimated cost synergies from central and support functions savings as well increased buying cost savings; and (iii) a decrease of £5 million in other revenue synergies as a result of revised assumptions on clothing, homewares and seasonal revenue synergies.[2]

Note:

(2) Numbers refer to synergies in the third full year after Completion.

Approximately 15 per cent. of the estimated EBITDA synergies are expected to be realised in the first full year after Completion, approximately 65 per cent. in the second full year after Completion and 100 per cent. in the third full year after Completion.

The constituent elements of quantified synergies, which are in addition to savings previously targeted by Sainsbury's and Home Retail Group plc separately, comprise the following:

- approximately 45 per cent. of the identified synergies (approximately £75 million) are expected to be generated from Argos concessions, arising from (i) cost savings generated from the relocation of certain existing Argos stores into concessions in Sainsbury's stores, and (ii) revenue gains from new concessions within Sainsbury's stores, including but not limited to cross-selling opportunities and the expansion of Click and Collect desks. Of these synergies, approximately 15 per cent. are expected to be realised in the first full year after Completion, approximately 60 per cent. in the second full year after Completion and 100 per cent. in the third full year after Completion;
- approximately 45 per cent. of the identified synergies (approximately £70 million) are expected to be cost synergies generated by removing duplication and overlap from both central and support functions at Sainsbury's and Home Retail Group plc. There are also benefits to the Combined Group in purchasing of goods for resale and goods not for resale from sharing best practice and increased scale. Of these synergies, approximately 15 per cent. are expected to be realised in the first full year after Completion, approximately 65 per cent. in the second full year after Completion and 100 per cent. in the third full year after Completion; and
- the remainder of the identified synergies (approximately £15 million) are expected to be further revenue synergies, principally from the sale of Sainsbury's clothing, homewares and seasonal and leisure ranges through the existing Argos network together with the roll-out of Sainsbury's ATMs to Argos locations and the sale of Habitat products through Sainsbury's channels. Of these synergies, approximately 25 per cent. are expected to be realised in the first full year after Completion, approximately 80 per cent. in the second full year after Completion and 100 per cent. in the third full year after Completion.

It is expected that the realisation of the identified synergies will require one-off exceptional costs of approximately £130 million, of which approximately 50 per cent. are expected to be incurred in the first full year after Completion, 20 per cent. in the second full year after Completion and 30 per cent. in the third full year after Completion.

It is also expected that incremental capital expenditure of approximately £140 million will be incurred in the three years following Completion, relating to store fit-out expenditure. Approximately 30 per cent. of this capital expenditure is to be incurred in the first full year after Completion, 40 per cent. in the second full year after Completion and 30 per cent. in the third full year after Completion.

The synergies referred to above are expected to be recurring and are expected to arise as a direct result of the Acquisition and could not be achieved independently of the Acquisition. The synergies are also stated net of anticipated dis-synergies, which arise principally from lost sales in the Argos stores moving more than one mile or changing to a different retail location type as well as estimated cannibalisation impact of new infill Argos concessions. For the avoidance of doubt, the EBITDA impact of the synergies as set out above already reflects the impact of these identified dis-synergies."

Further information on the bases of belief supporting the Quantified Financial Benefits Statement, including the principal assumptions and sources of information, is set out below.

Bases of Belief and Principal Assumptions

Following initial discussions regarding the Acquisition, a synergy development team was established to evaluate and assess the potential synergies available for the integration and undertake an initial planning exercise (the "**Sainsbury's Synergy Team**" or the "**Team**"). The Team, which comprises senior strategy and financial colleagues, has worked collaboratively to identify and quantify potential synergies as well as estimate any associated costs on behalf of the Sainsbury's Directors. The Team also worked alongside external consultants to prepare a detailed synergy plan.

The Team has engaged with the relevant functional heads and other personnel to provide input into the development process and to agree on the nature and quantum of the identified synergy initiatives. In preparing the Quantified Financial Benefits Statement, Sainsbury's has had a level of due diligence access to the Home Retail Group in order to confirm certain key data points as well as information available to it from existing trials of Argos concessions in its stores. In circumstances where data has been limited due to lack of access to the Home Retail Group, the Team has made estimates and assumptions to aid its development of individual synergy initiatives. The assessment and quantification of the potential synergies have in turn been informed by Sainsbury's management's industry experience and knowledge of its existing business.

The Sainsbury's Synergy Team has sought to assess synergies in relation to the Home Retail Group central functions and the Argos business. The cost bases used as the basis for the Quantified Financial Benefits Statement are those contained in the management accounts of Home Retail Group for the financial year ended 28 February 2015 and the 2015 Annual Report and Accounts of Sainsbury's.

The majority of cost saving synergies are driven by physical consolidation that is within the influence of Sainsbury's management, whereas the delivery of the revenue synergies is more complex and to some extent outside the full control of Sainsbury's management.

In general, the synergy assumptions have in turn been risk adjusted, exercising a degree of prudence in the calculation of the estimated synergy benefit set out above.

Notes

1. These statements are not intended as a profit forecast and should not be interpreted as such. These statements of estimated synergies relate to future actions and circumstances which, by their nature, involve risks, uncertainties and contingencies. As a result, the estimated synergies referred to may not be achieved, or may be achieved later or sooner than estimated, or those achieved could be materially different from those estimated. Neither the Quantified Financial Benefits Statement nor any other statement in this announcement should be construed as a profit forecast or interpreted to mean that Sainsbury's earnings in the first full year following Completion, or in any subsequent period, will necessarily match or be greater than or be less than those of Sainsbury's or Home Retail Group for the relevant preceding financial period or any other period.
2. Due to the scale of the enlarged Sainsbury's business, there may be additional changes to the Combined Group's operations. As a result, and given the fact that the changes relate to the future, the resulting synergies may be materially greater or less than those estimated.

3. In arriving at the estimate of synergies set out in this announcement, the Sainsbury's Synergy Team has assumed that:
   - (a) there will be no significant impact on the underlying operations of either business;
   - (b) there will be no material change to macroeconomic, political or legal conditions in the markets or regions in which in the Combined Group operates which will materially impact on the implementation of or costs to achieve the proposed cost savings; and
   - (c) there will be no material change in exchange rates.

Reports and confirmations

On 18 March 2016 the reporting accountants and the joint financial advisers gave the opinions required by Rule 28.1(a) of the Takeover Code. Copies of these reports were included in Appendix 3 to the Original Announcement.

The Sainsbury's Directors have confirmed that:

(a) there have been no material changes to the Quantified Financial Benefits Statement since 18 March 2016 and the Quantified Financial Benefits Statement remains valid; and

(b) each of the reporting accountants and the joint financial advisers has confirmed to Sainsbury's that their respective reports produced in connection with the Quantified Financial Benefits Statement continue to apply.

PART 13
DEFINITIONS

The following definitions apply throughout this Prospectus unless the context requires otherwise:

"**2006 Act**"	the Companies Act 2006, as amended from time to time
"**2006 LTIP**"	the Company's Long Term Incentive Plan 2006
"**2016 LTIP**"	the Company's 2016 Long Term Incentive Plan
"**Acquisition**"	the proposed direct or indirect acquisition by Sainsbury's of the entire issued and to be issued share capital of Home Retail Group plc not already owned by or on behalf of the Sainsbury's Group pursuant to the Scheme (and subsequent steps contemplated by the Scheme), or should Sainsbury's so elect, by means of a Takeover Offer
"**Admission**"	the admission of the New Sainsbury's Shares by the FCA to the Official List and to trading on the London Stock Exchange's main market for listed securities
"**Adjudicator**"	the Groceries Code Adjudicator
"**Agreed Terms Announcement**"	The announcement by J Sainsbury plc and Home Retail Group plc under Rule 2.4 of the Takeover Code on 2 February 2016 setting out the key financial terms of a possible offer for Home Retail Group plc
"**Aimia**"	Aimia Coalition Loyalty UK Limited
"**Amendment and Restatement Agreement**"	has the meaning given to it in paragraph 7 of Part 1 "*Details of the Acquisition*"
"**Argos**"	means the subsidiaries of Home Retail Group plc carrying on the business trading as Argos, the principal subsidiary undertakings of which being Argos Limited and Argos Distributors (Ireland Limited)
"**Argos Limited**"	a company incorporated in the UK with company number 01081551
"**Articles**"	the articles of association of a company
"**Banking Act**"	the Banking Act 2009
"**BCOBS**"	The Banking Conduct of Business Sourcebook
"**Bid Amount**"	£340,000,000
"**Board**"	the board of directors of the Company
"**BRRD**"	the Bank Recovery and Resolution Directive
"**BSAP**"	the Company's Bonus Share Award Plan 2011
"**Business Day**"	a day on which the London Stock Exchange plc is open for the transaction of business
"**Capital Return**"	the proposed capital return of 27.8 pence per Home Retail Group Share, to be effected through the New TopCo Capital Reduction
"**Certified Persons**"	employees performing roles relating to the firm's regulated activities
"**Closing Price**"	the closing middle market price of the relevant share as derived from the Daily Official List of the London Stock Exchange on any particular day
"**CMA**"	Competition and Markets Authority of the UK

"**Combined Group**"	the enlarged group following completion of the Acquisition, comprising the Sainsbury's Group and the Home Retail Group
"**Combined Group Shares**"	following completion of the Acquisition, the ordinary shares of 28$\frac{4}{7}$ pence each in the capital of the Company
"**Combined Group Shareholders**"	following completion of the Acquisition, holders of Combined Group Shares from time to time
"**Company**"	J Sainsbury plc
"**Competition and Consumer Protection Commission**"	Competition and Consumer Protection Commission of Ireland
"**Completion**"	in the context of the Acquisition: (a) if the Acquisition is implemented pursuant to the Scheme, the Scheme and the New TopCo Capital Reduction having become Effective and all other Conditions having been fulfilled or (if capable of waiver) waived; or (b) if the Acquisition is implemented by way of a Takeover Offer, the Takeover Offer having become or been declared unconditional in all respects.
"**Completion Date**"	the date on which Completion of the Acquisition occurs
"**Conditions**"	the conditions to the implementation of the Acquisition, which are set out in Part III of the Scheme Document
"**Confidentiality Agreement**"	the confidentiality agreement dated 3 February 2016 between Sainsbury's and Home Retail Group, as described in paragraph 14 of Part 1 "*Details of the Acquisition*" of this Prospectus
"**Co-operation Agreement**"	the co-operation agreement dated 1 April 2016 between Sainsbury's and Home Retail Group, as described in paragraph 14 of Part 1 "*Details of the Acquisition*" of this Prospectus
"**Consideration**"	means the consideration to be paid under the Homebase Share Purchase Agreement, being the Bid Amount after certain adjustments at Completion to enable the Homebase Sale to be made on a cash-free and debt-free basis, as more particularly described in paragraph 16.1(a)(i) of the Part 11 "*Additional Information*"
"**Court**"	the High Court of Justice in England and Wales
"**Court Meeting**"	the meeting of Scheme Shareholders to be convened by order of the Court pursuant to Section 896 of the 2006 Act to consider and, if thought fit, approve the Scheme, including any adjournment thereof
"**Court Order**"	the order of the Court sanctioning the Scheme under Part 26 of the 2006 Act
"**CRD IV**"	the Capital Requirements Directive and the Capital Requirements Regulation
"**CRD IV Directive**"	the Capital Requirements Directive
"**CREST**"	the relevant system (as defined in the Regulations) in respect of which Euroclear is the operator (as defined in CREST)
"**CSA**"	the Company's Conditional Share Award 2010
"**Daily Official List**"	means the daily official list of the London Stock Exchange
"**DCs**"	the Sainsbury's Group's distribution centres
"**Deloitte**"	Deloitte LLP

"**Disclosure and Transparency Rules**"	the disclosure rules and transparency rules made by the FCA under Part VI of the FSMA
"**DPA**"	Data Protection Act 1998
"**Dragon Finance Notes**"	has the meaning given to it in paragraph 15.11(a) of Part 11 "*Additional Information*"
"**DSA**"	the Company's Deferred Share Award 2009
"**DSG**"	Dansk Supermarked Group
"**EBITDA**"	earnings before interest, tax, depreciation and amortisation
"**EBITDAR**"	earnings before interest, tax, depreciation, amortisation and rent.
"**Eddystone Finance Notes**"	has the meaning given to it in paragraph 15.11(c) of Part 11 "*Additional Information*"
"**EEA**"	the European Economic Area
"**EEA Member States**"	member state of the European Economic Area
"**Effective**	(i) in respect of the Scheme, the Scheme having become effective pursuant to its terms; (ii) in respect of the New TopCo Capital Reduction, the New TopCo Capital Reduction becoming effective by registration of the Reduction Court Order
"**EU**"	the European Union
"**EURIBOR**"	Euro Interbank Offer Rate
"**Excluded Shares**"	any Shares which are registered in the name of or beneficially owned by any member of the Sainsbury's Group
"**Executive Directors**"	the executive Directors of the Company
"**Facility A**"	has the meaning given to it in paragraph 15.9(a) of Part 11 "*Additional Information*"
"**Facility B**"	has the meaning given to it in paragraph 15.9(a) of Part 11 "*Additional Information*"
"**FCA**" or "**Financial Conduct Authority**"	Financial Conduct Authority or its successor from time to time
"**FCA Handbook**"	the FCA Handbook of rules and guidance as amended from time to time
"**Financial Services Act**"	the Financial Services Act 2012
"**Firm Offer Announcement**"	the joint announcement of the Acquisition made by Sainsbury's and Home Retail Group plc dated 1 April 2016 in accordance with Rule 2.7 of the Takeover Code
"**FLS**"	The Bank of England's Funding for Lending Scheme
"**Form of Election**"	the form of election relating to the Mix and Match Facility sent to Scheme Shareholders who hold their Scheme Shares in certificated form other than other than holders with a registered address in, or who are a citizen, resident or a national of, a Restricted Jurisdiction
"**FOS**"	the Financial Ombudsman Service
"**FSCS**"	the Financial Services Compensation Scheme
"**FS Handbook**"	the FCA Handbook of Rules and Guidance together with the PRA Handbook and PRA Rulebook

"**FSMA**"	the Financial Services and Markets Act 2000 (as amended from time to time)
"**GFSC**"	means the Guernsey Financial Services Commission
"**Green Loan Facility**"	has the meaning given to it in paragraph 15.9(c) of Part 11 "*Additional Information*"
"**Green Loan Facility Loan**"	has the meaning given to it in paragraph 15.9(c) of Part 11 "*Additional Information*"
"**GSCOP**"	the Groceries Supply Code of Practice
"**Habitat**"	means the business of the Home Retail Group trading as Habitat
"**Hampden Group Limited**"	means Hampden Group Limited, a private company incorporated in Northern Ireland with company number NI011639
"**Hampden Group plc Pension Scheme**"	means Hampden Group plc Pension Scheme governed by a trust deed dated 3 September 1999;
"**Highbury Finance Notes**"	has the meaning given to it in paragraph 15.11(b) of Part 11 "*Additional Information*"
"**HMRC**"	HM Revenue and Customs
"**Homebase**" or "**Homebase Group**"	Hampden Group Limited and its subsidiaries carrying on the business trading as Homebase
"**Homebase Limited**"	a company incorporated in the UK with company number 00533033
"**Homebase Sale**"	the sale of the Homebase business by Home Retail Group and the Seller to Wesfarmers pursuant to the Homebase Share Purchase Agreement, as announced by Home Retail Group plc on 18 January 2016 and which completed on 27 February 2016
"**Homebase Sale Completion**"	means completion of the Homebase Sale in accordance with its terms, which took place on 27 February 2016
"**Homebase Share Purchase Agreement**"	the share purchase agreement entered into between Home Retail Group plc, Home Retail Group (UK) Limited, Wesfarmers and Bunnings Group Limited on 17 January 2016 in relation to the Homebase Sale
"**Homebase Tax Deed of Covenant**"	the tax deed of covenant entered into by the Seller with the Purchaser in relation to the Homebase Sale, which came into effect at completion of the Homebase Sale.
"**Homebase Transitional Services Agreement**"	the Homebase transitional services agreement entered into between the Seller and Homebase Limited dated 17 January 2016 in connection with the Homebase Sale.
"**Home Retail Group**"	Home Retail Group plc (and with effect from the Scheme becoming Effective, New TopCo) and its subsidiary undertakings from time to time and, where the context permits, each of them
"**Home Retail Group Board**"	the board of directors of Home Retail Group plc
"**Home Retail Group Capital Reduction**"	the reduction of Home Retail Group plc's ordinary share capital provided for by the Scheme
"**Home Retail Group Directors**"	the directors of Home Retail Group plc

"**Home Retail Group Employee Share Plans**"	the Home Retail Group Deferred Bonus Plan, the Home Retail Group Performance Share Plan, the Home Retail Group Tax Qualified Share Option Plan and the Home Retail Group UK Tax Qualified Sharesave Plan
"**Home Retail Group General Meeting**"	the general meeting of Home Retail Group Shareholders to be convened in connection with the Scheme, the Home Retail Group Capital Reduction and the New TopCo Capital Reduction and to be held at 11.10 a.m. on 27 July 2016 or as soon thereafter as the Court Meeting shall have been concluded or been adjourned, and any adjournment thereof
"**Home Retail Group Meetings**"	the Court Meeting and the Home Retail Group General Meeting
"**Home Retail Group Pension Scheme**"	the Home Retail Group Pension Scheme, the defined benefit scheme of the Home Retail Group
"**Home Retail Group's Annual Report and Accounts 2016**"	means Home Retail Group's Annual Report and Financial Statements 2016 (which includes Home Retail Group's audited financial statements for the 52 weeks ended 27 February 2016)
"**Home Retail Group Services**"	shall have the meaning given to that term in paragraph 16.1(b)(i)(A) of Part 11 "*Additional Information*"
"**Home Retail Group Shareholders**"	holders of Home Retail Group Shares from time to time
"**Home Retail Group Share(s)**"	the existing unconditionally allotted or issued and fully paid ordinary shares of 10 pence each in the capital of Home Retail Group plc and any further shares which are unconditionally allotted or issued but excluding in both cases any such shares held or which become held in treasury
"**Home Retail Group Trustee**"	The trustee of the Home Retail Group Pension Scheme
"**IAS 19**"	International Accounting Standard Nineteen, rule concerning employee benefits under the IFRS
"**ICOBS**"	the Insurance Conduct of Business Rules
"**IDD**"	the Insurance Distribution Directive
"**IFRS**"	international accounting standards and international financial reporting standards and interpretations thereof, approved or published by the International Accounting Standards Board and adopted by the EU
"**IMD**"	the Insurance Mediation Directive
"**Joint Sponsors**"	means Morgan Stanley and UBS
"**July 2015 Bonds**"	has the meaning given to it in paragraph 15.10 of Part 11 "*Additional Information*"
"**KPIs**"	Key performance indicators
"**Last Practicable Date**"	1 July 2016, being the latest practicable date prior to the publication of this Prospectus
"**LBG**"	Lloyds Banking Group
"**LIBOR**"	London Interbank Offered Rate
"**Listing Rules**"	the listing rules made by the FCA under Part VI of the FSMA, as amended from time to time
"**Lloyds**"	Lloyds Pharmacy Limited

"**London Stock Exchange**"	the London Stock Exchange plc or its successor
"**Long Stop Date**"	29 March 2017, or such later date (if any) as Home Retail Group plc and Sainsbury's may, with the consent of the Panel and (if required) the Court, agree
"**Longstone Finance Notes**"	has the meaning given to it in paragraph 15.11(d) of Part 11 "*Additional Information*"
"**LTIPs**"	the 2006 LTIP and the 2016 LTIP
"**Market Abuse Regulation**"	means Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse
"**MasterCard**"	means MasterCard Incorporated, MasterCard International Incorporated and MasterCard Europe S.P.R.L., together
"**Master Services Agreement**"	The master services agreement entered into between Sainsbury's Bank and Certegy Card Services Limited on 23 December 2013, (as amended on 24 December 2015).
"**MCOB**"	the Mortgages and Home Finance: Conduct of Business Sourcebook
"**MiFID II**"	the directive and associated regulation on markets in financial instruments
"**MIPRU**"	the Mortgage and Home Finance Firms and Insurance Intermediaries
"**Mix and Match Facility**"	the facility provided for in the Scheme under which Home Retail Group Shareholders (other than holders with a registered address in, or who are a citizen, resident or a national of, a Restricted Jurisdiction) may elect to vary the proportions in which they receive New Sainsbury's Shares and cash as part of the Offer Consideration on the basis of, for every £0.55 in cash 0.233 of a New Sainsbury's Share, or for every 0.321 of a New Sainsbury's Share 75.8 pence in cash
"**Morgan Stanley**"	Morgan Stanley & Co. International plc
"**NDC**"	the Sainsbury's Group's clothing national distribution centre
"**Nectar Sponsor Agreement**"	has the meaning given to it in paragraph 15.8(a) of Part 11 "*Additional Information*"
"**New Sainsbury's Shares**"	the Sainsbury's Shares proposed to be issued by Sainsbury's, credited as fully paid, as part of the Offer Consideration
"**New TopCo**"	Sainsbury's Intermediate Holdings Limited, a company incorporated in England and Wales with company number 10125892 and whose registered address is 33 Holborn, London EC1N 2HT
"**New TopCo Capital Reduction**"	the reduction of capital of New TopCo under Section 645 to 649 of the 2006 Act, reducing the nominal value of each of the New TopCo Shares to £0.01 and returning 27.8 pence per New TopCo Share to the holders thereof at the New TopCo Reduction Record Time
"**New TopCo Capital Reduction Court Order**"	means the order of the Court confirming the New TopCo Capital Reduction
"**New TopCo Reduction Effective Time**"	the time and date at which the New TopCo Capital Reduction becomes effective by registration of the New TopCo Reduction Court Order by the Registrar of Companies

"**New TopCo Reduction Record Time**"	6.00 p.m. on the business day immediately prior to the date of the hearing to confirm the New TopCo Capital Reduction
"**New TopCo Shareholders**"	means holders of New TopCo Shares at any relevant date or time
"**New TopCo Shares**"	means ordinary shares in the capital of New TopCo to be issued pursuant to the Scheme, the nominal value of which shall be equal to the Closing Price of the Home Retail Group Shares on the last day of trading in the Home Retail Group Shares on the London Stock Exchange prior to the Scheme Effective Time
"**Non-Executive Directors**"	the non-executive Directors of the Company
"**November 2014 Bonds**"	has the meaning given to it in paragraph 15.10 of Part 11 "*Additional Information*"
"**Offer Consideration**".	for each New TopCo Share, 0.321 New Sainsbury's Shares and 55 pence in cash, subject to the Mix and Match Facility and the provisions regarding fractional entitlements in the New TopCo Articles
"**Offer Period**"	the period which commenced on 5 January 2016 and ending on the later of (i) the Completion Date; or (ii) the date on which the Acquisition lapses or is withdrawn (or such other date as the Panel may decide)
"**Official List**"	the Official List of the FCA
"**OFT**"	the UK Office of Fair Trading
"**Operating Board**"	the operating board of Sainsbury's
"**Order**"	the Groceries (Supply Chain Practices) Market Investigation Order 2009
"**Original Announcement**"	the announcement by J Sainsbury plc on 18 March 2016 setting out the terms of the Acquisition, which was originally to be implemented by way of a Takeover Offer
"**Panel**"	the Panel on Takeovers and Mergers
"**PECR**"	the Privacy and Electronic Communications (EC Directive) Regulations 2003
"**Pensions Letter**"	the agreement between Sainsbury's and the Home Retail Group Trustee dated 17 March 2016 in relation to the future funding of the Home Retail Group Pension Scheme
"**Period End Date**"	means any of 27 February 2016, 2 April 2016, 30 April 2016, 28 May 2016, 2 July 2016 or 30 July 2016
"**Permitted Home Retail Group Interim Dividend**"	has the meaning given to it in paragraph 16 of Part 1 "*Details of the Acquisition*"
"**Permitted Home Retail Group Payments**"	the aggregate of the Capital Return and the Permitted Home Retail Group Interim Dividend
"**Perpetual Capital Securities**"	has the meaning given to it in paragraph 15.10 of Part 11 "*Additional Information*"
"**Pharmacy Business Disposal Agreement**"	The disposal agreement entered into between SSL and Lloyds Pharmacy Limited on 29 July 2015 for the sale and purchase of the pharmacy business owned and operated by SSL at a number of its supermarkets and a number of hospitals
"**PPI**"	Payment Protection Insurance

"**PRA**"	the Prudential Regulation Authority or its successor from time to time
"**Principles for Business**"	the FCA's Principles for Business
"**Property Partnership**"	Sainsbury's Property Scottish Partnership
"**Prospectus Directive**"	Directive (2003/71/EC) (and amendments thereto, including the Prospectus Directive Amending Directive) and any relevant implementing measure in each Relevant Member State
"**Prospectus Directive Amending Directive**"	Directive (2010/73/EC)
"**Prospectus Directive Regulation**"	European Commission Regulation (EC) No. 809/2004 implementing the Prospectus Directive, as amended
"**Prospectus Rules**"	the prospectus rules and regulations made by the FCA under Part IV of FSMA and contained in the UKLA's publication of the same name (as amended from time to time)
"**Purchaser**"	Bunnings (UK&I) Holdings Limited
"**Purchaser Guarantor**"	Bunnings Group Limited
"**Quantified Financial Benefits Statement**"	as defined in Part 12 "*Quantified Financial Benefits Statement*" of this Prospectus
"**RDCs**"	the Sainsbury's Group's regional distribution centres
"**Registrar of Companies**"	the Registrar of Companies in England and Wales
"**Registrars**"	Computershare Investor Services PLC
"**Regulations**"	the Uncertificated Securities Regulations 2001
"**Relevant Member State**"	a member state of the European Economic Area which has implemented the Prospectus Directive
"**Remuneration Committee**"	the Company's remuneration committee
"**Restricted Jurisdiction**"	any jurisdiction where local laws or regulations may result in a significant risk of civil, regulatory or criminal exposure if the Acquisition is made in that jurisdiction, or information concerning the Acquisition is sent or made available to Home Retail Group Shareholders in that jurisdiction, or the Mix and Match Facility is made available to Home Retail Group Shareholders in that jurisdiction including, without limitation, the Republic of South Africa
"**Reverse Services**"	has the meaning given to it in paragraph 16.1(b)(i)(B) of Part 11 "*Additional Information*"
"**Revolving Credit Facility**"	has the meaning given to it in paragraph 15.9(a) of Part 11 "*Additional Information*"
"**RSP**"	the Company's Restricted Share Plan
"**Sainsbury's"**	J Sainsbury plc
"**Sainsbury's Annual Report and Accounts 2014**"	means Sainsbury's Annual Report and Financial Statements 2014 (which includes Sainsbury's audited financial statements for the 52 weeks to 15 March 2014)
"**Sainsbury's Annual Report and Accounts 2015**"	means Sainsbury's Annual Report and Financial Statements 2015 (which includes Sainsbury's audited financial statements for the 52 weeks to 14 March 2015)

"**Sainsbury's Annual Report and Accounts 2016**"	means Sainsbury's Annual Report and Financial Statements 2016 (which includes Sainsbury's audited financial statements for the 52 weeks to 12 March 2016)
"**Sainsbury's Articles**"	the articles of association of the Company
"**Sainsbury's Bank**"	Sainsbury's Bank plc
"**Sainsbury's Directors**"	the directors of J Sainsbury plc from time to time
"**Sainsbury's Employee Share Plans**"	SIP, DSA, LTIPs, RSP, CSA, BSAP and Sharesave
"**Sainsbury's Group**"	means: (i) for the purposes of (a) Element B.11 of the Summary Information section of this Prospectus and (b) paragraph 19 of Part 11 "*Additional Information*" only, J Sainsbury plc and its subsidiary undertakings from time to time, which prior to completion of the Acquisition shall exclude the Home Retail Group and after completion of the Acquisition shall include the Home Retail Group; and (ii) elsewhere in the Prospectus, J Sainsbury plc and its subsidiary undertakings from time to time and, where context permits, each of them (excluding, for the avoidance of doubt, Home Retail Group plc and the Home Retail Group)
"**Sainsbury's Interim Dividend Record Time**"	the date and time determined by the Sainsbury's Directors as being the time at which Sainsbury's Shareholders on the share register of Sainsbury's are entitled to receive the interim dividend from Sainsbury's for the 28 weeks ending 24 September 2016
"**Sainsbury's Pension Scheme**"	Sainsbury's defined benefit pension scheme
"**Sainsbury's Shares**"	the existing Sainsbury's ordinary shares of 28$\frac{4}{7}$ pence each in the capital of the Company
"**Sainsbury's Shareholders**"	the holders of Sainsbury's Shares
"**Sainsbury's Trustee**"	the trustee of the Sainsbury's Pension Scheme
"**Scheme**"	the proposed scheme of arrangement proposed to be made under Part 26 of the 2006 Act between Home Retail Group plc and the holders of the Home Retail Group Shares, with or subject to any modification, addition or condition approved or imposed by the Court and agreed by Home Retail Group plc and Sainsbury's and New TopCo
"**Scheme Court Order**"	the order of the Court sanctioning the Scheme under Part 26 of the 2006 Act
"**Scheme Document**"	the document to be sent to Home Retail Group Shareholders and persons with information rights containing, among other things, the Scheme and notices of the Home Retail Group Meetings and proxy forms in respect of the Home Retail Group Meetings
"**Scheme Effective Date**"	the day on which the Scheme becomes Effective in accordance with its terms
"**Scheme Effective Time**"	the time and date at which the Scheme becomes Effective in accordance with its terms
"**Scheme Record Time**"	6.00 p.m. on the Business Day immediately prior to the date of the hearing to confirm the Home Retail Group Capital Reduction

"**Scheme Shares**" . . . . all Home Retail Group Shares: (i) in issue at the date of the Scheme Document; (ii) (if any) issued after the date of the Scheme Document but before the Voting Record Time; and (iii) (if any) issued at or after the Voting Record Time and before the Scheme Record Time on terms that the holder thereof shall be bound by the Scheme, or in respect of which the original or any subsequent holders thereof shall have agreed in writing to be bound by the Scheme, and in each case remaining in issue at the Scheme Record Time, but excluding any Excluded Shares

"**Scheme Shareholders**" . . . . holders of Scheme Shares at any relevant date or time

"**SDRT**" . . . . stamp duty reserve tax

"**Securitised Estate**" . . . . has the meaning given to it in paragraph 15.11 of Part 11 "*Additional Information*"

"**SEDOL**" . . . . the Stock Exchange Daily Official List

"**Seller**" . . . . Home Retail Group (UK) Limited, a private company incorporated in England and Wales with company number 05844516;

"**Senior Management**" . . . . those persons named under the heading "Senior Management" in Part 5 "*Directors, Senior Management and Corporate Governance*"

"**Senior Managers**" . . . . individuals performing "senior management functions"

"**Services**" . . . . shall have the meaning given to that term in paragraph 16.1(b)(i)(B) of Part 11 "*Additional Information*"

"**Sharesave**" . . . . the Company's 1980 Savings-Related Share Option Scheme

"**SIP**" . . . . the Company's Share Incentive Plan

"**Special Resolution**" . . . . the special resolution to be proposed by Home Retail Group plc at the Home Retail Group General Meeting in connection with, among other things, the confirmation of the Home Retail Group Capital Reduction, the alteration of the Home Retail Group plc articles of association, the approval of the New TopCo Capital Reduction and such other matters as necessary to implement the Scheme and the Acquisition

"**Sponsors' Agreement**" . . . . sponsors' agreement entered into between the Company and the Joint Sponsors on 5 July 2016 in relation to the applications for Admission and the publication of the Prospectus

"**SSL**" . . . . Sainsbury's Supermarkets Ltd

"**Strategic Review**" . . . . the strategic review undertaken by the Operating Board in 2014

"**subsidiary**", "**subsidiary undertaking**" and "**undertaking**" . . shall be construed in accordance with the 2006 Act

"**Supplier Agreement**" . . . . has the meaning given to it in paragraph 15.8(b) of Part 11 "*Additional Information*"

"**SYSC**" . . . . Systems and Controls sourcebook

"**Takeover Code**" . . . . the City Code on Takeovers and Mergers, as amended from time to time

"**Takeover Offer**" . . . . if Sainsbury's so elects, the offer by Sainsbury's for the entire issued and to be issued share capital of Home Retail Group plc or, after the Scheme Effective Time, of New TopCo by means of a takeover offer, including, where the context so requires, any subsequent revision, variation, extension or renewal of such offer and includes any election available in connection with it

"**TCF**"	treat customers fairly
"**Term Facility**"	has the meaning given to it in paragraph 15.9(b) of Part 11 "*Additional Information*"
"**Term Facility Loan**"	has the meaning given to it in paragraph 15.9(b) of Part 11 "*Additional Information*"
"**Threshold Conditions**"	the minimum conditions for a firm to be authorised and prescribed under FSMA, issued by both the PRA and the FCA
"**TPR**"	the UK Pensions Regulator
"**Transformation Plan**"	the five-year plan launched by the Home Retail Group in October 2012 to reinvent Argos as a digital retail leader
"**Transitional Services Agreement**"	the transitional services agreement Sainsbury's Bank and Sainsbury's entered into on 7 May 2013 with the Bank of Scotland, pursuant to which the Bank of Scotland agreed to provide certain transitional services, including savings services, card services, loan services and mortgage services
"**UBS**"	UBS Limited
"**UK**" or "**United Kingdom**"	the United Kingdom of Great Britain and Northern Ireland
"**UK Corporate Governance Code**"	the UK Corporate Governance Code, published by the Financial Reporting Council in September 2014, as amended from time to time
"**UKLA**"	the Financial Conduct Authority acting in its capacity as the competent authority for listing under Part VI of FSMA
"**United States**" or "**U.S.**"	the United States of America, its territories and possessions, any State of the United States of America, and the District of Columbia
"**U.S. Exchange Act**"	United States Securities Exchange Act of 1934, as amended
"**U.S Securities Act**"	United States Securities Act of 1933, as amended
"**Voting Record Time**"	6.00 p.m. on the day which is two days before the date of the Court Meeting or, if the Court Meeting is adjourned, 6.00 p.m. on the day which is two days before the date of such adjourned meeting
"**Wesfarmers**"	Bunnings (UK&I) Holdings Limited

All times referred to are London time unless otherwise stated.

All references to "**GBP**", "**pence**", "**sterling**" or "**£**" are to the lawful currency of the United Kingdom.

All references to statutory provisions or law or to any order or regulation shall be construed as a reference to that provision, law, order or regulation as extended, modified, replaced or re-enacted from time to time and all statutory instruments, regulations and orders from time to time made thereunder or deriving validity therefrom.

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