

Accelerating our strategy for growth

J Sainsbury plc

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Introduction

- Sainsbury's confirmed on 5 January 2016 that it made an approach in November to Home Retail Group's Board of Directors regarding a possible offer for Home Retail Group, in the form of Sainsbury's shares and cash. The approach was rejected by Home Retail Group and Sainsbury's is considering its position
 - Statement issued on 5 January 2016 and included for reference at the back of this presentation
 - PUSU deadline 5.00 p.m. on 2 February 2016 (may be extended with the consent of Home Retail Group and the Takeover Panel)
- There can be no certainty that this will result in a formal offer, nor as to the terms of any such offer

Note:

Subject to the circumstances set out in the announcement, Sainsbury's reserves the right to introduce other forms of consideration and/or vary the mix of consideration.

The way customers shop is changing



- Customer expectations are changing
 - They want a huge variety of products and they want them quickly
 - Online and mobile
 - In-store, home delivered or Click & Collect
- Our experience shows that the more a customer shops with us across multiple categories and channels, the more we capture of their overall food and grocery spend

We are making good progress against our multi-product, multi-channel strategy



- Investment in food quality and prices
- Growing Clothing range and sales
- Growing General Merchandise (“GM”) range and sales
- Growing Financial Services
- Developing store formats for the future
- Growing Convenience estate
- Developing Groceries Online for home delivery and Click & Collect
- Developing Clothing Online for home delivery and Click & Collect

Acquisition of Home Retail Group would accelerate our strategy

- The acquisition of Home Retail Group would accelerate our strategy and create a leading multi-channel retailer for food and non-food products
- Would enhance our existing GM ranges by bringing more great products and services at fair prices to the Combined Group's customers
- Home Retail Group's strong multi-channel capabilities and infrastructure would step change our ability to meet our customers' needs for further flexibility and choice
 - Online and mobile, home delivery and Click & Collect
- Both businesses share a similar culture with colleagues focused on delivering excellent customer service at all touch points



Combining the businesses would be strategically compelling and would create shareholder value

- 1 Creates a leading food and non-food retailer of choice for customers
- 2 Offers customers a winning combination of location, range, speed and flexibility
- 3 Optimises the use of the combined retail space
- 4 Combines delivery networks for fast, flexible and reliable delivery to store or to home for food, clothing and general merchandise
- 5 Creates a financial services proposition with consumer-centric services
- 6 Delivers revenue and cost synergies

1 Creates a leading food and non-food retailer of choice for customers

Complementary customer base

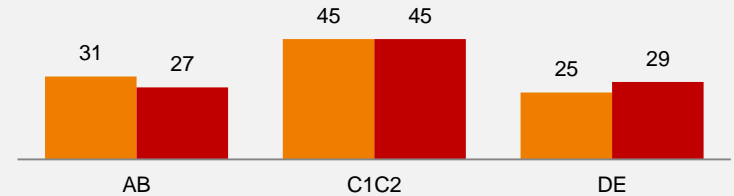
Sainsbury's *Over 2/3 of UK households have shopped at Sainsbury's over the last year ⁽¹⁾*

Argos *c. 2/3 of UK households have shopped at Argos over the last year ⁽²⁾*

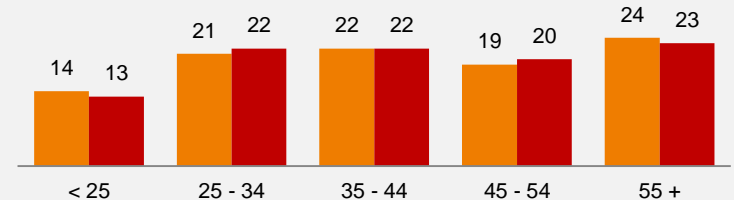
Sainsbury's
Argos *Over 40% of UK households have shopped in both Sainsbury's and Argos ^(2,3)*

Both brands have universal appeal

Customer segmentation by type ⁽²⁾



Customer segmentation by age ⁽²⁾



Legend: Sainsbury's (Orange), Argos (Red)

Notes:

1. Source: Nielsen
2. Source: HPI customer survey November 2015 - 2,000 households surveyed of which 1,292 had shopped in Argos in the last 12 months, 1,235 had shopped in Sainsbury's in the last 3 months and 300 had shopped in neither
3. As per HPI customer survey November 2015 there is a c. 40% overlap between customers that had shopped in Argos in the last 12 months and the customers that had shopped in Sainsbury's in the last 3 months

2 Offers customers a winning combination of location, range, speed and flexibility

Complementary products with strong brands

	Sainsbury's	Home Retail Group
Food		
Clothing		
Homewares		
Kids & toys		
Small domestic appliances		
Consumer electronics		
Furniture		
DIY, Home Enhancement and Garden		

Convenient locations and delivery

- 600 Sainsbury's Supermarkets ⁽¹⁾
- 757 Sainsbury's Convenience stores ⁽¹⁾
- 731 Non-food Click & Collect desks in Sainsbury's stores ⁽¹⁾
- 101 Sainsbury's Groceries Online Click & Collect locations ⁽¹⁾
- Sainsbury's home delivery
 - 1-hour-slots for groceries
 - Clothing
- 734 Argos stores (excluding concessions) ⁽²⁾
- 106 Argos concessions in Homebase and Sainsbury's ⁽²⁾
- Same day Click & Collect in all Argos locations
- Argos home delivery including Fast Track same day

Notes:

1. Source: Sainsbury's Company information as of as of Q3 2015/16
2. Source: Home Retail Group Company information as of August 2015

3 Optimises the use of the combined retail space

- Relocate a number of Argos stores into nearby Sainsbury's supermarkets
 - Reduces rent and lease obligations for Argos
 - Drives increased footfall for both brands to deliver better returns
 - Delivers to our shareholders the full economic benefit versus receiving rent for the concession space
- Extend the reach of Argos by opening concessions in new catchment areas
- Enhanced non-food customer proposition
 - Wider range and choice of products
 - Efficient non-food operating model
- Extended Click & Collect footprint across the Sainsbury's and Argos estates



Combines delivery networks for fast, flexible and reliable delivery to store or to home for food, clothing and general merchandise

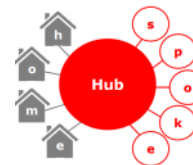
Sainsbury's distribution

- Sainsbury's distribution network is optimised to distribute large volumes to stores, particularly time-sensitive perishable items
- Industry leading availability
- Fleet of grocery online vans deliver from stores to customers' homes in 1-hour scheduled slots



Home Retail Group distribution

- Home Retail Group is nimble and highly efficient at distributing low levels of a very wide range of GM products
- Hub & Spoke model allows an order from over 20,000 products to be available in any Argos store within hours
- Fleet of Hub & Spoke vans deliver from stores to customers' homes in 3-hour scheduled delivery slots the same day
- Owned 2-man home delivery service for bulky items such as furniture and white goods



Creates a financial services proposition with consumer-centric services

An attractive financial services proposition

- Home Retail Group reports that it operates one of the UK's largest store card businesses with around 1.6m active store card holders ⁽¹⁾
- The transaction provides an opportunity to:
 - Make available Sainsbury's Bank's portfolio of credit cards, personal loans and insurance products to Home Retail Group customers
 - Extend Sainsbury's Bank's network of ATMs into Home Retail Group's high street locations

Big or small, there's an Argos Loan for it

Introducing a great new choice of personal and homeowner loans

Find out more

Something special
New car
Improve your home

Argos Card
Buy now, pay later – every time!

H MEBASE

Sainsbury's Bank

4 Nectar points per £1 for new customers
When you use our credit card on Sainsbury's shopping or fuel in the first 3 months.

Apply by 29th December 2015

18.9% APR
Representative variable

Note:

- As reported on Home Retail Group's website.

Delivers revenue and cost synergies

Revenue synergies

- Increased sales from roll-out of Argos concessions in Sainsbury's stores
 - Argos concession customers shopping in Sainsbury's stores
 - Sainsbury's supermarket customers shopping in the Argos concession
- Extends Sainsbury's product range into Argos channels
- Enhances Sainsbury's online proposition
 - Leverages Argos' leading website and delivery capabilities
 - Enables Argos products to be offered alongside Sainsbury's online groceries for home delivery

Cost synergies and property rationalisation

- Store network consolidation and expansion of Argos' reach through concessions in Sainsbury's stores
- Operational efficiencies
- Enhanced buying scale
- Best practice across product categories and operations

Summary

Good for our customers

Would accelerate delivery of our strategy

Strategically compelling transaction

Existing Argos concessions give us confidence in the delivery of the revenue synergies

Creates value for our shareholders

Appendix

J Sainsbury plc

Home Retail Group business overview



1,111 stores ⁽¹⁾
 £5.7 bn revenue ⁽²⁾
 £130m benchmark operating profit ⁽²⁾
 90,000+ products ⁽³⁾



“Leading UK general merchandise retailer with strong multi-channel capabilities”



“Leading home and garden improvement retailer”

Financial Services

“Provider of financial services products to Home Retail Group customers”

Key figures	<ul style="list-style-type: none"> 840 stores (incl. concessions) ⁽¹⁾ £4,096m revenue ⁽²⁾ £129m benchmark operating profit ⁽²⁾ 53,000+ products ⁽³⁾ 	<ul style="list-style-type: none"> 271 stores ⁽¹⁾ £1,479m revenue ⁽²⁾ £20m benchmark operating profit ⁽²⁾ 49,000+ products ⁽³⁾ 	<ul style="list-style-type: none"> One of the UK's largest store card businesses ⁽⁵⁾ £135m revenue ⁽²⁾ £7m benchmark operating profit ⁽²⁾ 1.6m active store card holders ⁽³⁾ £550m loan book ⁽¹⁾
Market position	<ul style="list-style-type: none"> Top 5 retailer in its key general merchandise #2 online retailer by visits in the UK 	<ul style="list-style-type: none"> #3 DIY retailer ⁽⁴⁾ 	<ul style="list-style-type: none"> N/A
Main product categories	<ul style="list-style-type: none"> Electricals Appliances Homewares Toys 	<ul style="list-style-type: none"> Core DIY products Home enhancement Gardening Kitchen, bedrooms, bathrooms 	<ul style="list-style-type: none"> Store cards Insurance
Sales channels	<ul style="list-style-type: none"> In-store Concessions in Sainsbury's and Homebase stores Online, including significant mobile presence Click & Collect Telephone 	<ul style="list-style-type: none"> In-store (including Argos and Habitat concession stores) Online 	<ul style="list-style-type: none"> Offered at retail point of sale

Save as otherwise referenced, sources are: Home Retail Group company information (corporate website, FY15 annual report and investor presentation as of 28 February 2015, 1H15 press release as of 29 August 2015), Home Retail Group Investor Pack, May 2015, Conlumino, Verdict, Sainsbury's management data, L.E.K.

Notes:

- As of August 2015.
- Full year ending 28 February 2015.
- As per Home Retail Group annual report ending 28 February 2015.

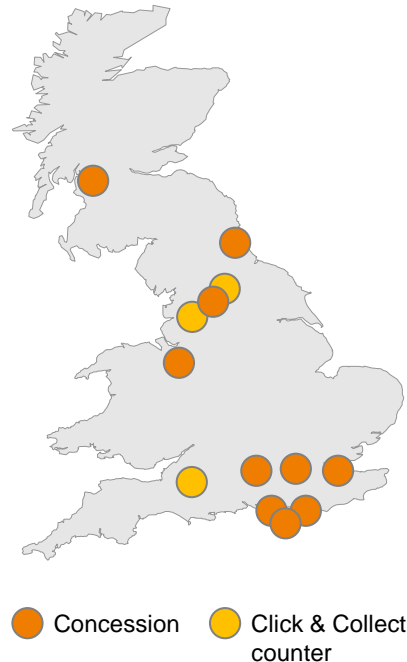
- Behind market leader B&Q and Wickes.
- As reported on Home Retail Group's website.

A combination already proven thanks to existing partnership

An exciting partnership

- Argos digital concessions trial conducted across 10 Sainsbury's supermarkets since May 2015
 - Concession size ranges from 1,000 - 5,000 sq ft
- The Argos concessions bring a wider range of GM products to Sainsbury's customers
 - A choice of over 20,000 GM products which customers can either buy instantly in store via tablets, or reserve online for easy collection within hours, the same afternoon or the next morning
 - An extended range of a further 30,000 products can also be ordered in store for home delivery
- Separate trial of collection counters in a Sainsbury's small supermarket and 2 convenience stores
 - Allows customers to order online and pick up in store within hours the same afternoon or the next morning

Current footprint



Concession concept



Key financial metrics (FY15)

Sainsbury's



Income Statement

Sales ⁽¹⁾	£23,775m	£5,710m
EBITDAR ⁽²⁾	£1,819m	£599m
Rent	£547m	£333m
EBITDA ⁽²⁾	£1,272m	£266m
Underlying operating profit	£782m	£130m
Underlying PBT	£681m	£132m

Balance Sheet

Net debt / (cash) ⁽³⁾	£1,467m	(£309m)
Net debt / EBITDA	1.2x	(1.2x)
Lease adjusted net debt / EBITDAR	4.1x	2.7x

Market Data

Market Cap (£bn) ⁽⁴⁾	£4.7 billion	£1.1 billion
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Save as otherwise referenced, sources are: Sainsbury's company information (FY15 annual report as of 14 March 2015), Home Retail Group company information (corporate website, FY15 annual report and investor presentation as of 28 February 2015), Bloomberg as at 8 January 2016.

Notes:

1. Sales reflect group sales excluding VAT. For Sainsbury's, sales include revenue attributable to the Bank.
2. Sainsbury's EBITDA & EBITDAR reflect retail operations only (excluding the bank); Home Retail Group EBITDA based on benchmark operating profit of £129.5 MM + D&A of £136.0 MM as of 28 February 2015.
3. Net debt excludes hybrid capital raised in FY16.
4. Market capitalisation as at 8 January 2016.

January 5, 2016 statement (1/3)

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This announcement is not an announcement of a firm intention to make an offer under Rule 2.7 of the Takeover Code (the "Code") and there can be no certainty that an offer will be made, nor as to the terms on which any offer will be made.

5 January 2016

For immediate release

J Sainsbury plc statement regarding a possible offer for Home Retail Group plc

J Sainsbury plc ("Sainsbury's") confirms that it made an approach in November to Home Retail Group plc's ("Home Retail Group") Board of Directors regarding a possible offer for Home Retail Group, in the form of Sainsbury's shares and cash. The approach was rejected by Home Retail Group and Sainsbury's is considering its position. There can be no certainty that this will result in a formal offer, nor as to the terms of any such offer.

Over the last year, Sainsbury's has been working in partnership with Home Retail Group trialling a number of Argos concessions in Sainsbury's stores. The Board of Sainsbury's believes the combination of Sainsbury's and 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 Board of Sainsbury's believes a combination of Home Retail Group and Sainsbury's 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 and delivery networks for fast, flexible and reliable delivery 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 would 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, electricals, 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;
- Deliver revenue synergy potential through the ability to sell to each other's customers, including the operation of Argos concessions within Sainsbury's stores, and the sale of Sainsbury's products and services through Argos's network;
- Provide additional cost synergy potential through property rationalisation, scale benefits and operational efficiencies.

Sainsbury's reserves the right to introduce other forms of consideration and/or vary the mix of consideration.

In accordance with Rule 2.6(a) of the Code, Sainsbury's must, by not later than 5.00 p.m. on 2 February 2016, either announce a firm intention to make an offer for Home Retail Group in accordance with Rule 2.7 of the Code or announce that it does not intend to make an offer for Home Retail Group, in which case the announcement will be treated as a statement to which Rule 2.8 of the Code applies. This deadline will only be extended with the consent of Home Retail Group and the Takeover Panel in accordance with Rule 2.6(c) of the Code.

A further statement will be made as appropriate.

January 5, 2016 statement (2/3)

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A copy of this announcement will be made available, subject to certain restrictions relating to persons resident in restricted jurisdictions, on Sainsbury's website at http://www.j-sainsbury.co.uk/investor-centre/investor-news/rns/#tabbed_section by no later than 12 noon (London time) on 6 January 2016. The content of the website referred to in this announcement is not incorporated into and does not form part of this announcement.

January 5, 2016 statement (3/3)

Disclosure requirements of the Code

Under Rule 8.3(a) of the Code, any person who is interested in 1% or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any securities exchange offeror is first identified. An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm (London time) on the 10th business day following the commencement of the offer period and, if appropriate, by no later than 3.30 pm (London time) on the 10th business day following the announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the Code, any person who is, or becomes, interested in 1% or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s), save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm (London time) on the business day following the date of the relevant dealing.

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Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).

Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Takeover Panel's website at www.thetakeoverpanel.org.uk, including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.

Forward looking statements

This announcement may contain certain "forward looking statements". The forward-looking statements contained in this announcement include statements relating to Sainsbury's proposal to the Board of Home Retail Group, and other statements other than historical facts. Forward looking statements often use words such as "believe", "expect", "estimate", "intend", "anticipate" and words of a similar meaning. These forward-looking statements may include statements relating to the expected characteristics of the combined group and expected benefits of the proposed transaction. You should not place undue reliance on these forward-looking statements, which reflect the current views of Sainsbury's, are subject to risks and uncertainties about Sainsbury's and Home Retail Group and are dependent on many factors, some of which are outside of Sainsbury's control. There are important factors, risks and uncertainties that could cause actual outcomes and results to be materially different, including that there can be no certainty that the approach in respect of the proposed transaction described in this announcement will result in a formal offer, nor as to the terms on which any such offer may be made. Except as required by law, Sainsbury's undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Rule 2.10 information

In accordance with Rule 2.10 of the Takeover Code, Sainsbury's confirms that as at the close of business on 4 January 2016 it had the following securities in issue:

- 1,923,739,622 ordinary shares of 28 4/7 pence each admitted to trading on the London Stock Exchange's main market for listed securities. The International Securities Identification Number for Sainsbury's ordinary shares is B00B019KW72;
- A sponsored Level 1 American Depositary Receipts ("ADRs") programme for which The Bank of New York Mellon acts as the depositary bank. Each ADR represents four ordinary shares in the capital of Sainsbury's. The ADRs trade in the over-the-counter market in the United States under the trading symbol JSALY and the ISIN is US4662492085;
- GBP 450,000,000 of convertible bonds due in November 2019 with a coupon of 1.25 per cent. per annum (the "2019 Convertible Bonds"). The 2019 Convertible Bonds are convertible into ordinary shares in Sainsbury's. The International Securities Identification Number for the 2019 Convertible Bonds is XS1139087933; and
- GBP 250,000,000 of subordinated perpetual convertible bonds with a coupon of 2.875 per cent. per annum (the "Perpetual Convertible Bonds"). The Perpetual Convertible Bonds are convertible into ordinary shares in Sainsbury's until 23 July 2021. The International Securities Identification Number for the Perpetual Convertible Bonds is XS1268412993.