

# Longstone Finance plc

(a public company with limited liability incorporated under the laws of England and Wales with registered number 5663652)

**£542,500,000 Class A Secured 4.791 per cent. Notes due 2036**  
**£46,500,000 Class B Secured 4.774 per cent. Notes due 2036**  
**£279,000,000 Class C Secured 4.896 per cent. Notes due 2036**

Class	Aggregate Principal Amount	Interest Rate	Issue Price	Expected Ratings Moody's and S&P	Estimated Weighted Average Lives of the Notes	Expected Maturity Date	Final Maturity Date
A Notes	£542,500,000	4.791% p.a.	100%	Aaa/AAA	14.1	April 2030	April 2036
B Notes	£46,500,000	4.774% p.a.	100%	Aa2/AA	24.6	April 2031	April 2036
C Notes	£279,000,000	4.896% p.a.	100%	A2/A	25.1	April 2031	April 2036

## Source of Payment

The primary source of funds for the payment of principal and interest on the £542,500,000 Class A Secured 4.791 per cent. Notes due 2036 (the "Class A Notes"), the £46,500,000 Class B Secured 4.774 per cent. Notes due 2036 (the "Class B Notes") and the £279,000,000 Class C Secured 4.896 per cent. Notes due 2036 (the "Class C Notes" and, together with the Class A Notes and the Class B Notes, the "Notes") of Longstone Finance plc (the "Issuer") to be issued on or about 24 March 2006 (the date of such issue being the "Closing Date") will be the right of the Issuer to receive payments of interest and repayments of principal in respect of certain secured loans made under a secured facility agreement dated the Closing Date (the "Facility Agreement") between, amongst others, the Original Lenders, the Borrower and the Borrower Security Trustee and the Original Lenders' other interests thereunder, which will be transferred to the Issuer on the Closing Date.

## Application to the Irish Financial Services Regulatory Authority and the Irish Stock Exchange

Application has been made to the Irish Financial Services Regulatory Authority (the "Irish Financial Services Regulatory Authority" or "IFSRA"), in its capacity as competent authority under Directive 2003/71/EC (the "Prospectus Directive"), for this Prospectus to be approved. This offering document (the "Prospectus") constitutes a "prospectus" in relation to the Issuer and the Notes for the purposes of the Prospectus Directive. Application has been made to the Irish Stock Exchange Limited (the "Irish Stock Exchange") for the Notes to be admitted to the official list of the Irish Stock Exchange (the "Official List") and trading on its regulated market.

## Obligations of Issuer Only

The Notes will be obligations of the Issuer only and will not be obligations or responsibilities of, or guaranteed by, any of the other parties to the transactions described in this Prospectus. It should be noted, in particular, that the Notes will not be obligations or responsibilities of the Joint Arrangers, the Joint Lead Managers, the Original Lenders, J Sainsbury plc ("Sainsbury's") or any subsidiary of Sainsbury's, the Note Trustee, the Paying Agents, the Liquidity Facility Provider, the Issuer Account Bank, the Issuer/Holdings Corporate Services Provider, the Subordinated Loan Provider, the Issuer Cash Manager, the Hedge Counterparties, the Borrower Security Trustee, the Borrower Account Bank, the Borrower, the Occupational Tenant or any other party to the Issuer Transaction Documents or to the Borrower Transaction Documents or any person affiliated with them (other than the Issuer).

## Ratings

The Class A Notes are expected upon issue to be rated Aaa by Moody's Investors Services Limited ("Moody's") and AAA by Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc. ("S&P" and, together with Moody's, the "Rating Agencies"). The Class B Notes are expected upon issue to be rated Aa2 by Moody's and AA by S&P. The Class C Notes are expected upon issue to be rated A2 by Moody's and A by S&P. **A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by any one or more of the Rating Agencies. Each credit rating should be evaluated independently of any other credit rating.**

The Notes have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act"), and include Notes in bearer form that are subject to U.S. tax law requirements. The Notes may not be offered, sold or delivered, directly or indirectly, in the United States or to any U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes are being offered for sale outside the United States in accordance with Regulation S ("Regulation S") under the Securities Act. See "Subscription and Sale".

## Form of Notes

The Notes of each class will each initially be represented on issue by a temporary global note in bearer form (each, a "Temporary Global Note") without interest coupons attached, which will be deposited on the Closing Date with a common depository for Euroclear Bank S.A./N.V., as operator of the Euroclear System ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). Each Temporary Global Note will be exchangeable for interests in a permanent global note in bearer form (each, a "Permanent Global Note") representing the same class of Notes, without interest coupons attached, not earlier than 40 days after the Closing Date (provided that certificates as to non-U.S. beneficial ownership have been received). Ownership interests in the Temporary Global Notes and the Permanent Global Notes will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg and their respective participants. Interests in the Permanent Global Notes will be exchangeable for Definitive Notes in bearer form only in certain limited circumstances as set forth therein.

## Investment Considerations

**A discussion of certain factors, which should be considered in connection with an investment in the Notes, is set out in the section entitled "Risk Factors".**

Each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Issuer, the Borrower and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors which may be relevant to it in connection with such investment. A prospective investor who is in any doubt whatsoever as to the risks involved in investing in the Notes should consult its own independent professional advisers.

**Joint Arrangers, Joint Lead Managers and Joint Bookrunners**  
**Morgan Stanley** **UBS Investment Bank**

## Co-Managers

**Barclays Capital** **BNP Paribas** **Deutsche Bank** **HSBC**  
**Mitsubishi UFJ Securities International plc** **The Royal Bank of Scotland** **WestLB AG**

The date of this Prospectus is 21 March 2006

## **Responsibility Statements**

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (which 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 importance of such information.

The information relating to the Sainsbury's Group which is set out in the section entitled "*The Sainsbury's Group*" has been accurately reproduced from information made available by Sainsbury's. So far as the Issuer is aware and is able to ascertain from information published by Sainsbury's, no facts have been omitted which would render the reproduced information misleading.

## **Representations about the Notes**

No person has been authorised in connection with the issue and sale of the Notes to make any representation or provide any information other than as contained in this Prospectus. Any such representation or information should not be relied upon as having been authorised by or on behalf of the Issuer, the directors of the Issuer, the Borrower, Sainsbury's or any subsidiary of Sainsbury's, the Joint Arrangers, the Joint Lead Managers, the Original Lenders, the Note Trustee, the Issuer Share Nominee, the Holdings Share Trustee, the Paying Agents, the Liquidity Facility Provider, the Issuer Account Bank, the Issuer/Holdings Corporate Services Provider, the Issuer Cash Manager, the Hedge Counterparties, the Borrower Security Trustee, the Borrower Account Bank, the Borrower Cash Manager, the Subordinated Loan Provider, the Occupational Tenant or any other party to the Issuer Transaction Documents or to the Borrower Transaction Documents or any person affiliated with them.

None of the Joint Arrangers, the Joint Lead Managers, the Original Lenders, Sainsbury's or any subsidiary of Sainsbury's, the Note Trustee, the Issuer Share Nominee, the Holdings Share Trustee, the Paying Agents, the Liquidity Facility Provider, the Issuer Account Bank, the Issuer/Holdings Corporate Services Provider, the Issuer Cash Manager, the Hedge Counterparties, the Borrower Security Trustee, the Borrower Cash Manager, the Borrower Account Bank, the Subordinated Loan Provider, the Borrower, the Occupational Tenant or any other party to the Issuer Transaction Documents or the Borrower Transaction Documents or any person affiliated with them (other than the Issuer) (together, the "**Other Parties**") have separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Other Parties as to the accuracy or completeness of the information contained in this Prospectus or any other information supplied in connection with the Notes or their distribution. The statements in this paragraph are without prejudice to the responsibility of the Issuer. Each person receiving this Prospectus acknowledges that such person has not relied on the Other Parties in connection with any investigation of the accuracy of the information on its investment decision.

## **Financial condition of the Issuer and the Borrower**

Neither the delivery of this Prospectus nor the offer, sale, allocation, solicitation or delivery of any Note shall in any circumstances create any implication or constitute a representation that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Borrower or the information contained herein since the date of this Prospectus or that the information contained herein is correct as at any time subsequent to the date of this Prospectus.

## **Selling Restrictions**

Neither this Prospectus nor any part hereof constitutes an offer of, or an invitation to subscribe for or purchase, any Notes.

Other than the approval of the Irish Financial Services Regulatory Authority of this Prospectus in accordance with the requirements of the Prospectus Regulations, no action has been or will be taken to permit a public offering of the Notes or the distribution of this Prospectus in any jurisdiction. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus (or any part thereof) comes are required by the Issuer and the Joint Lead Managers to inform themselves about and to observe any such restrictions.

For a more detailed description of certain restrictions on offers, sales and deliveries of the Notes and on distribution of this Prospectus, see "*Subscription and Sale*".

## **Currency**

In this Prospectus, unless otherwise specified, references to "£", "**Sterling**" and "**Pounds Sterling**" are to the lawful currency for the time being of the United Kingdom of Great Britain and Northern Ireland.

## **Interpretation**

Capitalised terms used in this Prospectus, unless otherwise indicated, have the meanings set out in this Prospectus. An index of defined terms appears at the end of this Prospectus.

## **Stabilisation**

In connection with the issue of the Notes, Morgan Stanley & Co. International Limited (the "**Stabilising Manager**") or any person acting on behalf of the Stabilising Manager may over-allot Notes (provided that the aggregate principal amount of the Notes allotted does not exceed 105 per cent. of the aggregate principal amount of the relevant class) or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made, and, if begun, may be ended at any time, but it must end no later than the earlier of thirty (30) days after the issue of the Notes and sixty (60) days after the date of the allotment of the Notes.

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## PRINCIPAL CHARACTERISTICS OF THE NOTES

*The following is a brief overview of the principal characteristics of the Notes offered under this Prospectus. This information is subject to and is more fully explained in the other sections of this Prospectus.*

Notes	Class A Notes	Class B Notes	Class C Notes
Minimum Denomination	£50,000	£50,000	£50,000
Principal Amount	£542,500,000	£46,500,000	£279,000,000
Interest Rate	4.791% per annum	4.774% per annum	4.896% per annum
Estimated Weighted Average Lives of the Notes <sup>1</sup>	14.1	24.6	25.1
Expected Maturity Date	April 2030	April 2031	April 2031
Final Maturity Date	April 2036	April 2036	April 2036
Payment Dates	19 <sup>th</sup> of January, April, July and October	19 <sup>th</sup> of January, April, July and October	19 <sup>th</sup> of January, April, July and October
Interest Accrual Method	30/360	30/360	30/360
Frequency of Redemption	In accordance with Condition 7	In accordance with Condition 7	In accordance with Condition 7
Early Redemption Premium	Amount calculated in accordance with the formula set out in Condition 7(c)		
Form of Notes	Bearer	Bearer	Bearer
Clearing Systems	Euroclear and Clearstream, Luxembourg	Euroclear and Clearstream, Luxembourg	Euroclear and Clearstream, Luxembourg
Credit Enhancement (provided by other classes of Notes subordinated to the relevant class)	Subordination of the Class B Notes and the Class C Notes	Subordination of the Class C Notes	
Initial ICR	3.1	2.8	1.9
Initial DSCR	2.3	2.2	1.6
Initial LTV	35.0%	38.0%	56.0%
Listing	Ireland	Ireland	Ireland
ISIN	XS0248510280	XS0248510793	XS0248511254
Common Code	024851028	024851079	024851125
Expected Rating – Moody's	Aaa	Aa2	A2
Expected Rating - S&P	AAA	AA	A

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<sup>1</sup> Based upon the assumption that, amongst other things, the Initial Loans are not sold by the Issuer, the Initial Loans do not default, are not prepaid (in whole or in part) nor are they enforced and no loss arises.

## OVERVIEW OF THE TRANSACTION

*The following is an overview of the transaction. This summary does not purport to be complete and should be read in conjunction with, and is qualified in its entirety by reference to, the more detailed information which appears elsewhere in this Prospectus. Prospective purchasers of the Notes are advised to read carefully, and to rely solely on, the detailed information appearing elsewhere in this Prospectus in making any decision whether or not to invest in any Notes.*

### **Issue of the Notes and Use of Proceeds**

The Issuer has been incorporated as a special purpose company for the purpose of issuing the Notes and entering into the Issuer Transaction Documents.

The Issuer will issue the Notes on or about 24 March 2006 (the date of such issue being the "**Closing Date**") and will apply the proceeds of such issuance to acquire the Loan Assets by way of novation from Morgan Stanley Bank International Limited and UBS AG, London Branch (the "**Original Lenders**") pursuant to the Loan Novation Documents to be entered into between, *inter alios*, the Original Lenders and the Issuer on the Closing Date.

The fees and expenses in connection with the issue of the Notes will be met by the Issuer using certain fees payable by the Borrower pursuant to the Facility Agreement.

### **The Loans**

Under the terms of the Facility Agreement, the Original Lenders will make certain secured loans to the Borrower (each an "**Initial Loan**" and, together the "**Initial Loans**"). The primary source of funds for the payments of interest and principal in respect of the Initial Loans will be net rental cashflows derived from the Properties. The Borrower will utilise the proceeds of the Initial Loans plus the initial drawing under the Subordinated Loan Agreement and the Additional Equity Injection to fund its acquisition of the Properties from Sainsbury's. See "*Description of the Borrower Transaction Documents - the Facility Agreement*" below.

### **The Loan Novation Documents**

On the Closing Date, the Issuer will issue the Notes and use the proceeds to acquire by means of novation from the Original Lenders, pursuant to the terms of a loan novation agreement to be dated the Closing Date (the "**Loan Novation Agreement**") and a transfer certificate (the "**Transfer Certificate**", and together with the Loan Novation Agreement, the "**Loan Novation Documents**"), the right, title, interests and benefits of the Original Lenders in the Initial Loans and the Borrower Level Security, together with any and all of the Original Lenders' rights as Lender under the Finance Documents (together, the "**Loan Assets**").

### **Source of Funds for Payments on the Notes**

The payment of interest and repayment or prepayment of principal by the Borrower in respect of the Loans will provide the primary source of funds for the Issuer to make payments of interest and repayments (or prepayments) of principal under the Notes.

In the event that the Issuer has insufficient funds to make payment on the Notes on any Payment Date it may, in certain circumstances, make drawings on the Liquidity Facility to cover shortfalls in the amounts available to the Issuer to make payments of, amongst other items, interest due on the Notes.

### **Principal Security for the Borrower's Obligations**

The Borrower's obligations under the Facility Agreement and the other Borrower Transaction Documents are secured primarily by the Borrower granting fixed and floating security over all of its property, undertaking and assets in favour of the Borrower Security Trustee pursuant to the Borrower Debenture and the Borrower Legal Charge. In addition, as further security for the repayment of the Loans, the Borrower Parent will grant fixed security over the entire issued share capital of the Borrower and all its other present and future shares in the Borrower in favour of the Borrower Security Trustee.

Each of the Borrower and the Borrower Parent will also enter into a securitisation floating charge debenture on the Closing Date (the "**Securitisation Floating Charge Debenture**") whereby the Borrower and the Borrower Parent will each grant to the Borrower Security Trustee a first floating charge over all of their present and future assets, properties and undertakings. The floating charges created pursuant to the Securitisation Floating Charge Debenture will rank in point of priority ahead of the floating charges created by the Borrower and the Borrower Parent pursuant to the Borrower Debenture.

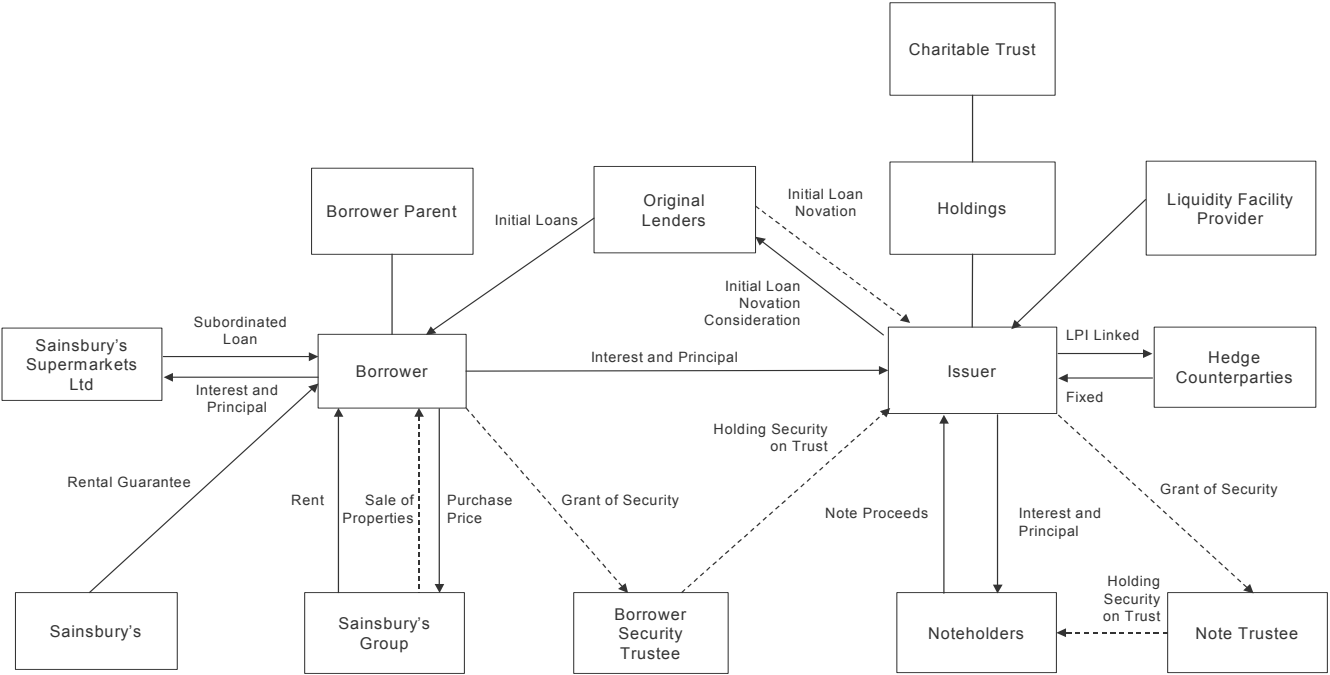
### **Security for the Issuer's Obligations**

The Issuer's obligations under the Notes and the Issuer Transaction Documents will be secured by, amongst other things, the Issuer granting fixed and floating security over all its property, undertaking and assets and the Issuer assigning the benefit of certain security which it enjoys as a secured creditor under the Borrower Transaction Documents in favour of the Note Trustee on behalf of the Issuer Secured Creditors pursuant to the Issuer Deed of Charge.

The Issuer Deed of Charge will determine the post-enforcement priority of payments of the Issuer Secured Creditors.

For a diagrammatic overview of the transaction described in this Prospectus, see "*Diagrammatic Overview of the Transaction*".

**DIAGRAMMATIC OVERVIEW OF THE TRANSACTION**





## THE PARTIES

- Issuer:** Longstone Finance plc (the "**Issuer**"), a public limited liability company incorporated under the laws of England and Wales on 29 December 2005, with registered number 5663652 having its registered office at 35 Great St. Helen's, London EC3A 6AP and telephone number +44(0)20 7398 6300 .
- The Issuer is a special purpose company with limited permitted activities. Its principal activities will comprise, *inter alia*, issuing the Notes and applying the proceeds of such issuance to enter into the Loan Novation Documents. See "*The Issuer*".
- Options:** Hartland Options Limited ("**Options**"), a private limited liability company incorporated under the laws of England and Wales on 29 December 2005, with registered number 5663690, having its registered office at 35 Great St. Helen's, London EC3A 6AP.
- Options is a special purpose company with limited permitted activities. See "*Options*". Options will be the holder of the Post-Enforcement Call Option pursuant to the terms of the Post-Enforcement Call Option Agreement.
- Holdings:** Longstone Finance Holdings Limited ("**Holdings**"), a private limited liability company incorporated under the laws of England and Wales with registered number 5663649, having its registered office at 35 Great St. Helen's, London EC3A 6AP.
- Holdings is a special purpose company with limited permitted activities. Holdings' entire issued share capital is held by SFM Corporate Services Limited, a company registered in England and Wales with registered number 3920255 and having its registered address at 35 Great St. Helen's, London EC3A 6AP (in such capacity, the "**Holdings Share Trustee**"). The shares held by the Holdings Share Trustee are held under the terms of a trust established under English law pursuant to the terms of a declaration of trust for charitable purposes. See "*Holdings*".
- Holdings holds the entire issued share capital of the Issuer (other than one ordinary share in the Issuer which is held by SFM Nominees Limited, a company registered in England and Wales with registered number 04115230 and having its registered address at 35 Great St. Helen's, London EC3A 6AP (in such capacity, the "**Issuer Share Nominee**") under the terms of a trust established under English law pursuant to the terms of a declaration of trust for Holdings). See "*The Issuer*".
- Note Trustee:** The Bank of New York, a New York banking corporation acting through its London branch whose principal place of business is at One Canada Square, Canary Wharf, London E14 5AL (in such capacity, the "**Note Trustee**") will be appointed as trustee for the holders from time to time of the Notes pursuant to a trust deed to be dated the Closing Date (the "**Trust Deed**") between the Issuer and the Note Trustee.
- The Note Trustee will also hold the security granted by the Issuer pursuant to a deed of charge to be dated the Closing Date (the "**Issuer Deed of Charge**") between the Issuer and the Issuer Secured Creditors on trust for the Issuer Secured Creditors and will be entitled to enforce the Issuer Security subject to and in accordance with the terms of the Issuer Deed of Charge. See "*Description of the Issuer Transaction Documents - Issuer Deed of Charge*".
- Issuer Cash Manager:** The Bank of New York, a New York banking corporation acting

through its London branch whose principal place of business is at One Canada Square, Canary Wharf, London E14 5AL (in such capacity, the "**Issuer Cash Manager**") will be appointed as cash manager by the Issuer pursuant to the terms of a cash management agreement to be dated the Closing Date (the "**Issuer Cash Management Agreement**") between, *inter alios*, the Issuer, the Note Trustee and the Issuer Cash Manager. The Issuer Cash Manager will manage the Issuer Transaction Account and will determine the amounts of, and arrange for the making of, payments due from the Issuer and keep certain records on behalf of, *inter alios*, the Issuer. See "*Description of the Issuer Transaction Documents - Issuer Cash Management Agreement*".

***Liquidity Facility Provider:***

Lloyds TSB Bank plc acting through its office at Faryner's House, 25 Monument Street, London EC3R 8BQ (in such capacity, the "**Liquidity Facility Provider**") will be the lender of the liquidity facility (the "**Liquidity Facility**") pursuant to a liquidity facility agreement to be dated the Closing Date (the "**Liquidity Facility Agreement**") between the Issuer, the Issuer Cash Manager, the Liquidity Facility Provider and the Note Trustee.

The Issuer is required to maintain a liquidity facility with a bank having at least the Liquidity Requisite Rating. See "*Description of the Issuer Transaction Documents - Liquidity Facility Agreement*".

***Hedge Counterparties:***

Morgan Stanley & Co. International Limited and UBS AG, London Branch will be appointed as the hedge providers (in such capacity, the "**Hedge Counterparties**") pursuant to certain inflation-linked interest rate hedge transactions with the Issuer (the "**Hedge Transactions**"). The Hedge Transactions address certain risks arising in connection with payments received under the Facility Agreement and amounts payable in respect of the Notes.

***Issuer Account Bank:***

The Bank of New York, a New York banking corporation acting through its London branch whose principal place of business is at One Canada Square, Canary Wharf, London E14 5AL (the "**Issuer Account Bank**") will be appointed as transaction account bank to the Issuer and will maintain the Issuer's bank account (the "**Issuer Transaction Account**") on behalf of the Issuer pursuant to an account bank agreement to be dated the Closing Date (the "**Issuer Account Bank Agreement**") between the Issuer, the Issuer Account Bank, the Issuer Cash Manager and the Note Trustee.

Pursuant to the terms of the Issuer Account Bank Agreement, the Issuer Account Bank will provide certain account bank services to the Issuer in relation to the Issuer Transaction Account.

The Issuer is required to maintain the Issuer Transaction Account with a bank which has a short-term credit rating of at least P-1 by Moody's and A-1+ by S&P (the "**Minimum Short-Term Rating**"). See "*Description of the Issuer Transaction Documents - Issuer Account Bank Agreement*".

***Principal Paying Agent:***

The Bank of New York, a New York banking corporation acting through its London branch whose principal place of business is at One Canada Square, Canary Wharf, London E14 5AL will provide certain services to the Issuer as principal paying agent (in such capacity, the "**Principal Paying Agent**") pursuant to the terms of an agency agreement to be dated the Closing Date (the "**Paying Agency Agreement**") between the Issuer, the Paying Agents and the Note Trustee.

***Irish Paying Agent:***

AIB/BNY Fund Management (Ireland) Limited will be appointed as the Irish paying agent (the "**Irish Paying Agent**" and, together with the

Principal Paying Agent and any other paying agents appointed pursuant to the Paying Agency Agreement, the "**Paying Agents**") pursuant to the terms of the Paying Agency Agreement.

***Issuer/Holdings Corporate Services Provider:***

Structured Finance Management Limited, a company registered in England and Wales with registered number 3920254 and having its registered office at 35 Great St. Helen's, London EC3A 6AP is the corporate services provider to the Issuer and Holdings (in such capacity, the "**Issuer/Holdings Corporate Services Provider**") pursuant to the terms of a corporate services agreement dated the Closing Date (the "**Issuer/Holdings Corporate Services Agreement**") between, *inter alios*, the Issuer, Holdings, the Note Trustee and the Issuer/Holdings Corporate Services Provider. Pursuant to the terms of the Issuer/Holdings Corporate Services Agreement, the Issuer/Holdings Corporate Services Provider provides directors and certain other corporate services to the Issuer and Holdings.

***Borrower:***

Sainsbury Propco B Limited (the "**Borrower**"), a private limited company incorporated under the laws of England and Wales with registered number 5644624, having its registered office at 33 Holborn, London EC1N 2HT and telephone number +44(0)20 7695 6000. See "*The Borrower*".

***Borrower Parent:***

Sainsbury Holdco B Limited (the "**Borrower Parent**"), a private limited company incorporated under the laws of England and Wales with registered number 5644633, having its registered office at 33 Holborn, London EC1N 2HT. The Borrower Parent holds the entire issued share capital of the Borrower.

***Borrower Security Trustee:***

The Bank of New York, a New York banking corporation acting through its London branch whose principal place of business is at One Canada Square, Canary Wharf, London E14 5AL has been appointed as security trustee (in such capacity, the "**Borrower Security Trustee**") pursuant to the terms of the Borrower Debenture.

The Borrower Security Trustee holds the security granted by the Borrower and Borrower Parent pursuant to the Borrower Debenture and the security granted by the Borrower pursuant to the Borrower Legal Charge on trust for the Borrower Secured Creditors (the "**Borrower Level Security**"). See "*Description of the Borrower Transaction Documents - The Borrower Security*".

In addition, the Borrower and Borrower Parent will each grant a floating charge in favour of the Borrower Security Trustee, over all its present and future assets, property and undertaking pursuant to the Securitisation Floating Charge Debenture (the Securitisation Floating Charge Debenture, together with the Borrower Level Security, the "**Borrower Security**") to be held on trust for, *inter alios*, the Issuer. See "*Description of the Borrower Transaction Documents — Securitisation Floating Charge Debenture*".

***Borrower Account Bank:***

The Bank of New York, a New York banking corporation acting through its London branch whose principal place of business is at One Canada Square, Canary Wharf, London E14 5AL (in such capacity, the "**Borrower Account Bank**") will be appointed as transaction account bank to the Borrower pursuant to the terms of an account bank agreement to be dated the Closing Date (the "**Borrower Account Bank Agreement**") between the Borrower, the Borrower Account Bank, the Borrower Cash Manager and the Borrower Security Trustee. The Borrower Account Bank will perform certain account bank services in relation to the Control Accounts on behalf of the Borrower.

The Borrower is required to maintain the Control Accounts with a bank which has at least the Requisite Rating. See "*Description of the Borrower Transaction Documents - Borrower Account Bank Agreement*".

***Borrower Cash Manager:***

The Bank of New York, a New York banking corporation acting through its London branch whose principal place of business is at One Canada Square, Canary Wharf, London E14 5AL (in such capacity, the "**Borrower Cash Manager**") will be appointed as cash manager by the Borrower pursuant to the terms of a cash management agreement to be dated the Closing Date (the "**Borrower Cash Management Agreement**") between the Borrower, the Borrower Security Trustee and the Borrower Cash Manager. The Borrower Cash Manager will manage the Control Accounts and will determine the amounts of, and arrange for the making of, payments due from the Borrower and keep certain records on behalf of, *inter alios*, the Borrower. See "*Description of the Borrower Transaction Documents - Borrower Cash Management Agreement*".

***Subordinated Loan Provider:***

Sainsbury's Supermarkets Ltd (in such capacity, the "**Subordinated Loan Provider**") will provide a subordinated loan facility to the Borrower pursuant to a subordinated loan agreement (the "**Subordinated Loan Agreement**") to be entered into on the Closing Date between Sainsbury's Supermarkets Ltd and the Borrower. For a more detailed description of Sainsbury's Supermarkets Ltd, see "*The Sainsbury's Group*" below.

***Occupational Tenant:***

As at the Closing Date, Sainsbury's Supermarkets Ltd (in such capacity, the "**Occupational Tenant**", which expression shall include any other occupational tenant of the Properties (or any of them) from time to time) will be the occupational tenant under the Occupational Leases in respect of the Properties. (See "*Description of the Occupational Leases*").

***Lease Guarantor***

J Sainsbury plc (in such capacity, the "**Lease Guarantor**") will be the lease guarantor under the Occupational Leases in respect of the Properties as at the Closing Date. (See "*Description of the Occupational Leases*").

***Managing Agent:***

J Sainsbury plc (in such capacity, the "**Managing Agent**") will be appointed by the Borrower to be the managing agent of the Properties pursuant to a property management agreement (the "**Property Management Agreement**"). (See "*Description of the Borrower Transaction Documents - Property Management Agreement*").

***Rating Agencies:***

Moody's and S&P.

***Joint Arrangers and Joint Lead Managers:***

Morgan Stanley & Co. International Limited and UBS Limited will act as the joint lead managers in respect of the issue of the Notes and as the joint mandated arrangers (in such capacities, the "**Joint Lead Managers**" and "**Joint Arrangers**").

## KEY CHARACTERISTICS OF THE NOTES

- Amount and Title:** The £542,500,000 Class A Secured 4.791 per cent. Notes due 2036, the £46,500,000 Class B Secured 4.774 per cent. Notes due 2036 and the £279,000,000 Class C Secured 4.896 per cent. Notes due 2036 will be issued by the Issuer on the Closing Date.
- Form and Denominations:** The Notes of each class will initially be represented by Temporary Global Notes without Coupons or Receipts, which will be deposited with a common depository (the "**Common Depository**") for Euroclear Bank S.A./N.V. as operator of the Euroclear System ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**") on the Closing Date.
- Interests in each Temporary Global Note will be exchangeable, in whole or in part, for interests in a Permanent Global Note representing Notes of the same class, without Coupons or Receipts, not earlier than 40 days after the Closing Date upon certification of non-U.S. beneficial ownership.
- In certain limited circumstances, Definitive Notes with Coupons and Receipts attached will be issued in exchange for a Permanent Global Note.
- The Definitive Notes for the Class A Notes, the Class B Notes and the Class C Notes will (if issued) be in bearer form in minimum denominations of £50,000.
- Status and Ranking:** Each class of Notes will be constituted by the Trust Deed and will be secured by the Issuer Security created under the Issuer Deed of Charge.
- The Notes will constitute secured, direct, unconditional and (other than between different classes of Notes) unsubordinated obligations of the Issuer.
- The obligations of the Issuer in respect of the Notes will rank in the following order in point of security and as to payments of interest:
- (a) *first, pro rata* and *pari passu* without preference amongst themselves, the Class A Notes;
  - (b) *second, pro rata* and *pari passu* without preference amongst themselves, the Class B Notes; and
  - (c) *third, pro rata* and *pari passu* without preference amongst themselves, the Class C Notes.
- The Issuer's obligations to make payments under the Liquidity Facility Agreement (other than Liquidity Subordinated Amounts) will rank ahead of its obligations in respect of the Notes.
- The Issuer's obligation to make payments under the Hedge Agreements (other than Hedge Subordinated Amounts) will rank ahead of its obligations in respect of the Class B Notes and Class C Notes, and prior to the delivery of a Note Enforcement Notice, ahead of its obligations to pay principal in respect of the Class A Notes.
- Prior to the delivery of a Note Enforcement Notice by the Note Trustee, payments of interest in respect of each class of Notes will be made in accordance with the Issuer Pre-Enforcement Priority of Payments.
- Prior to the Final Maturity Date and to the extent that the Class B Notes or the Class C Notes, as the case may be, are not at such time the then Most Senior Class of Notes then outstanding, the holders of the Class B Notes or the Class C Notes, as the case may be, will be entitled to receive payments of interest on their Notes on any Payment Date only to the extent that the Issuer has funds available for such purpose after

making payment on such Payment Date of any liabilities ranking in priority to the Class B Notes or the Class C Notes respectively.

In such circumstances, any interest on any Class B Notes and/or Class C Notes not paid on a Payment Date will itself accrue interest and will be paid to the holders of the Class B Notes and/or the Class C Notes respectively, on subsequent Payment Dates to the extent the Issuer has funds available for such purpose after paying in full on such Payment Date all payments ranking in priority thereto as aforesaid.

Prior to the Final Maturity Date (or such earlier date on which the Notes become immediately due and repayable in accordance with the Conditions), the non-payment of any interest of any class or classes of Notes ranking below the Most Senior Class of Notes then outstanding shall not constitute a Note Event of Default.

Prior to the delivery of a Note Enforcement Notice by the Note Trustee, the obligations of the Issuer in respect of principal payments on each class of Notes will be met in the manner described in "*Key Characteristics of the Notes — Final Redemption*", "*Key Characteristics of the Notes — Scheduled Redemption in Part upon Scheduled Repayment of the Loans*", "*Key Characteristics of the Notes — Early Mandatory Redemption in Whole or in Part upon Prepayment of the Loans*", "*Key Characteristics of the Notes — Substitution/Redemption in Whole for Taxation and Other Reasons*", "*Key Characteristics of the Notes — Mandatory Redemption following Loan Enforcement Notice*", "*Key Characteristics of the Notes — Redemption in Whole or in Part upon Novation of the Loans by the Issuer to the Original Lenders or Indemnity by the Original Lenders to the Issuer under the Loan Novation Agreement*" below and as more particularly described in Condition 7 (*Redemption and Cancellation*).

The non-payment of any principal in respect of the Most Senior Class of Notes then outstanding when due in accordance with Condition 7 (*Redemption and Cancellation*) shall, subject to expiry of the applicable grace periods, constitute a Note Event of Default.

***Security for the Notes and Other Secured Obligations:***

The Notes will be secured by first ranking security created pursuant to the Issuer Deed of Charge (the "**Issuer Security**"). The Note Trustee will hold the benefit of the Issuer Security on trust for itself, the Noteholders, any Receiver appointed under the Issuer Deed of Charge, the Issuer Account Bank, the Issuer/Holdings Corporate Services Provider, the Issuer Cash Manager, the Liquidity Facility Provider, the Hedge Counterparties, the Paying Agents, the Borrower (in relation to the Hedge Termination Receipts payable by the Issuer in accordance with the Facility Agreement) and such other creditor or creditors who may be a party to, or accede to, the Issuer Deed of Charge from time to time in accordance with the terms thereof and is designated as an Issuer Secured Creditor (the "**Issuer Secured Creditors**").

The Issuer Deed of Charge will create first ranking security interests over, amongst other things, the Issuer's rights, interest and benefit in the Issuer Transaction Documents (other than the Trust Documents), its rights, interest and benefit in respect of the Issuer Transaction Account and any bank or other accounts in which the Issuer may at any time acquire a benefit and its right, interest and benefit in the Borrower Transaction Documents and each Authorised Investment.

The Notes will also be secured in favour of the Note Trustee (on behalf of itself and the Issuer Secured Creditors) by a first ranking floating charge over all of the Issuer's undertaking and all its property, assets and rights whatsoever and wheresoever situated, present and future, including its uncalled capital.

Upon the delivery of a Note Enforcement Notice by the Note Trustee, payments in respect of each class of Notes will rank in accordance with the Issuer Post-Enforcement Priority of Payments.

For a more detailed description of the provisions of the Issuer Deed of Charge, including the Issuer Post-Enforcement Priority of Payments, see "*Description of the Issuer Transaction Documents – Issuer Deed of Charge*" and Condition 12 (*Enforcement*).

***Conflicts of Interest Among Noteholders:***

The Trust Deed contains provisions requiring the Note Trustee to have regard to, unless otherwise provided, the interests of the holders of the Class A Notes (the "**Class A Noteholders**"), the holders of the Class B Notes (the "**Class B Noteholders**") and the holders of the Class C Notes (the "**Class C Noteholders**" and, together with the Class A Noteholders and the Class B Noteholders, the "**Noteholders**") as if they formed a single class. Where, however, in the opinion of the Note Trustee there is a conflict between the interests of any of the Class A Noteholders, the Class B Noteholders and the Class C Noteholders, the Note Trustee shall give priority to the interests of the holders of the Most Senior Class of Notes then outstanding. If a conflict exists between the interests of the Noteholders and the interests of the other Issuer Secured Creditors, the Note Trustee is required to have regard solely to the interests of the Noteholders and no other Issuer Secured Creditor shall have any claim against the Note Trustee for so doing.

***Payment Dates and Interest Periods:***

Interest on the Notes is payable by reference to successive interest periods (each, an "**Interest Period**"). Interest on the Notes will be payable in arrear in Sterling in respect of the aggregate Principal Amount Outstanding of each such class of Notes, in each case, on 19<sup>th</sup> January, 19<sup>th</sup> April, 19<sup>th</sup> July and 19<sup>th</sup> October in each year (subject to adjustment as specified in Condition 6(b) (*Interest – Payment Dates and Interest Periods*) for non-Business Days) (each, a "**Payment Date**").

Each successive Interest Period will commence on (and include) a Payment Date and end on (but exclude) the following Payment Date, except that the first Interest Period in respect of the Notes will commence on (and include) the Closing Date and end on (but exclude) the Payment Date falling in July 2006.

***Interest on the Notes:***

Interest on the Notes will accrue on their Principal Amount Outstanding at a rate equal to:

- (a) in respect of the Class A Notes, 4.791 per cent. per annum;
- (b) in respect of the Class B Notes, 4.774 per cent. per annum; and
- (c) in respect of the Class C Notes, 4.896 per cent. per annum.

***Withholding Tax:***

All payments of principal and interest in respect of the Notes shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future Taxes unless such withholding or deduction is required by applicable law.

Neither the Issuer nor any other person will be obliged to pay any additional amounts to Noteholders (or, if Definitive Notes are issued, Couponholders and/or Receiptholders) in respect of any amounts required to be withheld or deducted as described above.

***Final Redemption:***

Unless previously redeemed in full, the Notes will be redeemed at their Principal Amount Outstanding on the Payment Date falling in April 2036 (the "**Final Maturity Date**"), together with accrued but unpaid interest on the Principal Amount Outstanding of such Note up to but excluding the Final Maturity Date.

***Scheduled Redemption in Part upon Scheduled Repayment of***

Prior to the relevant Expected Maturity Date, the Notes will be subject to scheduled redemption in part on certain Payment Dates falling in and

*the Loans:*

after July 2006, in amounts in accordance with the amortisation schedule set out in Condition 7(b) (*Redemption and Cancellation - Scheduled Redemption in Part upon Scheduled Repayment of the Loans*).

***Early Mandatory Redemption in Whole or in Part upon Prepayment of the Loans:***

Under the terms of the Facility Agreement, the Borrower is permitted and, in some circumstances, required, to prepay the Loans (see "*Description of the Borrower Transaction Documents – The Facility Agreement - Prepayment and Cancellation*" and "*Description of the Borrower Transaction Documents – The Facility Agreement – Mandatory Prepayment*").

Prior to delivery of a Note Enforcement Notice, the Issuer shall apply a principal amount equal to the amount by which the corresponding amount of the Loans under the Facility Agreement is prepaid towards redemption of the relevant class of Notes (including, if applicable, any premium payable on the Notes in accordance with Condition 7 (*Redemption and Cancellation*)) in order of seniority commencing with the Most Senior Class of Notes then outstanding. Such redemption of the Notes will be made on the Payment Date on which such prepayment was made.

Any Note to be wholly or partly redeemed will, following a prepayment of the Loans, be redeemed at the relevant Redemption Amount (including, if applicable, any premium) together with accrued but unpaid interest on the Principal Amount Outstanding of such Note up to but excluding the Payment Date on which such redemption occurs. In the event of a redemption (in whole or part) of the Notes, a corresponding portion of the Hedge Transactions will terminate and a termination payment may be due to the Hedge Counterparties.

***Substitution/Redemption in Whole for Taxation and Other Reasons:***

In the event that the Issuer satisfies the Note Trustee that by reason of a change in law (or the application or official interpretation thereof):

- (a) it would be required to make any withholding or deduction for or on account of any United Kingdom Taxes from payments in respect of the Notes (although the Issuer will not have any obligation to pay additional amounts in respect of such withholding or deduction);
- (b) it or a Hedge Counterparty would be required to make any withholding or deduction for or on account of any Taxes from payments in respect of the Hedge Agreements; or
- (c) it has or will become unlawful for the Issuer to perform any of its obligations under the Facility Agreement or to fund or to maintain its participation in the Loans,

the Issuer will be obliged to use its reasonable endeavours to mitigate the effects of these events, including, in the case of the events described in paragraphs (a) and (b) above by arranging, without limitation, for the substitution of a company incorporated in an alternative jurisdiction (approved in writing by the Note Trustee and subject to the satisfaction of the Ratings Test) as principal debtor under the Notes and in respect of the other Issuer Secured Liabilities and as Lender under the Facility Agreement.

If the Issuer is, upon the occurrence of any such events described in paragraphs (a), (b) and (c) above, unable to mitigate or arrange a substitution or if mitigation or substitution would not avoid the relevant circumstances and, if in relation to the events described in paragraph (c) only, the Issuer has notified the Borrower that the commitment of the Issuer under the Facility Agreement is cancelled thereby obliging the Borrower to repay the Loans, the Issuer shall, in accordance with the provisions of Condition 7(d) (*Redemption and Cancellation - Substitution/Redemption in Whole for Taxation and Other Reasons*),



redeem (without premium or penalty) all (but not some only) of the Notes at their Principal Amount Outstanding together with accrued but unpaid interest.

***Mandatory Redemption following Loan Enforcement Notice:***

The Issuer shall, in accordance with Condition 7(f) (*Redemption and Cancellation - Mandatory Redemption following Loan Enforcement Notice*), apply the monies received from the Obligors to redeem the Principal Amount Outstanding of the Notes then outstanding in order of seniority commencing with the Most Senior Class of Notes then outstanding together with all accrued but unpaid interest thereon.

***Redemption in Whole or in Part upon Novation of the Loans by the Issuer to the Original Lenders or Indemnity by the Original Lenders to the Issuer under the Loan Novation Agreement:***

The Issuer shall, in accordance with Condition 7(f) (*Redemption and Cancellation - Redemption in Whole or in Part upon Novation of the Loans by the Issuer to the Original Lenders or Indemnity by the Original Lenders to the Issuer under the Loan Novation Agreement*), apply amounts equal to the consideration received (other than amounts received in respect of accrued but unpaid interest) following the acceptance of novation by the Original Lenders of any interest in the Loans and/or in respect of any payment received by way of indemnity from the Original Lenders, in each case pursuant to the terms of the Loan Novation Agreement, to redeem the Principal Amount Outstanding of the Notes then outstanding in order of seniority commencing with the Most Senior Class of Notes then outstanding.

***General Right of Substitution of the Issuer:***

If any of the events listed in Conditions 7(d)(i) and 7(d)(ii) (*Redemption and Cancellation - Substitution/Redemption in Whole for Taxation and Other Reasons*) is subsisting, the Note Trustee may agree to the substitution of another body corporate in place of the Issuer as principal debtor under the Notes and in respect of the other Issuer Secured Liabilities and as Lender under the Facility Agreement, subject to (i) the Notes being unconditionally and irrevocably guaranteed by the Issuer (unless all or substantially all of the assets of the Issuer are transferred to such body corporate) (ii) such body corporate being a single purpose vehicle and undertaking itself to be bound by the covenants applying to the Issuer under the Trust Deed and its obligations under the Facility Agreement and (iii) satisfaction of the Ratings Test in respect of such proposed substitution.

***Further Notes, New Notes and Replacement Notes:***

The Issuer will be entitled (but not obliged) at its option at any time and from time to time, without the consent of the Noteholders, to raise further funds by the creation and issue of:

- (a) further notes in respect of any class of Notes (the "**Further Notes**") each of which will be in bearer form and carry the same terms and conditions in all respects (save as to the first Interest Period, the first Payment Date and the initial principal amount outstanding) as, and so that the same shall be consolidated and form a single series and rank *pari passu* with, the relevant class of Notes; and/or
- (b) further notes of a new class (the "**New Notes**") which will be in bearer form and which may rank *pari passu* with, ahead of or after any class of Notes then in issue and may carry terms that differ from any of the Class A Notes, the Class B Notes and the Class C Notes and do not form a single series with any of them; and/or
- (c) replacement notes of a new class (the "**Replacement Notes**") which will be in bearer form and which may replace some or all of the existing Notes and/or rank *pari passu* with, ahead of or after any class of Notes then in issue and may carry terms that differ from any of the Class A Notes, the Class B Notes and the

Class C Notes and do not form a single series with any of them.

It shall be a condition precedent to the issue of any Further Notes, any New Notes or any Replacement Notes that, among other things:

- (i) the Rating Agencies confirm in writing to the Note Trustee that any Further Notes, New Notes or, as the case may be, Replacement Notes ranking *pari passu* with any class of Notes are assigned the same ratings as the then current ratings of the class of Notes with which they rank *pari passu*;
- (ii) the Rating Agencies confirm in writing to the Note Trustee that the then current ratings of the Notes then outstanding will not adversely be affected by the proposed issue of Further Notes, the New Notes or, as the case may be, the Replacement Notes; and
- (iii) the Issuer and the Note Trustee are satisfied that the Loan to Value Ratio shall be (i) 56 per cent. or less upon utilisation of the Additional Facility and purchase of the additional Properties to be acquired by the Borrower in connection with such Additional Facility or (ii) 50 per cent or less upon utilisation of the Additional Facility where, in connection with such utilisation, the Borrower does not, and is not required to, purchase additional Properties.

For a more detailed description of the conditions precedent to the issue of Further Notes, New Notes and Replacement Notes, see Condition 19 (*Further Notes, New Notes and Replacement Notes*).

***Purchases:***

The Issuer may not purchase the Notes. The Obligors may purchase the Notes but only to the extent that the relevant Obligor is permitted to do so by the Facility Agreement.

***Ratings:***

The ratings expected to be assigned to each class of Notes are set out in "*Principal Characteristics of the Notes*" above.

*A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation and each security rating should be evaluated independently of any other rating, and amongst other things, will depend on the performance of the business of the Borrower from time to time.*

***Listing:***

Application has been made to the Irish Financial Services Regulatory Authority, in its capacity as competent authority under the Prospectus Directive, for the Prospectus to be approved. Application has been made to the Irish Stock Exchange for the Notes of each class to be admitted to the Official List and trading on its regulated market.

***Selling Restrictions:***

There are restrictions on the sale of the Notes and on the distribution of information in respect thereof. See "*Subscription and Sale*".

***Transfer Restrictions:***

Subject to applicable laws and regulations, there are no transfer restrictions in respect of the Notes.

***Governing Law:***

The Notes and the Issuer Transaction Documents will be governed by English law.

## **RISK FACTORS**

*The following is a summary of certain aspects of the Notes, the Issuer and the related transactions about which prospective purchasers of the Notes should be aware. Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this Prospectus, including the investment considerations detailed below. This summary is not intended to be exhaustive, and prospective purchasers of the Notes should make their own independent evaluations of all investment considerations and should also read the detailed information set out elsewhere in this Prospectus prior to making an investment decision.*

### **Considerations Related to the Notes**

#### ***Liability Under the Notes***

The Issuer is the only entity responsible for making any payments on the Notes. The Notes will be obligations of the Issuer only and will not be obligations or responsibilities of, or guaranteed by, any other person or entity. In particular, the Notes will not be obligations or responsibilities of, and will not be guaranteed by, any of the Joint Arrangers, the Joint Lead Managers, the Original Lenders, Sainsbury's or any subsidiary of Sainsbury's, the Note Trustee, the Issuer Share Nominee, the Holdings Share Trustee, the Paying Agents, the Liquidity Facility Provider, the Issuer Account Bank, the Issuer/Holdings Corporate Services Provider, the Issuer Cash Manager, the Hedge Counterparties, the Borrower Security Trustee, the Borrower Account Bank, the Borrower, the Subordinated Loan Provider or any other party to the Issuer Transaction Documents or the Borrower Transaction Documents or any person affiliated with them (other than the Issuer).

Furthermore, no person other than the Issuer will accept any liability whatsoever to the Noteholders in respect of any failure by the Issuer to pay any amount due under the Notes.

#### ***Limited Resources***

The Issuer is a special purpose financing entity with no business operations other than the issue of the Notes, the entering into of the Issuer Transaction Documents and the transactions ancillary thereto.

The ability of the Issuer to meet its obligations under the Notes and its ability to pay its operating and administrative expenses will depend on the receipt by it of funds from the Borrower under the Loans (see "*Considerations Related to the Borrower – The Borrower's Ability to Meet its Obligations in Respect of the Loans*"), payments from the Hedge Counterparties under the Hedge Transactions and the receipt of interest from the Issuer Transaction Account. The ability of the Borrower to meet its obligations under the Facility Agreement will depend primarily on the receipt by it of rent from the Occupational Tenant under the Occupational Leases of the Properties and the receipt of interest from the relevant Borrower Account. In the event that timely payments by the Borrower under the Loans are not made in full, the Issuer may also have available to it (subject to the satisfaction of the conditions for advances) advances under the Liquidity Facility Agreement to make payments of interest and principal on the Notes and payments of amounts ranking in priority thereto. See "*Description of the Issuer Transaction Documents – Liquidity Facility Agreement*".

Other than the foregoing, prior to enforcement of the Borrower Security, the Issuer will not have any other funds available to it to meet its obligations under the Notes and its obligations ranking in priority to, or *pari passu* with, the Notes. If the resources described above cannot provide the Issuer with sufficient funds to enable the Issuer to make the required payments on the Notes, the Noteholders may incur a loss of interest and/or principal which would otherwise be paid in accordance with the terms of the Notes.

If, on default by the Borrower and following the exercise of all available remedies in respect of the Loans and the Borrower Security, the Issuer does not receive the full amount due from the Borrower, then the Noteholders (or the holders of certain classes of Notes) may receive on redemption an amount less than the face value of their Notes and the Issuer may be unable to pay in full, interest due on the Notes. The Issuer does not guarantee or warrant full and timely payment by the Borrower of any sums.

#### ***Absence of Secondary Market; Limited Liquidity***

Application has been made to the Irish Financial Services Regulatory Authority, in its capacity as competent authority under Directive 2003/71/EC, for the Prospectus to be approved. Application has been made to the Irish Stock Exchange for the Notes of each class to be admitted to the Official List and trading on its regulated market. However, the Notes will be new securities for which there is no established trading market. There can be no assurance that a secondary market in the Notes will develop or, if it does develop, that it will provide holders of the Notes with liquidity of investment, or that it will continue for the life of the

Notes. Consequently, prospective purchasers of the Notes should be aware that they may have to hold the Notes until their maturity. In addition, the market value of the Notes may fluctuate with changes in prevailing rates of interest, market perceptions of the risks associated with the Notes, supply and other market conditions. Consequently, any sale of Notes by Noteholders in any secondary market which may develop may be at a discount to the original purchase price of such Notes.

### ***Ranking of the Notes***

Payments of interest on each class of Notes will rank *pari passu* between themselves and before repayments of principal thereon. Scheduled repayments of principal on each class of Notes will rank *pari passu* between themselves. Scheduled repayments of principal and scheduled payments of interest on the Class A Notes will be made both prior to and following the delivery by the Note Trustee of a Note Enforcement Notice to the Issuer in priority to scheduled repayments of principal and payments of scheduled interest on the Class B Notes and the Class C Notes. Scheduled repayments of principal and scheduled payments of interest on the Class B Notes will be made both prior to and following the delivery by the Note Trustee of a Note Enforcement Notice to the Issuer in priority to scheduled repayments of principal and payments of scheduled interest on the Class C Notes. Scheduled repayments of principal and scheduled payments of interest on each class of Notes will rank subordinate to, among other things, payments of fees, remuneration and expenses to certain third parties and other amounts to be paid in priority thereto.

### ***Yield and Prepayment Considerations***

The yield to maturity of the Notes of each class will depend on, amongst other things, the amount and timing of repayment and prepayment of principal (including prepayments from, *inter alia*, sale proceeds arising from a disposal of a Property where the Borrower has chosen, or been required, to apply those sale proceeds towards prepayment of the Loans) on the Loans and the price paid by the holders of the Notes. Such yield may be adversely affected by a higher or lower than anticipated rate of prepayment on the Loans.

The rate of prepayment of the Loans cannot be predicted and will be influenced by a wide variety of economic and other factors, including prevailing interest rates, the buoyancy of the property market, the availability of alternative financing and local and regional economic conditions. Therefore, no assurance can be given as to the level of prepayment that will be experienced.

### ***Ratings of the Notes***

Moody's ratings address the risk of expected loss in proportion to the initial principal amount of each Class of Notes posed to any Noteholder by the Final Maturity Date. The ratings assigned by S&P address the likelihood of timely receipt by any Noteholder of interest and scheduled principal of the Class A Notes and Class B Notes and the likelihood of ultimate receipt by the Class C Noteholders of principal on the Class C Notes by the Final Maturity Date. There is no assurance that any such ratings will continue for any period of time or that they will not be reviewed, revised, suspended or withdrawn entirely by the Rating Agencies as a result of changes in, or unavailability of, information or if, in the Rating Agencies' judgement, circumstances so warrant.

Rating agencies other than the Rating Agencies could seek to rate the Notes and if such "**unsolicited ratings**" are lower than the comparable rating assigned to the Notes by the Rating Agencies, such shadow ratings could have an adverse effect on the value of the Notes.

For the avoidance of doubt and unless the context otherwise requires, any references to "**ratings**" or a "**rating**" in this Prospectus are to ratings assigned by the Rating Agencies only. Future events, including events affecting the Properties and/or the commercial property market generally, could have an adverse impact on the ratings of the Notes.

In addition, where a particular matter (including the determination of material prejudice by the Borrower Security Trustee or the Note Trustee) involves the Rating Agencies being requested to confirm the then current ratings of the Notes, such confirmation may or may not be given at the sole discretion of the Rating Agencies. It should be noted that, depending on the timing of delivery of the request and any information needed to be provided as part of any such request, it may be the case that the Rating Agencies cannot provide their confirmation in the time available or at all, and they will not be responsible for the consequences thereof.

Confirmation, if given, will be given on the basis of the facts and circumstances prevailing at the relevant time, and in the context of cumulative changes to the transaction of which the Notes form part since the Closing Date. A confirmation of ratings represents only a restatement of the opinions given at the Closing

Date, and cannot be construed as advice for the benefit of any parties to the transaction or as confirmation that an event or amendment is in the best interest of, or not materially prejudicial to the interests of, the Noteholders. No assurance can be given that a requirement to seek a ratings confirmation will not have a subsequent impact upon the business of the Issuer.

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or suspension.

### ***The Issuer's Reliance on Third Parties***

The Issuer is a party to contracts with a number of third parties who have agreed to perform certain services in relation to, *inter alia*, the Notes. For example, the Liquidity Facility Provider has agreed to provide the Liquidity Facility, the Hedge Counterparties have agreed to enter into the Hedge Agreements, the Issuer/Holdings Corporate Services Provider has agreed to provide various corporate services to the Issuer and the Issuer Cash Manager and the Paying Agents have agreed to provide, *inter alia*, payment, administration and calculation services in connection with the Notes. In the event that any relevant third party fails to perform its obligations under the respective agreements to which it is a party, the Noteholders may be adversely affected.

### ***Monitoring of compliance with representations, warranties and covenants and the occurrence of a Loan Event of Default or Loan Default***

The Facility Agreement will provide that the Borrower Security Trustee will be entitled to assume, unless it is otherwise disclosed in any investor report or compliance certificate thereunder or the Borrower Security Trustee is expressly informed otherwise by the Borrower, that no Loan Event of Default or Loan Default has occurred which is continuing. The Borrower Security Trustee will not itself monitor whether any such event has occurred but will (unless expressly informed to the contrary by the Borrower) rely on certificates delivered under the Facility Agreement to determine whether a Loan Event of Default or Loan Default has occurred. For further details concerning Loan Events of Default or Loan Potential Events of Default, see "*Description of Borrower Transaction Documents — The Facility Agreement*" below.

Moreover, as the Issuer is a special purpose company, it will not, nor does it possess the resources to, actively monitor whether a Loan Event of Default or a Loan Default has occurred, including, for this purpose, the continued accuracy of the representations and warranties made by the Obligor and compliance by the Obligor with their covenants and undertakings.

The Facility Agreement will require the Borrower to inform the Issuer and the Borrower Security Trustee of the occurrence of any Loan Event of Default and Loan Default promptly upon becoming aware of the same. In addition, the Borrower is required to confirm in each compliance certificate delivered thereunder (each of which will be delivered to, among other recipients, the Borrower Security Trustee) whether or not any Loan Event of Default or Loan Potential Event of Default has occurred (and, if one has, what action is being or proposed to be, taken to remedy it).

The occurrence of a Loan Event of Default under the Facility Agreement will entitle the Borrower Security Trustee to pursue any of the courses of action available to it, as set out under the section entitled "*Description of Borrower Transaction Documents — The Facility Agreement*" below.

Notwithstanding the above, in certain circumstances, the Properties held by the Borrower will be subject to independent review by the Property Adviser. For further details as to the role of the Property Adviser, see the section entitled "*Substitutions of Properties*" below.

### ***Priority of Issuer Secured Creditors***

In the event that the Issuer Security is enforced, the proceeds of such enforcement may be insufficient, after payment of amounts ranking in priority to the Notes, to pay in full, all amounts of principal and interest (and any other amounts) due in respect of the Notes.

Although the Note Trustee will hold the benefit of the Issuer Security created under the Issuer Deed of Charge on trust for, *inter alios*, the Noteholders, such Issuer Security will also be held on trust for certain other third parties whom or which will rank ahead of the Noteholders.

### ***Hedging Risks***

The interest and principal amounts the Issuer receives under the Facility Agreement are subject to annual uplifts related to the rate of inflation prevailing in the United Kingdom.

The process of uplifting the interest payments and the principal amount of the Facility Agreement is referred to as "**Indexation**", with such uplifts being made (subject to a cap and a floor) by reference to the RPI, being an index based upon the annual rate of inflation prevailing in the United Kingdom from time to time. The interest and principal payable on the Notes are not, however, subject to Indexation. Therefore, the Issuer is exposed to a mismatch between receiving payments under the Facility Agreement which are adjusted for Indexation and having to make payments under the Notes which are not adjusted for Indexation. This mismatch may have an adverse effect on the ability of the Issuer to make payments of interest and repayments of principal with respect to the Notes if the amount due to be received under the Facility Agreement is less than the amount due under the Notes. In order to protect the Issuer against this risk (the "**Indexation Risk**") the Issuer will enter into the Hedge Agreements with the Hedge Counterparties.

The Issuer will enter into the Hedge Agreements in order to mitigate its exposure to Indexation Risk. However, there can be no assurance that the Hedge Agreements will adequately address unforeseen hedging risks. Moreover, in certain circumstances, the Hedge Transactions may be terminated and, as a result, the Issuer may be unhedged with respect to Indexation Risk if one or more appropriate replacement hedge transactions cannot be entered into. In particular, Noteholders may suffer a loss if, as a result of a default by the Borrower under the Facility Agreement, the Hedge Agreements are terminated and the Issuer is, as a result of such termination, required to pay a termination payment to a Hedge Counterparty. Certain of such amounts payable on an early termination rank *pari passu* with any interest payment under the Class A Notes and senior to any other payments to be made to the Noteholders before delivery of a Note Enforcement Notice and, after the delivery of a Note Enforcement Notice, *pari passu* with any interest and principal payment under the Class A Notes and senior to any other payments to be made to the Noteholders. See "*Issuer Pre-Enforcement Priority of Payments*" and "*Issuer Post-Enforcement Priority of Payments*".

For a more detailed description of the Hedge Agreements see "*Description of the Issuer Transaction Documents - Hedge Agreements*" below.

#### ***Subordination of the Class B Notes and the Class C Notes***

Payments of principal and interest on the Class A Notes will be made in priority to payments of principal and interest on the Class B Notes and the Class C Notes. Payments of principal and interest on the Class B Notes will be made in priority to payments of principal and interest on the Class C Notes.

If, on any Payment Date prior to the Final Maturity Date or such earlier date as the Notes become immediately due and repayable under the Conditions, the Issuer has insufficient Available Issuer Income (including any funds available to be drawn for that purpose under the Liquidity Facility Agreement) to make payment in full of interest due on any class or classes of Notes ranking below the Most Senior Class of Notes then outstanding, then the Issuer will be entitled (under Condition 18 (*Subordination and Deferral of Interest*)), to defer payment of that amount (to the extent of the insufficiency) until the following Payment Date. Such deferral of interest (other than in respect of the Most Senior Class of Notes then outstanding) will not constitute a Note Event of Default pursuant to Condition 11 (*Note Events of Default*).

#### ***Withholding Tax in Respect of the Notes***

In the event that any withholding or deduction for or on account of tax is required to be made from payments in respect of the Notes (as to which, in relation to United Kingdom tax, see "*United Kingdom Taxation*"), neither the Issuer nor any other person will be obliged to pay any additional amounts to Noteholders or, if Definitive Notes are issued, Couponholders and/or Receiptholders or to otherwise compensate Noteholders or Couponholders and/or Receiptholders for the reduction in the amounts they will receive as a result of such withholding or deduction. If such a withholding or deduction is required to be made for or on account of any United Kingdom Tax, the Issuer shall use its reasonable endeavours to mitigate the effects of such withholding or deduction. If the Issuer is unable to mitigate effectively or if to do so would not avoid such withholding or deduction then on any Payment Date pursuant to and in accordance with Condition 7(d) (*Redemption and Cancellation - Substitution/Redemption in Whole for Taxation and Other Reasons*) the Issuer may redeem (without premium or penalty) all (but not some only) of the Notes (in each case) at their Principal Amount Outstanding, together with accrued but unpaid interest on the Principal Amount Outstanding of the relevant classes of Notes up to (but excluding) the Payment Date on which such redemption occurs.

#### ***EU Savings Directive***

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual

resident in that other Member State. However, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within their respective jurisdictions to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts to the Noteholders or to otherwise compensate Noteholders for the reduction in the amounts that they will receive as a result of the imposition of such withholding tax. However, the Issuer is required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the directive (if such a state exists).

#### ***Certain Decisions by the Note Trustee***

The Trust Deed contains provisions which determine the rights of and the resolution procedures regarding conflicts of interest between the Noteholders. The Trust Deed also grants the Note Trustee certain powers regarding, *inter alia*, modification, waiver or authorisation of any breach or proposed breach by the Issuer of its obligations under the Notes or any of the Issuer Transaction Documents, subject to certain limitations.

The Note Trustee will be entitled to agree, without the consent of the Noteholders, the Couponholders, the Receiptholders or any other Issuer Secured Creditors, with the Issuer and any other Issuer Secured Creditors which are party to any relevant Issuer Transaction Document which is the subject of any such proposed modifications to make any modification to the Conditions, the Trust Documents (other than, in the case of (a), (b) and (d) below, in respect of a Basic Terms Modification), the Notes or the other Issuer Transaction Documents to which it is a party or over which it has security, or may give its consent to any event, matter or thing, if (a) in its opinion, the interests of the Noteholders would not be materially prejudiced thereby; (b) in relation to any modification, it is required or permitted, subject to the satisfaction of specified conditions under the terms of the Conditions or the Issuer Transaction Documents provided such conditions are satisfied; (c) in relation to any modification, if in its opinion, it is required to correct a manifest error or an error in respect of which an English Court could reasonably be expected to make a rectification order or is of a formal, minor, administrative or technical nature or is necessary or desirable for the purposes of clarification; or (d) in relation to any modification or waiver in relation to which the relevant provision of the applicable Issuer Transaction Document permits the Note Trustee to give its consent subject to the satisfaction of the Ratings Test, the Ratings Test is satisfied.

In determining whether the exercise of any right, power, trust, authority, duty or discretion by it under or in relation to the Conditions and/or any of the Issuer Transaction Documents is materially prejudicial to the interests of the Noteholders (or any class thereof), the Note Trustee may take into account, if available, amongst any other things it may consider necessary and/or appropriate in its absolute discretion, confirmation from the Rating Agencies that the Ratings Test will be satisfied. For the avoidance of doubt, such confirmation or the absence of such confirmation shall, however, not of itself be construed to mean that any such exercise (or contemplated exercise) by the Note Trustee of any right, power, trust, authority, duty or discretion under or in relation to the Conditions or any of the Issuer Transaction Documents is not materially prejudicial to the interest of holders of that class of Notes.

#### **Considerations Related to the Borrower**

##### ***Borrower Default***

The obligations of the Borrower are not insured or guaranteed by the Issuer or any of the Other Parties.

Amounts received on enforcement of the Borrower Security, including proceeds of any sale or other disposal of the Properties, could be insufficient to meet the Borrower's obligations under the Facility Agreement in full, in which case Noteholders may ultimately suffer a loss.

### ***The Borrower's Ability to Meet its Obligations under the Facility Agreement***

The Borrower's ability to meet its obligations to pay interest, principal and other amounts under the Facility Agreement will ultimately be dependent on the performance of the Properties and, in particular, the payment by the Occupational Tenant, any undertenant or any assignee(s) of the Occupational Tenant of rents pursuant to the Occupational Leases or payments by the Lease Guarantor under the Occupational Lease. There is a risk that the Occupational Tenant may be unable to meet its rental obligations and that the Lease Guarantor may be unable to meet its obligations under the Occupational Lease. (See "*Dependence on Occupational Tenant and Lease Guarantor*" below).

### ***Certain Decisions by the Borrower Security Trustee***

The Borrower Debenture grants the Borrower Security Trustee certain powers regarding, *inter alia*, modification, waiver or authorisation of any breach or proposed breach by the Borrower under any of the Borrower Transaction Documents, subject to certain limitations.

The Borrower Security Trustee will be entitled to agree, without the consent of any Borrower Secured Creditor, with the Borrower and any other relevant party to any of the Borrower Transaction Documents in making any modification to the Borrower Transaction Documents to which it is a party or over which it has security, or may give its consent to any event, matter or thing, if (a) in its opinion, the interests of the Issuer would not be materially prejudiced thereby; (b) in its opinion it is required to correct a manifest or demonstrable error or is of a formal, minor, administrative or technical nature or is necessary or desirable for the purposes of clarification; (c) it is required or permitted, subject to the satisfaction of specified conditions, under the terms of any Borrower Transaction Document and such conditions are satisfied; or (d) in relation to any modification or waiver in relation to which the relevant provision of the applicable Borrower Transaction Document permits the Borrower Security Trustee to give its consent subject to the satisfaction of the Ratings Test, the Ratings Test is satisfied.

In circumstances where the Borrower Security Trustee is not in a position to exercise its rights, powers or discretion or to take any action to be taken by it, the Borrower Security Trustee may refer to the Note Trustee, who shall be entitled, acting in accordance with the Trust Deed to instruct the Borrower Security Trustee as to the exercise of such rights, powers or discretion or the taking of such action. In such circumstances neither the Note Trustee nor the Borrower Security Trustee shall be liable to any person for any delay in exercising any right, power or discretion or in taking any action required to be exercised or taken by it.

### ***Enforcement***

If a Loan Event of Default occurs, the Note Trustee (as assignee of the Issuer's rights under the Facility Agreement pursuant to the Issuer Deed of Charge) may, at its discretion, or shall, if so requested in writing by the holders of at least 25 per cent. of the Principal Amount Outstanding of the Most Senior Class of Notes then outstanding or if so directed by an Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding, accelerate the Loans and direct the Borrower Security Trustee to enforce the Borrower Security, provided that, in any such case, both the Note Trustee and the Borrower Security Trustee shall first have been indemnified and/or secured to their satisfaction against all Liabilities to which they may thereby become liable or which they may incur by so doing.

The Borrower Security Trustee and/or any receiver appointed by it, in exercising its power of sale over a Property will have a duty to the Borrower to take reasonable care to obtain a proper price. Any failure to do so will put the Borrower Security Trustee at risk of an action by the Borrower for breach of duty, although it is for the Borrower in such circumstances to prove such a breach of duty has occurred. The Borrower may also take Court action to attempt to force the Borrower Security Trustee to sell the Property within a reasonable time. A mortgagee in possession will have an obligation to account to the Borrower for the income obtained from the Property, will be liable for any damage to the Property, will have a limited liability to repair the Property and, in certain circumstances, may be obliged to make improvements or incur financial liabilities in respect of the Property. A mortgagee in possession may also be liable to an Occupational Tenant for any mis-management of the relevant property and may incur liabilities to third parties in nuisance and negligence and, under certain statutes (including environmental legislation), the liabilities of a property owner.

Neither the Note Trustee nor the Borrower Security Trustee is obliged to take action under the Borrower Transaction Documents in respect of a Loan Default or the Borrower Security, unless it is satisfied at that time that it is indemnified and/or secured to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing. Protection or enforcement of the Borrower Security



may be delayed as a result.

### ***Enforcement Remedies***

In the event of the occurrence of a Loan Event of Default under the Facility Agreement, recourse will be to the assets of the Borrower only, being to the Properties, insurance proceeds, rents, contractual rights (including against the Lease Guarantor under the Occupational Lease) and bank accounts of the Borrower charged as security to the Borrower Security Trustee and to the shares of the Borrower held by the Borrower Parent and charged to the Borrower Security Trustee. There can be no assurance that the Borrower Security Trustee would recover upon enforcement of such security amounts sufficient to discharge all sums then outstanding under the Facility Agreement. Accordingly, sufficient funds may not be realised or available to make all required payments to the Issuer (or following the delivery of a Note Enforcement Notice, the Note Trustee) and in turn the Noteholders.

### ***Security over Control Accounts***

The Borrower will, in accordance with the terms of the Facility Agreement, establish certain bank accounts into which, among other things, rental income and disposal proceeds in respect of the Properties must be paid (see further "*Description of the Borrower Transaction Documents - The Facility Agreement - Control Accounts*" below). The Borrower will, pursuant to the terms of the Borrower Debenture, grant security over all of its interests in the Control Accounts, which, in each case, is expressed to be fixed security.

Although the various bank accounts are stated to be subject to various degrees of control (for example, the Facility Agreement provides that the Borrower Cash Manager will have sole signing rights over the Control Accounts (other than the General Account) and that no payment may be made from the Control Accounts (other than the General Account) without the prior written consent of the Borrower Security Trustee), there is a risk that, if the Borrower Security Trustee does not exercise the requisite degree of control over the relevant accounts in practice, a court could determine that the security interests granted in respect of those accounts take effect as floating security interests only and that the security interests granted over the assets from which the monies paid into the accounts are derived also take effect as floating security interests only, notwithstanding that the security interests are expressed to be fixed. In such circumstances, monies paid into accounts or derived from those assets could be diverted to pay preferential creditors were a receiver, liquidator or administrator to be appointed in respect of the relevant entity in whose name the account is held.

### ***United Kingdom Taxation Position of the Borrower***

Under current United Kingdom taxation law and published practice, rental income received by the Borrower will constitute taxable income for United Kingdom corporation tax purposes. However, repayments of principal amounts advanced to the Borrower under the Loans are not deductible for United Kingdom tax purposes, and therefore part of the rental income received by the Borrower could be required to be applied to discharge its corporation tax liability and so may not be available to it to make payments under the Loans. It is envisaged that the Borrower's rental income will fund the repayment of part of the principal under the Loans and so effectively part of the repayment of principal will be funded out of the post-tax income of the Borrower. However any corporation tax liability of the Borrower would be reduced to the extent that interest on the Subordinated Loan is deductible.

Sainsbury's Supermarkets Ltd intends to make an election such that any tax which arises as a result of the non-deductibility, pursuant to certain provisions of United Kingdom tax legislation, of the interest payable under the Subordinated Loan, will be paid by Sainsbury's Supermarkets Ltd and will not be recoverable from the Borrower. If such an election is not effective, Sainsbury's Supermarkets Ltd will covenant to make a balancing payment to the Borrower to fund any such tax liability. There is a possibility that Sainsbury's Supermarkets Ltd will not have sufficient funds to meet its obligations to make such balancing payments.

### ***Secondary Taxation Liabilities of the Borrower***

Where a company fails to discharge certain taxes due and payable by it within a specified period of time, United Kingdom tax law imposes in certain circumstances a secondary liability for those overdue taxes on other companies which are or have been members of the same group of companies for tax purposes or are or have been under common control with the company that has not discharged its primary liability to pay that tax.

Broadly, membership of a group for VAT purposes imposes on each group member joint and several liability for any VAT liabilities of the group due during its period of membership. The Borrower will

represent and covenant in the Tax Deed of Covenant that it is not, has not been, and will not be treated as a member of a VAT group.

Sainsbury's will covenant in the Tax Deed of Covenant not to do anything which would result in such a secondary liability for, without limitation, corporation tax on chargeable gains, stamp duty or stamp duty land tax, arising in relation to the Borrower except in certain prescribed circumstances. The aim of such covenants is to minimise the likelihood of such secondary liabilities to tax affecting the Borrower, but the possibility of such liabilities arising cannot be entirely eliminated. In addition, Sainsbury's will undertake in the Tax Deed of Covenant to indemnify the Borrower against certain specified secondary liabilities for corporation tax on chargeable gains and stamp duty land tax. There is a possibility that Sainsbury's may not have sufficient funds to meet its obligations under such indemnities.

### **Contingent Taxation Liabilities of the Borrower**

#### *The Original Properties*

The Borrower has acquired the Original Properties from other companies, which were, at the time of that acquisition, members of the same capital gains tax and stamp duty land tax group as the Borrower. As a consequence, the Borrower has a contingent liability to pay United Kingdom corporation tax on chargeable gains or stamp duty land tax, which liability will become an actual liability to pay such tax if (broadly) the Borrower ceases to be a member of the relevant tax group within a period specified by statute. In those circumstances, the discharge of that tax liability could reduce the amount of post-tax income available to the Borrower, and this could in turn adversely affect the ability of the Borrower to make full and timely payments of interest and principal on the Loans. Each of Sainsbury's and the Borrower Parent will covenant in the Tax Deed of Covenant not to take any steps (whether by action, omission or otherwise) which would result in such contingent liability to pay United Kingdom corporation tax on chargeable gains or stamp duty land tax becoming an actual tax liability and would additionally agree to pay to the Borrower an amount equal to the amount of such liability if it were so to arise. Pursuant to the Security over Shares Deed, (i) Sainsbury's will grant security over the entire issued share capital of the Borrower Parent and all its present and future shares in the Borrower Parent in respect of the covenants it will give under the Tax Deed of Covenant in relation to such contingent liabilities and (ii) the Borrower Parent will grant security over the entire issued share capital of the Borrower and all its other present and future shares in the Borrower in respect of the covenants it will give under the Tax Deed of Covenant in relation to such contingent liabilities.

The directors of the Issuer consider that taking account of the security arrangements referred to above, such covenants and security provide adequate protection for Noteholders in relation to the potential tax charges referred to above.

#### *Corporation Tax on Chargeable Gains*

The disposal by the Borrower of any of the Properties to third parties may give rise to a liability to United Kingdom corporation tax on chargeable gains. In general terms, the base costs of the Original Properties for chargeable gains purposes are substantially lower, in some cases, than the market value of the Original Properties as at the date of the issue of the Notes. The Tax Deed of Covenant contains provisions relating to Property Disposals pursuant to which the Borrower will be required to comply with its obligations to account to HM Revenue & Customs for any corporation tax on chargeable gains which may be payable in respect of such disposal. However, should any such tax liability arise as a result of a disposal following enforcement of security, that tax liability could, indirectly, adversely affect the ability of the Issuer to meet its obligations under the Notes. However, the directors of the Borrower expect that in practice allowable losses or other reliefs will be available to prevent any such liability to corporation tax on chargeable gains arising.

#### *Tax on receipts from Insurance Policies*

Corporation tax on chargeable gains may also be chargeable if an amount is received by the Borrower under any insurance policy covering risk in relation to any kind of loss or damage to any Property. Should any such tax liability arise, the discharge of that tax liability could reduce the amount of post-tax income available to the Borrower, and this could in turn adversely affect the ability of the Borrower to make full and timely payments of interest and principal on the Loans.

#### *Contingent tax liabilities of the Borrower in relation to future acquisitions and disposals of Properties*

Acquisitions and disposals of Properties by the Borrower may result in actual or contingent primary or secondary liabilities to corporation tax on chargeable gains, stamp duty land tax or VAT ("**Relevant Tax Liabilities**") to arise for the Borrower. The Borrower will undertake in the Tax Deed of Covenant that it will

not (i) acquire New Properties, (ii) transfer Properties pursuant to the Substitution Agreement, or (iii) dispose of any Properties (other than under a compulsory purchase) broadly if the consequence of such acquisition or disposal is that the aggregate of the Relevant Tax Liabilities of the Borrower as at the date of the acquisition or Property Disposal would exceed an agreed threshold. However, the Borrower may make such acquisitions, transfers or disposals where, for those Relevant Tax Liabilities, the Borrower has funded a cash reserve or provided other collateral or members of the Sainsbury's Group have put in place arrangements that preclude or reduce the likelihood of such Relevant Tax Liability arising. The Borrower may also dispose of a Property without taking the steps referred to above if, in accordance with the provisions of the Tax Deed of Covenant, the disposal proceeds from the Property Disposal minus certain specified expenses are sufficient to fund a cash reserve in the Borrower to meet any Relevant Tax Liabilities arising from such Property Disposal.

#### ***Withholding Tax in Respect of the Loans***

The Issuer has been advised that, under current law, all payments made to it under the Loans by the Borrower can be made without withholding or deduction for or on account of any United Kingdom Tax. In the event that any withholding or deduction for or on account of tax is required to be made from any payment, the amount of the payment will be increased to the extent necessary to ensure that, after that withholding or deduction has been made, the Issuer receives a cash amount equal to that which it would have received had no such withholding or deduction been required to be made (subject to certain limited exceptions).

If the Borrower is obliged to make such an increased payment to the Issuer, the Borrower will have the option (but not the obligation) to repay all of the outstanding Loans in full. If the Borrower chooses to repay the Loans, the Issuer will then be obliged to redeem the Notes in accordance with the Conditions. If the Borrower does not have sufficient funds to enable it to make such increased payments to the Issuer, the Issuer may not have sufficient funds to enable it to meet its payment obligations under the Notes and/or any other payment obligations ranking in priority to, or *pari passu* with, the Notes.

#### **Tax risks associated with the Issuer**

##### ***Withholding Tax in Respect of the Hedge Agreements***

The Issuer has been advised that, under current law, all payments to be made under the Hedge Agreements can be made without withholding or deduction for or on account of any United Kingdom Tax. In the event that any withholding or deduction for or on account of tax is required to be made from any payment due from either party under the Hedge Agreements, then that party will (except in certain limited circumstances) be obliged to pay additional amounts to the other party in respect of the amounts so required to be withheld or deducted.

In the event that (as a result of a change in law (or the application or official interpretation thereof)) either party is required to make any such deduction or withholding, then in the case of the Hedge Counterparties, the relevant Hedge Counterparty is required to use its reasonable efforts (provided that such efforts shall not cause significant economic hardship) to transfer its rights and obligations under the relevant Hedge Agreement to a branch or affiliate or suitably rated third party located in another jurisdiction (and, in the case of the Issuer, the Issuer shall use reasonable efforts to mitigate the effects of such event by way of arranging the substitution of another company incorporated in an alternative jurisdiction as a party to the relevant Hedge Agreement in place of the Issuer in accordance with Condition 7(d) (*Redemption and Cancellation - Substitution/Redemption in whole for Taxation and other reasons*)) such that payments made by or to such entity under the Hedge Agreement may be made without such withholding or deduction. If either party fails to effect such a transfer or substitution within 30 days of becoming aware of the withholding requirement, the other party will have the right to terminate the relevant Hedge Agreement.

Upon such termination, either party may be required to pay a termination payment to the other party.

If the Issuer is obliged to pay an increased amount as a result of its being obliged to make such a withholding or deduction, the Borrower will be obliged to pay to the Issuer by way of Ongoing Facility Fees an amount equal to the amount by which the sum to be paid by the Issuer to the relevant Hedge Counterparty is increased. In such circumstances, the Borrower will have the option (but not the obligation) to prepay in full the outstanding Loans. If the Borrower chooses to prepay the relevant Loans, the Issuer will then be obliged to redeem the relevant Notes. If the Borrower does not prepay all of the relevant Loans and does not pay the full amount of any Ongoing Facility Fee due to the Issuer, the Issuer may be unable to meet its obligations under the Notes, with the result that the Noteholders may not receive all of the payments of principal and interest due to them in respect of the Notes with the result that the Notes may be required to be redeemed early.

## **Risks relating to the Occupational Leases**

### ***Dependence on Occupational Tenant and Lease Guarantor***

The ability of the Issuer to make payments of interest and principal on the Notes is dependent on the payments made by the Borrower under the Facility Agreement. The Borrower will apply the Rental Income to make payments under the Facility Agreement. The payments in respect of the Notes will, therefore, be primarily dependent on the due performance by the Occupational Tenant, any undertenant, or any assignee(s) of the Occupational Tenant of their obligations to pay all Rental Income and, in default of the performance by the Occupational Tenant, by the due performance by the Lease Guarantor of its guarantee obligations in respect of, *inter alia*, the Rental Income under the Occupational Leases. Subject to their terms, the Occupational Leases are capable of assignment (see "*Description of the Occupational Leases*"). The Borrower, in consenting to any application to assign an Occupational Lease pursuant to its terms is, *inter alia*, entitled to require that the assignor and any guarantor for it execute authorised guarantee agreements (each such agreement an "AGA"). As a matter of law it remains unclear whether a landlord is entitled to require an AGA from a tenant's guarantor. Pursuant to an AGA the relevant party remains liable as a guarantor for the assignee's obligations under the Occupational Lease, but only until such assignee itself assigns the Occupational Lease.

Following an assignment of any Occupational Lease there can be no assurance that the assignee will be or remain of sufficient financial standing to continue to perform its obligations (including payment of rent) under the relevant Occupational Lease. The original Occupational Tenant and Lease Guarantor pursuant to an AGA may only remain liable for obligations under the Occupational Lease as outlined above.

### ***Market risks on enforcement***

In the event of enforcement of the Borrower Security, it may be necessary to offer to re-let or, as appropriate, sell the relevant Property. Amounts received in respect of the Properties by way of rent or sale price following a reletting or sale could be insufficient to pay accrued interest on, and to repay principal of, the Loans in full, in which case Noteholders may ultimately suffer a loss.

The value of the Properties may be adversely affected by a number of factors, including, but not limited to, national, regional and local economic conditions (which may be adversely affected by business closures or slowdowns and other factors), local property market conditions (such as an oversupply of commercial space, including market demand), perceptions by prospective tenants, retailers and shoppers of the safety, convenience, condition, services and attractiveness of the Properties, the proximity, attractiveness and availability of competing alternatives to the Properties, the willingness and ability of the owners of the Properties to provide capable management and adequate maintenance, an increase in the capital expenditure needed to maintain a Property or make improvements to it, demographic factors, consumer confidence, unemployment rates, consumer tastes and preferences, retroactive changes to building or similar regulations, and increases in operating expenses (such as energy costs). In addition, other factors may adversely affect the Properties' value without affecting their current net operating income, including: changes in governmental regulations, fiscal policy and planning/zoning or tax laws, potential environmental legislation or liabilities or other legal liabilities, the availability of refinancing, and change in interest rate levels or yields required by investors in income-producing commercial properties. The age, construction quality and design of a particular Property may affect its occupancy level. The adverse effects of poor construction quality will increase over time in the form of increased maintenance and capital improvements needed to maintain the Property. Even good construction will deteriorate over time if the property managers do not schedule and perform adequate maintenance in a timely fashion. If, during the term of the Loans, competing properties of a similar type are built in the areas where the Properties are located or similar properties in the vicinity of the Properties are substantially updated and refurbished, the value and net operating income of such Properties could be reduced.

In addition, some of the Properties may not readily be convertible to alternative uses if such Properties were to become unprofitable due to competition, age of the improvements, decreased demand, regulatory restrictions or changes or other factors or if conversion was restricted by the terms of the headlease in respect of leasehold properties. The conversion of commercial properties to alternate uses generally requires substantial capital expenditure. Thus, if the Borrower becomes unable to meet its obligations on the Loans, the liquidation value of any such Property may be substantially less, relative to the amount owing on the Loans than would be the case if such Property were readily adaptable to other uses.

Any one or more of the above described factors or other factors not specifically mentioned could operate to have an adverse effect on the income generated or able to be derived from a single Property or the

amount for which a Property could be sold, which could in turn cause the Borrower to default on payments in respect of the Loans.

### ***Terms of Occupational Leases***

The obligation to make payments under an Occupational Lease in respect of the Properties is an unconditional obligation on the part of the Occupational Tenant. Each of the Occupational Leases is a "fully repairing and insuring" lease and, accordingly, substantially all of the economic liabilities arising in relation to the upkeep and operation of the relevant leased premises are borne by the Occupational Tenant, including the costs of repairing, maintaining and (subject as mentioned below) insuring the relevant premises.

### ***Insurance and Uninsured Loss***

The Facility Agreement requires the Borrower to procure that insurance against certain specified commercial risks is maintained with respect to the Properties in accordance with the terms set out in the Facility Agreement and the Occupational Leases (see "*Description of the Occupational Leases*"). Certain types of losses may not be insurable or economically insurable at that time. Notwithstanding that the Occupational Tenant is obliged, pursuant to the terms of the Occupational Lease, to repair the Property following any event of damage or destruction whether or not insured or insurable (save where the Landlord insures (see "*Description of the Occupational Leases*")), the Borrower's ability to repay the Loans might be adversely affected if such an uninsured or uninsurable loss were to occur.

### ***Late Payment or Non-Payment of Rent***

If the rental payments due under the Occupational Leases are not paid on the relevant Rent Payment Date or not paid at all and any resultant shortfall is not otherwise compensated for from other sources (for example, the Lease Guarantee), a Loan Event of Default may occur in relation to the Loans if the Borrower fails to pay amounts due pursuant to the Facility Agreement on the next Payment Date.

### **Considerations Related to the Properties**

#### ***Reliance on the Property Valuation Report***

Property valuations have been carried out as at 20 March 2006 and are set out in the property valuation report dated the date of this Prospectus, prepared by Atisreal Limited (the "**Property Valuation Report**"). See "*Property Valuation Report*". However, there can be no assurance that the Market Value of the Properties will continue to be at a level equal to or in excess of the levels set out in the Property Valuation Report. To the extent that the value of any of the Properties fluctuates, there is no assurance that the aggregate of the value of the Properties will remain at least equal to or greater than the unpaid principal and accrued interest and any other amounts due under the Facility Agreement. If any Property is sold following a Loan Event of Default, there is no assurance that the net proceeds of such sale will be sufficient to pay in full all or any amounts due under the Facility Agreement.

#### ***Competition issues within the United Kingdom food retail market***

There can be no assurance that there will not be changes in the United Kingdom food retail market which might affect the business of the Occupational Tenant and/or the Lease Guarantor and/or the long-term capital value of the Properties. For example, in recent years competition in the United Kingdom food retail market has intensified as a result of tighter planning regulations, persistently low food price inflation, consolidation amongst global retailers and the rise of internet shopping.

If the Occupational Tenant were to become insolvent or default on rent payments under the Occupational Leases leading to forfeiture of such Occupational Leases, it may be difficult to re-let the Properties or to find a purchaser for the portfolio of Properties as a whole or in part due to the fact that in certain areas and in certain limited circumstances (including, for example, local competition concerns), competitors of Sainsbury's may be prevented by competition authorities from acquiring or leasing properties for grocery retailing purposes.

On 9 March 2006, the Office of Fair Trading (the "**OFT**") announced that it is minded to refer the market for the supply of groceries by retailers in the United Kingdom for a market investigation (the "**Market Investigation**") by the Competition Commission (the "**Commission**"). The Market Investigation could take up to two years to be completed. Were the Commission to conclude, after the Market Investigation, that remedies were required, it has a broad range of powers available to it. Such remedies might affect the business of the Occupational Tenant and/or the Lease Guarantor and/or the long-term capital value of the Properties.

### ***Environmental Risks***

Various laws require a current or previous owner, occupier or operator of property to investigate and/or clean-up hazardous or toxic substances or releases at or from such property. These owners, occupiers or operators may also be obliged to pay for property damage and for investigation and clean-up costs incurred by others in connection with such substances. Such laws typically impose clean-up responsibility and liability having regard to whether the owner, occupier or operator knew of or caused the presence of the substances. Even if more than one person may have been responsible for the contamination, each person coming within the ambit of the relevant environmental laws may be held responsible for all of the clean-up costs incurred.

Desktop environmental and/or site environmental reports have been undertaken in respect of a sample of the Properties.

If an environmental liability arises in relation to a Property and it is not remedied, or is not capable of being remedied, this may result in the Market Value of the Properties being less than the Market Value set out in the Property Valuation Report. In addition, third parties may bring legal proceedings against a current or previous owner, occupier or operator of a site for damages and costs resulting from substances emanating from that site. These damages and costs may be substantial. In addition, the presence of substances on a property could result in personal injury or similar claims by private plaintiffs or pursuers.

If any environmental liability were to exist or arise in respect of any Property, the Borrower Security Trustee should not incur any such liability prior to enforcement of the Borrower Security, unless it could be established that the Borrower Security Trustee had entered into possession of the relevant Property(ies) or has exercised a significant degree of control or management of the relevant Property(ies) or the relevant environmental problem(s). After enforcement, the Borrower Security Trustee, if deemed to be a mortgagee in possession, or a receiver appointed on behalf of the Borrower Security Trustee, could become responsible for environmental liabilities in respect of a Property. If the Borrower Security Trustee unduly directed or interfered with the actions of the directors of the legal owners of the Properties or directed or interfered with the receiver's actions or if a receiver's indemnity had been given and that indemnity covered environmental liabilities, this could also result in a liability for the Borrower Security Trustee. See "*Considerations Related to the Borrower - Enforcement*".

### ***Property Management***

The net cash flow realised from the Properties may be affected by management decisions. As at the Closing Date, all of the Properties will be managed as to general upkeep and day-to-day operations by the Managing Agent on behalf of the Borrower.

The Borrower Security Trustee will have the right to replace the Managing Agent following, *inter alia*, the occurrence of a Loan Event of Default and the Borrower will covenant to procure that the Managing Agent (including any replacement property manager appointed other than by the Borrower Security Trustee) manages the Properties in accordance with the standards that would be expected of a competent and reasonably prudent manager of properties similar to the Properties and in accordance with the principles of good estate management. Following enforcement of the Borrower Security, the Borrower Security Trustee (or any receiver) will be entitled to enforce the rights of the Borrower against the Managing Agent (See "*Description of the Borrower Transaction Documents - Property Management Agreement*").

While the Managing Agent is experienced in managing its own retail property portfolio, there can be no assurance that it will continue to act in that capacity. There is no assurance that an appropriate successor property manager could be engaged, or engaged on appropriate terms. The Borrower Security Trustee has no obligation to act as a managing agent.

### ***Delegation***

Except to the limited extent described herein, none of the Borrower Security Trustee, the Note Trustee nor any Noteholder has any right to participate in the management or affairs of the Issuer, the Borrower or the Managing Agent. In particular, such parties cannot supervise the functions relating to the management or operation of the Properties.

The Issuer and the Borrower each have no executive management resources of their own and, as such, the Issuer and the Borrower will each rely upon, *inter alios*, the Managing Agent and other service providers for all asset servicing, executive and administrative functions. Failure by any such party to perform its obligations could have a material adverse effect upon the Issuer's ability to repay the Notes. There can be no assurance that, were any such party to resign or its appointment be terminated, a suitable replacement service

provider could be found or found in a timely manner, and engaged on terms acceptable to the Note Trustee or the Borrower Security Trustee, as applicable. In either case this might cause a downgrading in the then current ratings of the Notes by the Rating Agencies.

### *Legal title*

All of the Properties comprise registered land except for immaterial parts of a small number of Properties where registration is ongoing. The Borrower in relation to each Original Property will not as at the Closing Date be registered immediately as legal proprietor of the Original Property (following the acquisition of that Original Property on the Closing Date) and consequently the Borrower Security Trustee will not be registered immediately as the proprietor of the first ranking legal mortgage to be granted to it by the Borrower over that Original Property. The Borrower has confirmed that it will procure that an appropriate application to register the Borrower's title to all Original Properties and to register the Borrower Legal Charge of each Original Property is made (in each case accompanied by all appropriate documentation and searches and fees within the appropriate time period) and that following consultation with its external legal advisers, it is not aware of any reason why it should not in due course be registered as legal proprietor of the relevant Original Property to which it is acquiring legal title (subject only to matters referred to in the Certificates of Title) or why the Borrower Security Trustee should not in due course be registered as proprietor of the mortgage over any Original Property.

In the case of each Property which has been transferred, a land transaction certificate will be sought in relation to stamp duty land tax and appropriate application will be made in each case within the appropriate priority period following execution of a transfer to the Land Registry for registration of transfer of the title and the relevant mortgage.

### *Title restrictions and covenants*

Many of the Properties are subject to title restrictions and covenants, which will also bind the tenants in respect of such Property. The restrictions and covenants disclosed by the Title Materiality Reports produced by Addleshaw Goddard and Denton Wilde Sapte (the "**Title Materiality Reports**") are typical for a portfolio of Properties of this type.

It should also be noted that in many cases it may not be possible to identify all the parties who are entitled to the benefit of covenants as the devolution of title to from the title to the land which originally benefited from the covenant/s may not be clear (for example, the original beneficiary of the covenant may have disposed of the land benefited in different parcels and such devolution will not be apparent from the Borrower's title to the relevant Property).

### *Planning Restrictions*

The Properties are generally subject to planning restrictions resulting from conditions imposed by planning permissions or statutory agreements entered into with the relevant local authority to secure the grant of a planning permission to which a Property is subject. In the Title Materiality Reports the relevant law firms confirm that the relevant Sainsbury's Group companies confirmed to each of them that each Property has the benefit of all planning and other covenants and regulatory approvals for the operation of each Property for its existing use. Planning permissions containing such conditions cannot be appealed more than six months after they have been issued. Depending on the actual change desired, the applicant would need to apply for a planning permission for change of use or for the condition restricting use to be removed or varied. In each case an appeal would be possible to the First Secretary of State for the Environment against any refusal by the local planning authority. Each case would be dealt with on its merits judged by the relevant local authority's development plan and other applicable policies. It would therefore be important to consider any desired changes against such policies to determine whether the changes are likely to be approved (whether by the local authority or on appeal). Any such action will take time.

As regards restrictions imposed by statutory agreements, the contractual party bound by the statutory agreement (which will usually be the freeholder) can agree with the local planning authority to vary or remove the relevant restriction. If the local authority will not agree to this, the landowner can make a formal application seeking the required variation or removal. If this application fails, five years from the date of the relevant statutory agreement, the landowner may appeal to the Secretary of State for the variation or removal of the relevant restriction. The Secretary of State will hear such appeal on its merits.

### ***Geographic concentration***

All of the Properties are located in England or Wales. See "*Description of the Portfolio*" below in relation to the geographic concentration of the Properties. Rental payments under the Occupational Leases and the market value of the Properties could be adversely affected by conditions in the property markets where the Properties are located, acts of nature, including floods (which may result in uninsured losses), and other factors which are beyond the control of the Borrower and/or the Occupational Tenant. In addition, the performance of the Properties will be dependent upon the strength of the economies of the local areas where such properties are located.

### ***Interest in other properties***

Other companies in the Sainsbury's Group have interests in properties other than the Properties. It is possible that the relevant member of the Sainsbury's Group prioritises its interests in non-charged properties over its interest in the Properties. However, the Borrower will covenant that it will procure that the Managing Agent will, in exercising its discretion and in allocating its resources and those of its affiliates, ensure that the Properties are treated consistently with the treatment of all other properties within the ownership or management of it or its affiliates.

### ***Frustration***

An Occupational Lease in respect of a Property could, in exceptional circumstances, be frustrated under English law. Frustration may occur where a supervening event so radically alters the implications of the continuance of a lease for a party thereto that it would be inequitable for such lease to continue.

### ***Compulsory Purchase Risks***

Any property in the United Kingdom may at any time be compulsorily acquired by a public authority possessing compulsory purchase powers (for instance, local authorities and statutory undertakers (including electricity, gas, water and railway undertakers) in respect of their statutory functions) if it can demonstrate that the acquisition is required.

Any promoter of a compulsory purchase order would need to demonstrate that the compulsory purchase was necessary or desirable for the promoter's statutory functions and/or in the public interest.

As a general rule, if an order is made in respect of all or any part of a property, compensation would be payable on a basis equivalent to the market value of the owners' interests in the property at the time of the purchase, so far as those interests are included in the order, taking account of diminution in value of any retained land and other adverse impacts of the compulsory purchase.

There is often a delay between the compulsory purchase of a property and payment of compensation, although advance interim payments of compensation may be available where the acquiring authority takes possession before compensation has been granted.

It is possible that a compulsory purchase order may be made in respect of one or more of the Properties in the future. In such event, there is no guarantee that the amount of compensation received in connection with any compulsory purchase order of a Property would not have an adverse effect on the ability of the Borrower to make payments under the Facility Agreement. Accordingly, it is possible that a compulsory purchase order may have an effect on the resources available to the Issuer to make payments on the Notes. However note that in certain circumstances compulsory purchase will trigger a mandatory substitution of an affected Property (see "*Substitution of Properties*" below).

See "*Corporation Tax on Chargeable Gains*" in relation to the liability of the Borrower to corporation tax on chargeable gains arising from a compulsory purchase.

### ***Administration risk in respect of certain tenants***

If the Occupational Tenant was to go into administration, the Borrower would be prohibited under the Insolvency Act 1986 (as amended, the "**Insolvency Act**") from taking any action whatsoever against the Occupational Tenant for recovery of sums due by means of distress or any other legal process, including the exercise of a right of forfeiture by peaceable re-entry, in respect of the Occupational Leases except with the consent of the administrator or the leave of the court.

The statutory moratorium on the enforcement of all legal proceedings against a tenant company in administration, as described above, is effective from the time an administration application is filed at court or, where an administrator is to be appointed to a tenant company out of court, from the time a notice of intention



to appoint an administrator is filed at court in accordance with the Insolvency Act. The primary purpose of administration is the rescue of the company as a going concern. If the administrator does not think that objective is reasonably practicable, then he must perform his functions with the objective of achieving a better result for the company's creditors as a whole than would be likely if the company were wound up (without first being in administration); or if that is not reasonably practicable, then he must perform his functions with the objective of realising the property of the company in order to make a distribution to one or more secured or preferential creditors.

If the corporate tenant in administration is still trading at the premises or has plans to recommence trading with a view to the rescue of the company as a going concern, the court might refuse to grant a landlord the right to re-enter the premises occupied by that tenant or to forfeit the lease, on the grounds that to do so would frustrate the purpose of the administration. The court could do so notwithstanding that the administrator was only paying a reduced or even zero rent under the terms of the relevant lease, although in these circumstances the court would be concerned about the landlord suffering any unfair prejudice and it is unlikely that the court would allow use of the premises on this basis for an extended period.

### **Reports**

Apart from the Certificates of Title, the Title Materiality Reports, the Environmental Reports produced by Pam Brown Associates Ltd (the "**Environmental Reports**"), the Structural Reports produced by CHQ Partnership Limited (the "**Structural Reports**") and the Property Valuation Report, no new reports have been prepared specifically for the purpose of this Prospectus or the transactions contemplated herein and none of the Issuer, the Joint Lead Managers, the Borrower Security Trustee or the Note Trustee has made any independent investigation of any of the matters stated therein, except as disclosed in this Prospectus.

### **Substitutions and Disposals of Properties**

Pursuant to the terms of the Facility Agreement and the Substitution Agreement, the Borrower will be entitled to dispose of and/or substitute Properties in certain circumstances. The risks associated with the effect of a disposal on the value and rental income generative capacity of the Portfolio in aggregate are mitigated by the conditions related to disposal and substitutions set out in the Facility Agreement, the Tax Deed of Covenant and the Substitution Agreement respectively. See "*Description of The Borrower Transaction Documents - The Facility Agreement - Property Undertakings*" and "*Contingent Tax Liabilities of the Borrower in relation to future acquisitions and disposals of Properties*". The risks associated with the effect of the substitution of Properties on the value and rental income generative capacity of the Portfolio in aggregate are mitigated by the Substitution Criteria under the Substitution Agreement and the conditions related to disposal under the Facility Agreement (as to which, see "*Substitution of Properties*"). The tax risks associated with intra-group transfers of the Properties are regulated by the provisions of the Tax Deed of Covenant.

### **General Considerations**

#### ***Pensions***

Some of the employees of the Sainsbury's Group participate in defined benefit pension schemes operated by Sainsbury's Supermarkets Ltd, Sainsbury's and Jacksons Stores Ltd (the "**Sainsbury's Pension Scheme Participants**"). There is a risk that the Pensions Regulator could issue a notice (a "**financial support direction**") to any company within the Sainsbury's Group (including the Borrower) making that company jointly and severally liable for the liabilities of those pension schemes. In addition there is a risk that the Pensions Regulator could issue a notice (a "**contribution notice**") to any person (being a person who is an employer in relation to the scheme or an associate of, or connected with, such an employer) who it believes has sought to avoid its pension liabilities, requiring that person to pay money into the pension schemes.

However, the Pensions Regulator may not issue a financial support direction where none of the Sainsbury's Pension Scheme Participants are "insufficiently resourced" (within the meaning of The Pensions Regulator (Financial Support Directions, etc.) Regulations 2005) and Sainsbury's has confirmed as at the date of this Prospectus and will covenant in the Tax Deed of Covenant that none of the Sainsbury's Pension Scheme Participants is so "insufficiently resourced". In addition, the Pensions Regulator may only issue a contributions notice in certain circumstances and Sainsbury's has confirmed as at the date of this Prospectus and will covenant in the Tax Deed of Covenant that those circumstances are absent and that Sainsbury's will indemnify the Borrower for breach of such covenant.

#### ***Breach of Warranty in Relation to the Novation and Assignment of the Loan Assets***

Save as described under "*Description of the Issuer Transaction Documents - Loan Novation*

*Documents*", neither the Issuer nor the Note Trustee has undertaken or will undertake any investigations, searches or other actions as to the status of the Borrower and the Issuer and the Note Trustee will each rely instead solely on the representations and warranties given by the Original Lenders in respect of such matters in the Loan Novation Agreement. However, due to the limited time for which the Original Lenders hold the Loan Assets, the Original Lenders will only make certain limited representations and warranties, including, representation and warranty in relation to their title to the Loan Assets and the fact that they have not encumbered their title to the Initial Loans. In addition, in the event of a Material Breach of Loan Warranty under the Loan Novation Agreement which has not been remedied or is not capable of remedy, the sole remedy of each of the Issuer and the Note Trustee against the Original Lenders is a right of indemnity on demand against all losses, claims, demands, taxes and all other expenses or other liabilities incurred by the Issuer as a result of such Material Breach of Loan Warranty. The liability of each Original Lender under the indemnity will be limited to fifty per cent. of the principal balance of the Initial Loans as at the date on which the Original Lender would be obliged to make such an indemnity payment. In no circumstance will the Original Lenders be obliged to accept novation of all or part of the Initial Loans, though they will have an option to accept novation on terms acceptable to the Note Trustee. See further "*Description of the Issuer Transaction Documents - Loan Novation Documents*".

### ***Proposed Changes to the Basel Capital Accord ("Basel")***

The Basel Committee on Banking Supervision has published the text of the new capital accord under the title "Basel II: International Convergence on Capital Measurement and Capital Standards: a Revised Framework" (the "**Framework**"). This Framework, which places enhanced emphasis on market discipline and sensitivity to risk, will serve as a basis for national and supra-national rule-making and approval processes to continue and for banking organisations to complete their preparation for the implementation of the Framework during 2007 and 2008. The Framework will be put into effect for credit institutions in Europe via the recasting of a number of prior directives and referred to as the EU Capital Requirements Directive ("**CRD**"), the final text of which has been approved by the EU Council and EU Parliament and has been published pending formal adoption at a date to be determined. The Framework, as published, will, if not amended from its current form when implemented by regulators, affect risk-weighting of the Notes for investors subject to the new Framework following its implementation (whether via the CRD or otherwise by non-EU regulators). Consequently, Noteholders should consult their own advisers as to the consequences to and effect on them of the application of the Framework, as implemented by their own regulator, to their holding of any class of Notes. The Issuer is not responsible for informing Noteholders of the effects of the changes to risk-weighting which will result for investors from the adoption by their own regulator of the Framework (whether or not implemented by them in its current form).

### ***Risks Relating to the Introduction of International Financial Reporting Standards***

The United Kingdom corporation tax position of the Issuer depends to a significant extent on the accounting treatment applicable to it (that treatment potentially being modified for tax purposes as briefly set out below). The accounts of the Issuer (being a United Kingdom company with listed debt) are required to comply with International Financial Reporting Standards ("**IFRS**") or with new United Kingdom Financial Reporting Standards reflecting IFRS ("**new United Kingdom GAAP**") (In the following, references to IFRS include references to new United Kingdom GAAP). The Borrower may also choose to comply with IFRS in respect of accounting periods commencing on or after 1 January 2005. There is a concern that companies such as the Issuer and the Borrower might, under either IFRS or new United Kingdom GAAP, suffer timing differences that could result in profits or losses for tax purposes in particular accounting periods which bear little or no relationship to the company's cash position in such accounting periods.

The stated policy of HM Revenue & Customs is that the tax neutrality of securitisation special purpose companies in general should not be disrupted as a result of the transition to IFRS or new United Kingdom GAAP and consequently they are working with participants in the securitisation industry to identify appropriate means of preventing any such disruption. The Finance Act 2005 contains legislation which requires "securitisation companies" to prepare tax computations for accounting periods ending before 1 January 2007 (the moratorium period) on the basis of United Kingdom GAAP as applicable up to 31 December 2004 ("**Old UK GAAP**"), notwithstanding any requirement to prepare statutory accounts under IFRS or new United Kingdom GAAP (the relevant legislation is referred to in the following as the "interim regime"). The Issuer has been advised that it will (on certain assumptions) be a "securitisation company" for these purposes.

The Borrower has been advised that it should also be a "securitisation company" for these purposes. However, the Borrower has been advised that there would be no significant difference in the accounting

treatment of its income and expenses under IFRS and Old UK GAAP respectively and that no amounts would be required to be brought into account on a transition from Old UK GAAP to IFRS, so that the application of the interim regime to the Borrower or otherwise would have no effect on its liability to corporation tax.

In the Pre-Budget Report dated 5 December 2005, the Government stated an intention to extend the interim regime so as to apply in relation to accounting periods of securitisation companies ending on or before 31 December 2007.

The Finance Act 2005 also provides for the power on the part of the Treasury to introduce regulations to establish a permanent tax regime that will apply for securitisation companies. It is expected that, for the remaining duration of the interim regime, discussions will continue on the design of a permanent tax regime for securitisation companies with a view to the regime coming into force by 1 January 2007 so as to apply in relation to accounting periods ending after 31 December 2007.

If further extensions to interim regime or other measures are not introduced by HM Revenue & Customs to deal with accounting periods ending after 31 December 2007, then profits or losses could arise in the Issuer as a result of the application of IFRS or new United Kingdom GAAP which could have tax effects not contemplated in the cashflows for the transaction and as such adversely affect the Issuer and consequently may affect the Noteholders.

#### ***Changes in Law and/or Regulatory, Accounting and/or Administrative Practices***

The structure of the issue of the Notes, the Loans and the ratings which are to be assigned to the Notes are based on English law, regulatory, accounting and administrative practice in effect as at the date of this Prospectus, and having due regard to the expected tax treatment of all relevant entities under United Kingdom tax law and the published practice of the HM Revenue & Customs in force or applied in the United Kingdom as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or possible change to English law, regulatory, accounting or administrative practice (including the introduction of International Financial Reporting Standards and the incorporation of FRS26 into United Kingdom generally accepted accounting principles in the United Kingdom or possible changes to United Kingdom tax law, or the interpretation or administration thereof, or to the published practice of the HM Revenue & Customs as applied in the United Kingdom after the date of this Prospectus). Any changes to accounting practices may have an effect on the tax treatment of, *inter alios*, the Borrower and the Issuer.

#### **Small Companies Moratorium**

Certain "small companies", as part of the company voluntary arrangement procedure, may seek Court protection from their creditors by way of a moratorium for a period of up to 28 days, with the option for creditors to extend this protection for up to a further two months (although the Secretary of State for Trade and Industry may, by order, extend or reduce the duration of either period).

A "small company" is defined for these purposes by reference to whether the company meets certain tests contained in Section 247(3) of the Companies Act 1985, relating to a company's balance sheet, total turnover and average number of employees in a particular period. The position as to whether or not a company is a "small company" may change from period to period, depending on its financial position and average number of employees during that particular period. The Secretary of State for Trade and Industry may by regulations also modify the qualifications for eligibility of a company for a moratorium and may also modify the present definition of a "small company". Accordingly, the Issuer may, at any given time, come within the ambit of the "small companies" provisions, such that the Issuer may (subject to the exemptions referred to below) be eligible to seek a moratorium, in advance of a company voluntary arrangement.

During the period for which a moratorium is in force in relation to a company, amongst other things, no winding up may be commenced or administrator appointed to that company, no administrative receiver of that company may be appointed, no security created by that company over its property may be enforced (except with the leave of the Court) and no other proceedings or legal process may be commenced or continued in relation to that company (except with the leave of the Court). In addition, if the holder of security (the "chargee") created by that company consents or if the Court gives leave, the company may dispose of the secured property as if it were not subject to the security. Where the property in question is subject to a floating charge, the chargee will have the same priority in respect of any property of the company directly or indirectly representing the property disposed of as he would have had in respect of the property subject to the floating charge. Where the security in question is that other than a floating charge, it shall be a condition of the chargee's consent or the leave of the Court that the net proceeds of the disposal shall be applied towards discharging the sums secured by the security. Further, during the period for which a moratorium is in force in

respect of a company it may not make payments with respect to debts or liabilities existing prior to the date of filing for a moratorium unless (i) there are reasonable grounds for believing the payment will benefit the company, and (ii) the payment is approved by a committee of creditors of the company if established or, if not, by the nominee of the proposed company voluntary arrangement.

Certain companies which qualify as small companies for the purposes of these provisions may, nonetheless, be excluded from being so eligible for a moratorium. Companies excluded from eligibility for a moratorium include those which are party to a capital market arrangement, under which a debt of at least £10 million is incurred and which involves the issue of a capital market investment. The definitions of "capital market arrangement" and "capital market investment" are broad and are such that, in general terms, any company which is a party to an arrangement which involves at least £10 million of debt, the granting of security to a Note Trustee, and the issue of a rated, listed or traded debt instrument, is excluded from being eligible for a moratorium. The Secretary of State may modify the criteria by reference to which a company otherwise eligible for a moratorium is excluded from being so eligible.

Accordingly, the provisions described above will serve to limit the Note Trustee's ability to enforce the Issuer Security to the extent that, first, the Issuer falls within the criteria for eligibility for a moratorium at the time a moratorium is sought; second, if the directors of the Issuer seek a moratorium in advance of a company voluntary arrangement; and, third, if the Issuer is considered not to fall within the capital market exception (as expressed or modified at the relevant time) or any other applicable exception at the relevant time; in those circumstances, the enforcement of any security by the Note Trustee will be for a period prohibited by the imposition of the moratorium. In addition, the other effects resulting from the imposition of a moratorium described above may impact the transaction in a manner detrimental to the Noteholders.

### ***Enterprise Act 2002***

On 15 September 2003, the corporate insolvency provisions of the Enterprise Act 2002 (the "**Enterprise Act**") came into force, amending certain provisions of the Insolvency Act. These provisions introduced significant reforms to corporate insolvency law. In particular, the reforms restrict the right of the holder of a floating charge to appoint an administrative receiver (unless the security was created prior to 15 September 2003 or an exception applies) and instead give primacy to collective insolvency procedures (in particular, administration). Previously, the holders of any debenture of the company secured by a charge which, as created, was a floating charge, or by such a charge and one or more other securities over the whole or substantially the whole of the assets of a company, had the ability to block the appointment of an administrator by appointing an administrative receiver, who would act primarily in the interests of the floating chargeholder. The Insolvency Act contains provisions that continue to allow for the appointment of an administrative receiver in relation to certain transactions in the capital markets. The relevant exception provides that the appointment of an administrative receiver is not prohibited if it is made in pursuance of an agreement (being, in respect of the transactions described in this Prospectus, the Securitisation Floating Charge Debenture and the Issuer Deed of Charge) which is or forms part of a capital markets arrangement (as defined in the Insolvency Act) under which a party (such as the Borrower or the Issuer) incurs or, when such agreement was entered into was expected to incur, a debt of at least £50,000,000 under the arrangement and the arrangement involves the issue of a capital market investment (also defined, but generally a rated, listed or traded debt instrument). It is expected that the security that the Issuer will grant to the Note Trustee and the security that the Borrower will grant to the Borrower Security Trustee will fall within the capital markets exception. However, it should be noted that the relevant Secretary of State may, by secondary legislation, modify the capital market exception and/or provide that the exception shall cease to have effect. No assurance can be given that any such modification or provision in respect of the capital market exception, or its ceasing to be applicable to the transactions described in this document, will not be detrimental to the interests of the Noteholders.

The Insolvency Act also contains an out-of-court route into administration for a qualifying floating chargeholder, the directors or the relevant company itself. If the appointment is to be made by a qualifying floating chargeholder, it must give at least two business days' written notice of its intention to appoint to any prior qualifying floating chargeholder, or obtain its written consent. If notice is given, a copy of that notice must be filed at court. Upon such filing, an interim moratorium on enforcement of the relevant security will take effect. That moratorium lasts for five business days beginning with the date of filing, or until an administrator is appointed (whichever is earlier). If the appointment is to be made by the company or its directors, they must give at least five business days' written notice of their intention to appoint to any person who is or may be entitled to appoint an administrative receiver and to any person who is or may be the holder of any qualifying floating charge entitled to appoint an administrator out-of-court. A copy of that notice must be filed at court. Upon such filing, an interim moratorium on enforcement of the relevant security will take

effect. That moratorium lasts for ten business days beginning with the date of filing of the notice, or until an administrator is appointed (whichever is earlier). During the notice period, the holder of a qualifying floating charge can appoint its own insolvency practitioner, rather than the company's or directors' chosen insolvency practitioner, as administrator. If a person entitled to receive a notice of intention to appoint does not respond to the notice of intention to appoint, the appointor's chosen administrator will take office after the notice period has elapsed and upon a notice of intention to appoint being filed at court. Where the holder of a qualifying floating charge within the context of a capital market transaction retains the power to appoint an administrative receiver, such holder may prevent the appointment of an administrator (either by the new out-of-court route or by the court based procedure) by appointing an administrative receiver prior to the appointment of the administrator being completed. These provisions of the Insolvency Act give primary emphasis in relation to administration to the rescue of a company as a going concern and achieving a better result for the creditors as a whole. No assurance can be given that the primary purpose of the new provisions will not conflict with the interests of Noteholders were the Issuer or the Borrower ever subject to administration.

The Enterprise Act inserted a new section 176A into the Insolvency Act which makes provisions to ensure that unsecured creditors, as opposed to floating charge holders, take the benefits of this change. Under this provision the unsecured creditors will have recourse to the company's net property (which is the amount of its property which would otherwise be available for satisfaction of claims of holders of debentures secured by, or holders of, any floating charge created by the company) up to a fixed amount (the "**prescribed part**") in priority to the holder of the floating charge concerned. The prescribed part will be 50 per cent. of the first £10,000 of the company's net property then 20 per cent. of the company's remaining net property until the prescribed part reaches a maximum of £600,000. The obligation on the insolvency officeholder to set aside the prescribed part for unsecured creditors does not apply if the company's net property is less than £10,000 and the officeholder is of the view that the costs of making a distribution to unsecured creditors would be disproportionate to the benefits. If the company's net property is more than £10,000 the officeholder may apply to court for an order that the rule may be disapplied on the same basis. The prescribed part applies to all floating charges created on or after 15 September 2003 regardless as to whether they fall within one of the exceptions or not. However, this provision is unlikely to be of practical significance in the case of special purpose entities such as the Issuer and the Borrower, which are each subject to substantial restrictions on its activities. As a result of those restrictions each of the Issuer and the Borrower will only have a limited ability to incur unsecured liabilities (as would any holding company of the Issuer or the Borrower which is subject to similar restrictions).

*The Issuer believes that the risks described above are the principal risks inherent in the transaction for Noteholders, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and the Issuer does not represent that the above statements regarding the risks relating to the Notes are exhaustive. Although the Issuer believes that the various structural elements described in this Prospectus lessen some of these risks for Noteholders, there can be no assurance that these measures will be sufficient to ensure payment to Noteholders of interest, principal or any other amounts on or in connection with the Notes on a timely basis or at all.*

## DESCRIPTION OF THE BORROWER TRANSACTION DOCUMENTS

*The following is a summary of certain provisions of the principal documents relating to the transactions described herein and is qualified in its entirety by reference to the detailed provisions of the Borrower Transaction Documents.*

### **The Facility Agreement**

The Facility Agreement will be entered into between, *inter alios*, the Original Lenders and the Obligors on the Closing Date. The Issuer will acquire the Initial Loans from the Original Lenders by way of novation pursuant to the Loan Novation Agreement on the Closing Date and will become the sole Lender under the Facility Agreement. The Initial Loans will be fully drawn immediately prior to the novation to partially fund the purchase of the Original Properties by the Borrower on the Closing Date. The Borrower's performance of its obligations under the Facility Agreement is irrevocably and unconditionally guaranteed by the Borrower Parent. The Borrower Security Trustee will exercise its discretion and entitlement under the Borrower Transaction Documents in accordance with the provisions of the Borrower Debenture.

### **Initial Facilities**

The Facility Agreement will provide that, subject to satisfying certain conditions precedent, the following Sterling term loan facilities (the "**Initial Facilities**") will be made available by the Original Lenders to the Borrower by way of loans on the Closing Date:

- (a) the initial tranche A facility in an aggregate principal amount of £542,500,000, which is equal to the aggregate Principal Amount Outstanding on the Closing Date of the Class A Notes (the corresponding loan under the initial tranche A facility being the "**Initial Tranche A Loan**");
- (b) the initial tranche B facility in an aggregate principal amount of £46,500,000, which is equal to the aggregate Principal Amount Outstanding on the Closing Date of the Class B Notes (the corresponding loan under the initial tranche B facility being the "**Initial Tranche B Loan**"); and
- (c) the initial tranche C facility in an aggregate principal amount of £279,000,000, which is equal to the aggregate Principal Amount Outstanding on the Closing Date of the Class C Notes (the corresponding loan under the initial tranche C facility being the "**Initial Tranche C Loan**" and, together with the Initial Tranche A Loan and the Initial Tranche B Loan, the "**Initial Loans**").

### **Additional Facilities**

The Facility Agreement will provide that the Borrower may at any time by written notice to the Issuer (with a copy to the Borrower Security Trustee and the Rating Agencies) request a further Sterling term facility (a "**Further Facility**", and each corresponding loan thereunder, a "**Further Loan**"), a new Sterling term facility (a "**New Facility**" and, each corresponding loan thereunder, a "**New Loan**") or a replacement Sterling term facility (a "**Replacement Facility**" and, each corresponding loan thereunder, a "**Replacement Loan**"). Further Facilities, New Facilities and Replacement Facilities are referred to as "**Additional Facilities**". Further Loans, New Loans and Replacement Loans are referred to as "**Additional Loans**".

The Borrower will only be entitled to request an Additional Facility, if *inter alia*, (a) the Issuer and the Note Trustee are satisfied that the Loan to Value Ratio shall be (i) 56 per cent. or less upon utilisation of the Additional Facility and purchase of the additional Properties to be acquired by the Borrower in connection with such Additional Facility or (ii) 50 per cent or less upon utilisation of the Additional Facility where, in connection with such utilisation, the Borrower does not, and is not required to, purchase additional Properties and (b) at the time at which that request is made, a legal opinion addressed to the Borrower Security Trustee and the Note Trustee, in form and substance, and from a law firm satisfactory to such addressees and the Rating Agencies is given, confirming that the Borrower is permitted under the law at that time in force in the jurisdiction or jurisdictions in which it is resident for tax purposes to make payments of interest on that Additional Loan without withholding or deduction for or on account of any Tax.

A reference to a "**Facility**" in this document is, unless the context requires otherwise, to an Initial Facility, a Further Facility, a New Facility and/or a Replacement Facility and a reference to a "**Loan**" in this document is, unless the context requires otherwise, to an Initial Loan, a Further Loan, a New Loan and/or a Replacement Loan.

A Further Loan under a Further Facility will be consolidated, form a single series and rank *pari passu* with the corresponding Initial Loan.

A New Loan under a New Facility may rank *pari passu* with, ahead of or after any Initial Loan.

A Replacement Loan under a Replacement Facility may replace the Initial Loans in whole or in part and may rank *pari passu* with or below the Initial Loans carrying terms different from the Initial Loans.

Each New Loan will be financed by the issue of New Notes by the Issuer, each Further Loan will be financed by the issue of Further Notes by the Issuer and each Replacement Loan will be financed by the issue of Replacement Notes by the Issuer.

#### ***Conditions for Additional Facilities***

The Borrower may only request, and consequently the Issuer may only grant, an Additional Facility if, *inter alia*, the aggregate principal amount of the relevant Additional Facility requested for drawdown on a particular drawdown date is for a minimum aggregate principal amount of £5,000,000.

The obligation of the Issuer to make an Additional Loan available to the Borrower is subject to, *inter alia*, the following further conditions precedent, which must be satisfied on the proposed drawdown date (and, in the case of paragraph (a), both on the proposed drawdown date and on the date a drawdown notice is submitted):

- (a) no Loan Event of Default has occurred and is continuing (and has not been waived) or would result from the making of the Additional Loan;
- (b) execution of any such additional documents as are required by the Borrower Security Trustee to ensure that the Borrower Security Trustee is granted security over any new Property and related assets acquired on terms satisfactory to it, including a supplemental deed to the relevant Borrower Security Documents, where appropriate;
- (c) receipt of any authorisation or other documents (including, where New Properties are to be purchased, certificates of title and valuers' reports), director's certificates, opinions and/or other supporting or ancillary documentation or assurance which the Issuer or Borrower Security Trustee considers to be necessary in connection with the entry into and performance of, and the transactions contemplated by, any of the documents to be entered into by the Borrower or any other Obligor in connection with such Additional Loan, or for the validity or enforceability of any such documents of which the Borrower has been given notice;
- (d) the Issuer Cash Manager (on behalf of the Issuer) confirms to the Borrower Security Trustee in writing that the Issuer has available to it on the relevant drawdown date sufficient proceeds from an issue of Further Notes (in the case of a Further Loan) or, as the case may be, from an issue of New Notes (in the case of a New Loan) or, as the case may be, from an issue of Replacement Notes (in the case of a Replacement Loan) to permit it to make the relevant Further Loan, New Loan or, as the case may be, Replacement Loan; and
- (e) satisfaction of the Ratings Test.

The Borrower shall certify in the relevant drawdown notice to the Borrower Security Trustee and the Issuer that, *inter alia*, the condition precedent set out in paragraph (a) above has been satisfied.

#### ***Quarterly Payment Amounts***

On each Payment Date, the Borrower will pay a Quarterly Payment Amount to the Issuer comprising an interest and a principal element in respect of each of the Initial Tranche A Loan, the Initial Tranche B Loan and the Initial Tranche C Loan.

**"Quarterly Payment Amount"** means, in respect of any Initial Loan:

- (i) in respect of each Payment Date up to and including the Payment Date falling in April 2007, the amount specified in the Facility Agreement multiplied by the then applicable LPI Index Factor; and
- (ii) in respect of each Payment Date from and including the Payment Date falling in July 2007, the Quarterly Payment Amount in respect of the corresponding Payment Date for the previous year multiplied by the then applicable LPI Index Factor,

provided that following prepayment of any Initial Loan, the Quarterly Payment Amount will be adjusted downwards in order that the Initial Loans amortise to zero on the relevant Expected Maturity Date.

#### ***Interest***

Interest on the Initial Loans will accrue quarterly in arrear by reference to quarterly interest periods (each a **"Interest Period"**) and the Borrower will make payments of interest then due and payable under the

Facility Agreement on 19<sup>th</sup> January, 19<sup>th</sup> April, 19<sup>th</sup> July and 19<sup>th</sup> October, provided that if any such day is not a Business Day, the date for such payments shall be the immediately succeeding Business Day (each such date a "**Payment Date**"). During each Interest Period, interest will be payable in arrear on the Outstanding Principal Balance of each Initial Loan as at the Payment Date falling in April of the relevant calculation year at the rate per annum specified in the Facility Agreement in respect of such Initial Loan (each such rate being the "**Interest Rate**" for such Initial Loan) as adjusted by reference to the then applicable LPI Index Factor.

"**LPI Index Factor**" means, for each Payment Date falling in a Calculation Year, the RPI Figure for January of the calendar year in which the Calculation Year starts divided by the Base RPI Figure, provided that the LPI Index Factor for any Payment Date shall not be greater than 1.05 or lower than 1.00.

"**Base RPI Figure**" means, for the Payment Date falling in a Calculation Year, the RPI Figure applicable to January of the calendar year preceding the start of that Calculation Year.

"**Calculation Year**" means:

(a) the period from (and excluding) the Closing Date to (and including) the Payment Date in April 2007 (the "**First Calculation Year**"); and

(b) each period from (but excluding) the Payment Date falling in April of one calendar year to (and including) the Payment Date falling in April of the next calendar year.

"**RPI**" means, subject to certain fallback provisions if the following is unavailable, the All Items Retail Price Index (RPI) as published by the Office for National Statistics (January 1987 = 100) (or any relevant successor Government department).

"**RPI Figure**" for a particular month shall be a reference to the RPI figure published for the relevant month in the Monthly Digest of Statistics.

"**Business Day**" means a day (other than a Saturday or Sunday) on which banks are open for general business in London.

"**Outstanding Principal Balance**" means, in relation to an Initial Loan:

(a) in respect of each Payment Date (a "**Relevant Payment Date**") falling before that in July 2007, an amount equal to:

(i) the Initial Loan as at the Closing Date, multiplied by the LPI Index Factor applicable to the Relevant Payment Date apportioned in the proportion that the number of days in the period from (but excluding) the Payment Date immediately preceding the Relevant Payment Date (or, in relation to the Payment Date falling in July 2006, from the Closing Date) to (and including) the Relevant Payment Date bears to the total number of days in the First Calculation Year; less

(ii) the aggregate amount of all Repayment Instalments and all prepayments of the Initial Loan which have become due and payable and have been paid in the period from (but excluding) the Closing Date to (and including) the Relevant Payment Date; and

(b) in respect of each subsequent Payment Date (a "**Relevant Payment Date**") an amount equal to:

(i) the Outstanding Principal Balance as at close of business on the last day of the Calculation Year immediately preceding that in which the Relevant Payment Date falls (such last day, the "**OPB Calculation Date**"), multiplied by the LPI Index Factor applicable to the Relevant Payment Date apportioned in the proportion that the number of days in the period from (but excluding) the Payment Date immediately preceding the Relevant Payment Date to (and including) the Relevant Payment Date bears to the total number of days in the Calculation Year in which the Relevant Payment Date falls; less

(ii) the aggregate amount of all Repayment Instalments and all prepayments of the Initial Loan which have become due and payable and have been paid in the period from (but excluding) the OPB Calculation Date to (and including) the Relevant Payment Date.

"**Initial Loan**" means the loans made or to be made under the Initial Facility or the Outstanding Principal Balance for the time being of the loan.

Interest in respect of any Additional Loans will be payable in the amounts and on the dates as agreed between, *inter alios*, the Issuer and the Borrower in respect of the relevant Additional Facility.

### **Repayment**



Each Initial Loan will be repayable in instalments on each Payment Date in an amount equal to the Quarterly Payment Amount corresponding to such Initial Loan and such Payment Date less the interest amount payable in respect of such Initial Loan on such Payment Date (each such amount being a "**Repayment Instalment**").

Scheduled repayments in respect of any Additional Loans will be payable in the amounts and on the dates agreed between, *inter alios*, the Issuer and the Borrower in respect of the relevant Additional Facility.

Each Initial Loan will be repayable in full at its Outstanding Principal Balance on the relevant Expected Maturity Date, together with all accrued interest and any other outstanding amounts, unless previously repaid or discharged in full pursuant to the Facility Agreement.

### ***Prepayment and Cancellation***

#### *Illegality*

If it becomes illegal for advances made by the Issuer under the Facility Agreement to remain outstanding or for the Issuer to perform any of its obligations under the Facility Agreement, its commitment to lend shall immediately on notification to the Borrower be cancelled and reduced to zero. This triggers a mandatory prepayment under the Facility Agreement by the Borrower of the Outstanding Principal Balance of the Loans together with any accrued interest and break costs.

#### *Tax*

The Borrower may repay and cancel the Issuer's participation in the Loans, upon giving notice to the Issuer of the same if any sum payable to the Issuer is required to be increased as a result of the imposition of a requirement to deduct or withhold tax from a payment to be made to the Issuer by the Borrower under the Facility Agreement, or if the Issuer claims indemnification from the Borrower in respect of any tax suffered by the Issuer.

#### *Voluntary Prepayment*

The Borrower may, by at least 30 days' prior written notice, prepay the whole or any part (being a minimum of £5,000,000) of the Loans (including all principal, accrued interest and other amounts then due) on any Payment Date. Any voluntary prepayment is to be made together with any break costs and associated costs (including any premium payable by the Issuer in respect of the Notes) payable on such Payment Date.

### **Mandatory Prepayment**

#### *Property Disposals*

After a disposal (excluding disposals arising as a consequence of a compulsory purchase and any disposal of a Substituted Property made in accordance with the terms of the Substitution Agreement and any Withdrawal) of any interest in any Property in accordance with the terms of the Facility Agreement, the Borrower is required to prepay the Loans on the next Payment Date in an amount equal to 110% of the Allocated Loan Amount for the relevant Property. All prepayments are to be made together with any break costs, accrued interest and associated costs (including any premium payable by the Issuer in respect of the Notes) on such Payment Date.

#### *Compulsory Purchase*

After a disposal, arising as a consequence of a compulsory purchase, of any interest in any Property in accordance with the terms of the Facility Agreement, the Borrower is required to prepay the Loans in an amount equal to the lower of (a) 110% of the Allocated Loan Amount for the relevant Property and (b) the proceeds of the compulsory purchase on the second Payment Date following the date on which such Compulsory Purchase Proceeds are received unless the Property which is the subject of the Compulsory Purchase is substituted or withdrawn in the interim in accordance with the Substitution Agreement in which case the Compulsory Purchase Proceeds will be paid to the General Account and applied towards purchase of a Replacement Property. All prepayments are to be made together with any break costs, accrued interest and associated costs payable on such Payment Date (including any premium payable by the Issuer in respect of the Notes).

#### *Insurance Proceeds*

The Borrower is required to apply buildings insurance proceeds that are not applied in reinstatement within three years (and which do not relate to a Property that has been substituted or withdrawn) in prepayment in an amount equal to the lower of (i) the amount of such insurance proceeds and (ii) 110% of the

Allocated Loan Amount for the relevant Property, together with any break costs, accrued interest and associated costs (including any premium payable by the Issuer in respect of the Notes) on the next Payment Date.

#### *Prepayment Threshold*

On any Payment Date, to the extent that the aggregate amounts of disposal proceeds (including in respect of a compulsory purchase) and insurance proceeds, which have not been applied to reinstate the relevant Property, together with any amount previously deposited and held in the Disposals Proceeds Account and any amount of principal scheduled to be repaid on such Payment Date is lower than £5,000,000, prepayment of the Loans will be deferred until the Payment Date on which the amount held in the Disposal Proceeds Account together with any amount of principal scheduled to be repaid on such Payment Date exceeds £5,000,000 provided that any scheduled principal shall be payable on the due date specified in the repayment schedule irrespective of such deferral.

#### *Gross-Up on Deduction or Withholding by the Borrower*

All payments made by the Borrower to the Issuer under the Facility Agreement will be made without any deduction or withholding for or on account of tax. If the Borrower is required to make any payment to the Issuer subject to any tax deduction or withholding, the amount of the payment due from the Borrower shall (subject to certain conditions being met) be increased to an amount which (after making any deduction or withholding for or on account of tax) leaves an amount equal to the payment which would have been due if no deduction or withholding for or on account of tax had been required.

#### *Facility Fees*

The Borrower will be required to pay to the Issuer a further fee for the provision of the Initial Facilities (the "**Ongoing Facility Fee**") in an amount equal to:

- (a) the aggregate of all amounts due and payable by the Issuer in respect of the Issuer Cost Amount; and
- (b) the aggregate of all amounts due and payable by the Issuer on any date (including a Payment Date) pursuant to paragraph (k) of the Issuer Pre-Enforcement Priority of Payments or paragraph (g) of the Issuer Post-Enforcement Priority of Payments,

such payments by way of Ongoing Facility Fee to be made on the date on which any such amounts are payable by the Issuer in accordance with the Issuer Pre-Enforcement Priority of Payments or, as the case may be, the Issuer Post-Enforcement Priority of Payments.

#### *Conditions Precedent*

The Original Lenders will make the Initial Loans available to the Borrower on the Closing Date subject to their receipt of certain documents and other evidence, including, without limitation:

- (a) execution of the transaction documents relating to the sale and purchase of the Properties, and the related security documents;
- (b) evidence of incorporation and the constitutional documents of each Obligor;
- (c) the Property Valuation Report;
- (d) a Certificate on Title for each Original Property and the Title Materiality Reports; and
- (e) evidence of the release of any security existing over the Original Properties.

#### *Representations and Warranties*

The Facility Agreement contains various representations and warranties made by each Obligor to the Issuer and the Borrower Security Trustee, including, without limitation, in relation to certain corporate matters, the absence of a default, its ownership of the relevant Property (if applicable) and the Borrower Security.

The representations will be made on the date of the Facility Agreement by the Borrower and the Borrower Parent; certain of the representations will be repeated by reference to the facts and circumstances then existing on the first day of each Interest Period.

#### *Undertakings*

##### *General*

The Obligors will give various undertakings in the Facility Agreement, both generally and, more specifically, in relation to the delivery of information and the Properties. These undertakings include, without limitation, those set out below. These undertakings will remain in force from the date of the Facility Agreement for so long as any amount is outstanding under the Borrower Transaction Documents.

#### *Positive Undertakings*

Each Obligor will undertake to:

- (a) maintain its ability to enter into and perform its obligations under the material Borrower Transaction Documents to which it is a party and maintain its place of principal management and its centre of main interests in its jurisdiction of incorporation; and
- (b) maintain its tax residence and status, comply with all tax laws of any relevant jurisdiction and duly and punctually pay and discharge all tax liabilities.

#### *Negative Undertakings*

Each Obligor will undertake, *inter alia*, not to:

- (a) amend its constitutional documents or any Borrower Transaction Document to which it is a party without the prior written consent of the Borrower Security Trustee in accordance with the provisions of the Borrower Debenture;
- (b) create or permit to subsist any security over any of its assets other than the security created or permitted under the Finance Documents or any lien arising by operation of law and securing amounts overdue;
- (c) dispose of any assets, other than, *inter alia*, a Property Disposal which is permitted pursuant to the Finance Documents or a disposal:
  - (i) which is a grant, or agreement to grant, an Occupational Lease made in accordance with the terms of the Facility Agreement;
  - (ii) of a Substituted Property in accordance with the Substitution Agreement;
  - (iii) of obsolete assets;
  - (iv) which is an expenditure of cash for purposes consistent with the Finance Documents;
  - (v) which is a compulsory purchase;
  - (vi) which is a Permitted Minor Disposal (including a disposal in connection with a Permitted Land Swap); or
  - (vii) which is a Property Withdrawal in accordance with the Substitution Agreement;
- (d) be a creditor in respect of financial indebtedness or incur financial indebtedness other than that arising under or permitted by a Finance Document or owed to a junior creditor whose claims against the Obligors are unsecured and subordinated to amounts owing to a Borrower Secured Creditor under the Borrower Transaction Documents;
- (e) redeem, repurchase or repay any of its share capital or issue any shares to any person;
- (f) if a Loan Default has occurred and is continuing, declare or pay any dividends or interest on unpaid dividends or distributions, fees or expenses in the nature of a distribution to any of its members or make any payments in respect of financial indebtedness owed to any of its shareholders in that capacity;
- (g) have any subsidiary (which is not an Obligor), enter into any amalgamation, demerger, merger or corporation reconstruction, enter into any contract (other than the Borrower Transaction Documents and any contract entered into on the day to day administration of its business permitted by the Facility Agreement) or enter into any transaction except on an arm's length basis and for full market value; or
- (h) acquire any asset other than (i) the acquisition of any Replacement Property in accordance with the Substitution Agreement, (ii) the acquisition of any New Property in accordance with the Facility Agreement, (iii) any asset in the ordinary course of its business in order to comply with its obligations under any head lease or Occupational Lease, (iv) the acquisition of land as part of a Permitted Land Swap or Adjoining Land Development that is permitted pursuant to the terms of the Substitution

Agreement or the purchase of the freehold interest of a Property in respect of which the Borrower is the lessee under a head lease (subject to appropriate security being granted to the Borrower Security Trustee and the Borrower having sufficient funds to make such acquisition).

#### *Disposal of Properties*

The Borrower Security Trustee shall consent to a Property Disposal if the Borrower Security Trustee is satisfied, *inter alia*, that (i) no Loan Event of Default has occurred and is continuing or would result from such Property Disposal (as certified by the Borrower) (ii) the Borrower and/or Sainsbury's (as the case may be) has complied with the requirements of the Tax Deed of Covenant relating to Property Disposals and (iii) the Disposal Proceeds arising from the disposal (as certified by the Borrower) will not be less than the aggregate of:

- (a) 110% of the Allocated Loan Amount for the relevant Property;
- (b) the Property Disposal Costs arising from the Property Disposal; and
- (c) accrued interest, break costs (including any hedge break costs) and associated costs including an amount equal to any premium payable by the Issuer in respect of the Notes in connection with the prepayment to be made as a result of the Property Disposal.

#### *Information and Financial Undertakings*

Each Obligor will undertake to supply the following information to the Issuer and the Borrower Security Trustee:

- (a) annual audited financial statements within 180 days after the end of its financial year in respect of itself and the Sainsbury's Group as a whole;
- (b) not less than five Business Days before each Payment Date, a Quarterly Management Report in respect of the preceding rental quarter;
- (c) on each anniversary of the first Payment Date a certificate signed by two directors of the Borrower confirming that no Loan Default has occurred and is continuing;
- (d) miscellaneous information including details of any litigation or similar proceedings which is/are current, pending or threatened in writing against any Obligor and such information regarding the financial condition, business, property and operation of any Obligor at the reasonable request of the Issuer; and
- (e) upon becoming aware of the occurrence of a Loan Default, notification of such Loan Default or upon request by the Borrower Security Trustee (if the Borrower Security Trustee has become aware that a Loan Default may exist), a certificate signed by two of its directors on its behalf certifying that no Loan Default has occurred and is continuing or if a Loan Default has occurred and is continuing, specifying the Loan Default and the steps, if any, being taken to remedy it.

#### *Property Undertakings - positive*

Each Obligor will undertake to:

- (a) comply with any planning permissions and planning law;
- (b) observe, perform and duly and diligently enforce all restrictive and other covenants, stipulations and obligations now or at any time affecting any Property owned by it;
- (c) comply with environmental law and obtain, maintain and ensure compliance with environmental permits and notify the Issuer and the Borrower Security Trustee if any environmental claim has been commenced or any Obligor becomes aware of any such environmental claim;
- (d) ensure that there is effected and maintained at all times specified insurances in respect of the Properties with one or more insurers having the Requisite Rating covering (i) such risks and contingencies (other than hostile aircraft) as are insured in accordance with sound commercial practice at the full reinstatement value of each Property, with sufficient provision for the cost of clearing the site and architects', engineers', surveyors' and other professional fees incidental thereto (together with provision for forward inflation), (ii) loss of Rental Income or prospective Rental Income for a period of not less than three years having regard to any potential increases in Rental Income as a result of rent reviews or contractual rent increases and (iii) third party and public liability risks;

- (e) repair and keep in good and substantial repair and condition any Property owned by it or procure that such Property is repaired and kept in good and substantial repair and condition;
- (f) notify the Issuer and the Borrower Security Trustee immediately if any part of a Property is compulsorily purchased or the applicable governmental agency or authority makes an order for the compulsory purchase of the same;
- (g) punctually pay or, by enforcing covenants on the part of the Occupational Tenant under each Occupational Lease, cause to be paid all existing and future rents, taxes, fees and all other amounts payable in respect of the Properties or any part thereof;
- (h) grant access by or on behalf of the Issuer or the Borrower Security Trustee or any person appointed by it to the Properties if it has failed to perform any obligation;
- (i) provide a Valuation from a Property Adviser of each Property on a rolling two-year basis (so that 50 per cent. of the Properties are valued one year and the remaining 50 per cent. are valued the following year) from the Closing Date until the 10<sup>th</sup> anniversary of the Closing Date and thereafter, on an annual basis;
- (j) operate and administer its interest in each Occupational Lease on arms' length terms, diligently collect all Rental Income payable under any Occupational Lease and use its best endeavours to enforce the tenant's payment obligations and to enforce in all material respects all other obligations under each Occupational Lease;
- (k) other than in relation to a head lease of a Property where the Borrower has purchased the freehold interest in such Property and granted security to the Borrower Security Trustee over such interest, observe and perform in all material respects all covenants, stipulations and obligations on the lessee under any head lease, take all commercially prudent steps to enforce all covenants on the part of the lessor thereunder, and promptly notify the Borrower Security Trustee of any matter or event under or by reason of which any such head lease has or may become subject to determination or to the exercise of any right of re-entry or forfeiture;
- (l) not permit any tenant under an Occupational Lease from incorporating any premises adjoining any Property into the premises operated by that tenant other than as provided in the Substitution Agreement and, if more than 25% of the Properties (by rental value) are subject to an Adjoining Land Development where the owner of the adjoining land is not the Borrower (an "**ALD Property**"), use its best endeavours to substitute one or more of such Properties in accordance with the terms of the Substitution Agreement to bring the number of ALD Properties below that 25% threshold,

provided, in relation to (a), (b), (c) and (e) above that failure to comply would reasonably be expected to give rise to a Property MAE.

***Property Undertakings - negative***

Each Obligor will undertake not to:

- (a) enter into or grant any lease relating to any Property (save for (i) the grant by the Borrower of the Occupational Leases in the agreed form, (ii) in accordance with the terms of the Substitution Agreement or the Facility Agreement or (iii) following the acquisition of any New Properties funded under an Additional Facility the grant of Occupational Leases in the agreed form) or:
  - (i) agree to any amendment, variation or waiver other than (1) a Permitted Amendment or (2) an amendment or waiver to a New Tenant Lease where the tenant is not a member of the Sainsbury's Group made in accordance with the principles of good estate management (as certified to the Borrower Security Trustee by two authorised signatories of the Managing Agent) and at a time when no Loan Event of Default is continuing and which would not reasonably be expected to materially and adversely affect the level of the rents payable under the Occupational Leases or the market value, or vacant possession value, of the relevant Property;
  - (ii) consent to any assignment or underletting of any tenant's interest under any Occupational Lease (other than as required to comply with the terms of the Occupational Lease or applicable legislation (and on condition that the Borrower shall enforce and shall not waive any of its rights against the tenant under an Occupational Lease in relation to such assignment or underletting, including the right to require a Maintenance of Value Certificate)), other

than the grant of an underlease or the assignment of an underlease out of a New Tenant Lease made in accordance with the principles of good estate management (as certified to the Borrower Security Trustee by two authorised signatories of the Managing Agent), and at a time when no Loan Event of Default has occurred and is continuing, and which relates to no more than 25% of the gross internal area of the buildings at the relevant Property, excluding any part of the relevant Property occupied pursuant to any Lease (other than an Occupational Lease) existing on the Closing Date;

- (iii) forfeit or exercise any right of re-entry under or exercise any option or power to break or terminate any Occupational Lease other than (A) the forfeiture, re-entry or other termination of a New Tenant Lease where the tenant is not a member of the Sainsbury's Group made in accordance with the principles of good estate management (as certified to the Borrower Security Trustee by two authorised signatories of the Managing Agent) and at a time when no Loan Event of Default has occurred and is continuing and either (1) relates to no more than 25% of the gross internal area of the buildings at the relevant Property, excluding any part of the relevant Property occupied pursuant to any Lease (other than an Occupational Lease) existing on the Closing Date or (2) which is to be replaced with a replacement Occupational Lease granted on arm's length market terms as certified to the Borrower Security Trustee by two authorised signatories of the Property Adviser or (B) the forfeiture, re-entry or other termination of an Occupational Lease where the tenant is not a member of the Sainsbury's Group made in accordance with the principles of good estate management (as certified to the Borrower Security Trustee by two authorised signatories of the Managing Agent) and at a time when no Loan Event of Default has occurred and is continuing and which is to be replaced with a replacement Occupational Lease granted to a company in the Sainsbury's Group (whose obligations are guaranteed to the Borrower by Sainsbury's) on terms that are not less favourable to the Borrower than the terms of the Occupational Lease that is being forfeited or otherwise terminated;
- (i) except for a Permitted Amendment, accept or permit the surrender of all or any part of any Occupational Lease or any underlease other than (1) the surrender of any underlease in accordance with the principles of good estate management (as certified to the Borrower Security Trustee by two authorised signatories of the Managing Agent) and at a time when no Loan Event of Default is continuing and which relates to no more than 25% of the gross internal area of the buildings at the relevant Property, excluding any part of the relevant Property occupied pursuant to any Lease (other than an Occupational Lease) existing on the Closing Date or (2) in respect of the surrender of any New Tenant Lease where the tenant is not a member of the Sainsbury's Group, which is made in accordance with the principles of good estate management (as certified to the Borrower Security Trustee by two authorised signatories of the Managing Agent) and at a time when no Loan Event of Default has occurred and is continuing and which is replaced with a replacement Occupational Lease granted on terms that are not materially less favourable to the Borrower than the terms of the New Tenant Lease that is being surrendered or (3) in respect of the surrender of any Occupational Lease made at a time when no Loan Event of Default has occurred and is continuing and which is replaced with a replacement Occupational Lease granted on terms that are not less favourable to the Borrower than the terms of the Occupational Lease that is being surrendered to a person to whom that Occupational Lease could have been lawfully assigned had the Borrower (as landlord) enforced all of its rights as landlord in respect of an assignment of the Occupational Lease that is to be surrendered and provided that, in relation to (2) and (3) above, if the replacement tenant is a member of the Sainsbury's Group, the obligations of the tenant shall be guaranteed by Sainsbury's;
- (b) terminate the appointment of the Managing Agent or appoint a replacement Managing Agent other than in accordance with the Property Management Agreement;
- (c) substitute a Property other than in accordance with the terms of the Substitution Agreement;
- (d) carry out or permit any Alterations to any Property other than:
  - (i) De Minimis or Minor Alterations provided that the conditions set out in the relevant Occupational Leases are satisfied;

- (ii) Major Alterations (as defined in the Occupational Leases) provided that the conditions set out in the relevant Occupational Leases are satisfied (as certified by two authorised signatories of the Borrower to the Borrower Security Trustee) and subject to receipt of the prior written consent of the Borrower Security Trustee on the basis of such certification;
  - (iii) alterations carried out at the cost of the Borrower in respect of premises that are not leased to, or will cease to be leased to, a member of the Sainsbury's Group (as certified by the Borrower to the Borrower Security Trustee) subject to an excess of £5 million per calendar year;
  - (iv) alterations carried out by a tenant pursuant to a statutory right (as certified by the Borrower to the Borrower Security Trustee); or
- (e) other than in relation to a head lease of a Property where the Borrower has purchased the freehold interest in such Property and granted security to the Borrower Security Trustee over such interest, waive, release or vary any obligation under or exercise any option or power to break, determine or extend any head lease, do or permit anything under any such head lease whereby the same may be forfeited or agree any increase in the rent payable under any such head lease (save where such increase is required by the terms of such head lease).

#### **Control Accounts**

The Borrower is required to procure that the Receipts Account, Disposal Proceeds Account, VAT Account, Holding Account and General Account are established in its name with the Borrower Account Bank and if the Borrower Account Bank ceases to have the Requisite Rating, the Borrower Account Bank shall be changed to another financial institution with the Requisite Rating within 30 days of such downgrade.

#### **Cash Management Arrangements**

The Facility Agreement provides that the Borrower will ensure that all its Rental Income and all amounts received in respect of Hedge Termination Receipts received from the Issuer are paid directly into the Receipts Account. The Borrower will ensure that all Net Disposal Proceeds and all Compulsory Purchase Proceeds are paid directly into the Disposal Proceeds Account. All Insurance Proceeds relating to material damage of a Property shall be paid into the Holding Account and applied in reinstatement except where reinstatement is not possible or has not been completed within the requisite period or the Occupational Tenant has ceased paying rent or the loss of rent insurance has ceased to be payable, such amounts shall be transferred to the Disposal Proceeds Account.

The Borrower Cash Manager shall, in accordance with the Borrower Cash Management Agreement and on behalf of the Borrower, apply the amounts standing to the credit of the Receipts Account in the following order of priority (the "**Borrower Pre-Enforcement Priority of Payments**") on each Payment Date in making payment of or provision for any amounts then due and payable (provided that payments may be made out of the Receipts Account other than on a Payment Date to satisfy liabilities in paragraph (c)(1) in each case only to the extent that preceding items have been paid in full and the relevant payment does not cause the Receipts Account to become overdrawn):

- (a) *first*, in or towards payment to the General Account of any unpaid ground rent or other sums due under any head lease of any Property certified by the Managing Agent on or prior to such Payment Date to be payable in the Interest Period commencing on such Payment Date;
- (b) *second*, in or towards satisfaction, *pro rata* and *pari passu* according to the respective amounts due in respect of:
  - (1) the fees, costs and expenses (including any amount in respect of or which represents VAT) and other remuneration and indemnity payments (including any amount in respect of or which represents VAT) (if any) payable to the Borrower Security Trustee or other appointees (if any) appointed by the Borrower Security Trustee under the Borrower Transaction Documents and any Liabilities (including any amount in respect of or which represents VAT) incurred by the Borrower Security Trustee or other appointees (if any) under the provisions of the Borrower Transaction Documents and any other amounts payable to the Borrower Security Trustee or such other appointees under the provisions of the Borrower Transaction Documents, together with interest thereon as provided for therein; and
  - (2) that portion of the Issuer Cost Amount which relates to amounts due to the Note Trustee pursuant to item (a) of the Issuer Pre-Enforcement Priority of Payments;

- (c) *third*, in or towards satisfaction, *pro rata* and *pari passu*, according to the respective amounts due in respect of:
- (1) any amounts due and payable by the Borrower in respect of all United Kingdom corporation tax (other than United Kingdom corporation tax arising either in relation to acquisitions and disposals of the Properties or in relation to the receipt by the Borrower of insurance proceeds), to the General Account;
  - (2) any amount of Rental Income paid into the Receipts Account representing VAT on Rental Income or Service Charge Expenses, to the VAT Account;
- (d) *fourth*, in or towards satisfaction, *pro rata* and *pari passu*, according to the respective amounts due in respect of:
- (1) any amounts payable by the Borrower in respect of the fees, costs, expenses and liabilities (including any amount in respect of or which represents VAT) of the Borrower Cash Manager under the Borrower Cash Management Agreement;
  - (2) any amounts payable by the Borrower in respect of the fees, costs, expenses and liabilities (including any amount in respect of or which represents VAT) of the Borrower Account Bank under the Borrower Account Bank Agreement; and
  - (3) any amounts payable by the Borrower in respect of the fees (including any amount in respect of or which represents VAT) of the Managing Agent under the Property Management Agreement, provided that if the Managing Agent is a member of the Sainsbury's Group, such amount shall not exceed the Maximum Property Management Fee;
- (e) *fifth*, in or towards satisfaction of amounts due and owing by the Borrower by way of Ongoing Facility Fees in respect of the Issuer Cost Amount (less the amounts paid at (b)(2) above and (f)(2) below);
- (f) *sixth*, in or towards satisfaction *pro rata* and *pari passu*, according to the respective amounts due in respect of:
- (1) any interest due but unpaid in respect of the Tranche A Loan; and
  - (2) that portion of the Issuer Cost Amount due and owing by the Borrower by way of Ongoing Facility Fees, which relates to amounts due to the Hedge Counterparties pursuant to item (e)(1) of the Issuer Pre-Enforcement Priority of Payments;
- (g) *seventh*, in or towards satisfaction of all amounts of principal and all other amounts then due and payable in respect of the Tranche A Loan;
- (h) *eighth*, in or towards satisfaction of any interest due but unpaid in respect of the Tranche B Loan;
- (i) *ninth*, in or towards satisfaction of all amounts of principal and all other amounts then due and payable in respect of the Tranche B Loan;
- (j) *tenth*, in or towards satisfaction of any interest due but unpaid in respect of the Tranche C Loan;
- (k) *eleventh*, in or towards satisfaction of all amounts of principal and all other amounts then due and payable in respect of the Tranche C Loan;
- (l) *twelfth*, in or towards satisfaction, *pro rata* and *pari passu*, of amounts due and owing by the Borrower by way of Ongoing Facility Fees to the Issuer in respect of the Issuer's obligations to pay:
- (1) Hedge Subordinated Amounts; and
  - (2) Liquidity Facility Subordinated Amounts;
- (m) *thirteenth*, in or towards satisfaction of certain specified taxes (not otherwise provided for) arising in relation to acquisitions or disposals of Properties or on the receipt by the Borrower of Insurance Proceeds;
- (n) *fourteenth*, in or towards satisfaction of all amount of interest, principal and all other amounts then due but unpaid in respect of the Subordinated Loan; and
- (o) *fifteenth*, the surplus (if any) to the Borrower or any other persons entitled thereto.

For further information in relation to the payments to be made from the Control Accounts, see "*Borrower Cash Management Agreement*" below.



### ***Loan Events of Default***

The Facility Agreement contains various events of default (each, a "**Loan Event of Default**") including the following:

- (a) non-payment (subject to a grace period of 2 Business Days if the failure to pay is caused by administrative or technical error and the failure to pay is remedied within such 2 Business Days) of any amounts due under the Facility Agreement;
- (b) any breach of the undertakings under, *inter alia*, item (a) (*centre of main interests*) under "*Positive Undertakings*", items (b) (*negative pledge*), (c) (*disposals*) and (f) (*distributions*) under "*Negative Undertakings*", items (d) (*insurance*), (j) (*Occupational Lease*) and (k) (*head lease*) under "*Property Undertakings - Positive*" and items (a) (*Occupational Lease*) and (e) (*head lease*) under "*Property Undertakings - Negative*", which is not remedied within 5 Business Days of the earlier of (a) written notice from the Borrower Security Trustee or (b) the date on which the relevant Obligor becomes aware of such breach;
- (c) any other breach of the obligations of an Obligor under the Borrower Transaction Documents which is not remedied within 21 days of written notice from the Borrower Security Trustee;
- (d) the occurrence of a Relevant Sainsbury's Company Insolvency Event at a time when a Relevant Sainsbury's Company is a tenant or guarantor under the Occupational Lease;
- (e) any financial indebtedness of an Obligor (other than financial indebtedness of an Obligor under the Borrower Transaction Documents or financial indebtedness which is subordinated to the Loans) is not paid when due (after expiry of any relevant grace period), is accelerated due to the occurrence of an event of default or any creditor of an Obligor becoming entitled to accelerate any financial indebtedness of such Obligor due to an event of default;
- (f) misrepresentation which is not remedied within 21 days of the earlier of (a) written notice from the Borrower Security Trustee or (b) the date on which the relevant Obligor becomes aware of such breach;
- (g) illegality;
- (h) the entire issued share capital of the Borrower ceases to be legally and beneficially owned by the Borrower Parent;
- (i) breach of Tax Deed of Covenant which is not remedied within the specified grace period; and
- (j) any event or series of events occurs which gives rise to a Material Adverse Effect.

### ***Acceleration***

Following the occurrence of a Loan Event of Default which has not been remedied or waived, the Note Trustee (acting on the instructions of the holders of the Most Senior Class of Notes then outstanding) may by notice to the Borrower (a "**Loan Enforcement Notice**"):

- (a) cancel all commitments under the Facility Agreement;
- (b) declare all or part of the Loans, together with accrued interest and any other amounts owing under the Finance Documents immediately due and payable, whereupon they shall become immediately due and payable;
- (c) declare all or part of the Loans to be payable on demand, whereupon they shall become immediately payable on demand by the Note Trustee; and/or
- (d) direct the Borrower Security Trustee to take any step to enforce the Borrower Security in accordance with the Borrower Debenture (see "*The Borrower Security - Enforcement*" below).

A Loan Event of Default will not necessarily cause a Note Event of Default.

### ***Definitions***

The following defined terms are relevant for the purposes of this section:

"**Allocated Loan Amount**" means, in respect of an Original Property, the amount in Sterling stated in the Facility Agreement which represents 56% of the Market Value of such Original Property as indicated under the column entitled "*Market Value subject to Proposed Lease*" of the Property Valuation Report and in

respect of a Replacement Property, the amount confirmed to the Borrower Security Trustee prior to substitution of that Property in accordance with the Substitution Agreement, as the Allocated Loan Amount for the Replacement Property (which shall represent 56% of the Market Value of such Replacement Property and shall not be less than the Allocated Loan Amount for the relevant Substituted Property).

**"Alterations"** means any development, redevelopment, demolition, reconstruction or structural alteration.

**"Compulsory Purchase"** means any disposal of a Property made pursuant to the terms of a compulsory purchase order or the exercise of any power conferred by statute, (including acquisition by the acquiring person in the context of a compulsory purchase, following an agreement with the interested persons in the land or rights, whether or not the order or power in question has been confirmed or made as required by the relevant provisions).

**"Compulsory Purchase Proceeds"** means any compensation, damages or other payment (not including any amount in respect of VAT) received by or on behalf of the Borrower in connection with any Compulsory Purchase of a Property but excluding any such compensation, damages or other payment in circumstances where the Compulsory Purchase does not (i) have any adverse effect on the Market Value of the retained part of the relevant Property as certified by a Maintenance of Value Certificate or (ii) give rise to a reduction in the rent payable under the Occupational Lease of that retained part.

**"Control Account"** means each of the General Account, the Receipts Account, the VAT Account, the Holding Account and the Disposal Proceeds Account.

**"Disposal Proceeds"** means all sums paid or payable or any other consideration given or to be given for a Property Disposal including (without limitation):

- (a) all compensation and damages received for any use or disturbance, blight or compulsory purchase;
- (b) any deposit (other than a deposit held on a stakeholder basis);
- (c) an amount equal to any indebtedness of an Obligor required to be repaid by the purchaser; and
- (d) to the extent not already part of the amounts referred to in paragraphs (a) to (c) above any amount which represents VAT chargeable in respect of any sum referred to in paragraphs (a) to (c) above.

**"De Minimis Alterations"** means:

- (a) internal or external non-structural alterations;
- (b) changes to signage; and
- (c) placing of plant and equipment solely serving the premises and any immaterial structural alterations to enable cabling works or non-structural fixings;

**"Disposal Proceeds Account"** means the account so named in the name of the Borrower opened with the Borrower Account Bank.

**"Finance Document"** means each of:

- (a) the Facility Agreement;
- (b) the Borrower Security Documents;
- (c) the Borrower Cash Management Agreement;
- (d) the Borrower Account Bank Agreement;
- (e) the Subordinated Loan Agreement;
- (f) the Property Management Agreement;
- (g) the Substitution Agreement;
- (h) the Tax Deed of Covenant;
- (i) each Transfer Certificate;

- (j) each utilisation request; and
- (k) any document designated as such by the Issuer, the Borrower Security Trustee and the Borrower.

**"General Account"** means the account so named in the name of the Borrower opened with the Borrower Account Bank.

**"Holding Account"** means the account so named in the name of the Borrower opened with the Borrower Account Bank.

**"Initial Loan"** means the Loans made or to be made under the Initial Facility or the principal amount outstanding for the time being of the Loan.

**"Lease"** means any present or future lease, underlease, sub-lease, licence, tenancy or right to occupy all or any part of a Property and any agreement for the grant of any of the foregoing.

**"Loan Default"** means a Loan Event of Default or any event or circumstance which would (with expiry of a grace period, the giving of notice, the making of any determination under the Borrower Transaction Documents or any combination of any of the foregoing) become a Loan Event of Default.

**"Major Tenant"** means:

- (a) any Relevant Sainsbury's Company; and
- (b) any tenant whose annual rental obligations under Occupational Leases, when aggregated with the annual rental obligations of any Affiliate of that tenant under Occupational Leases, exceeds 5% of the aggregate annual Net Rental Income of all Properties.

**"Maximum Property Management Fee"** means £50,000 per annum, increased on each anniversary of the Closing Date at a rate equal to 2.5 per cent. per annum.

**"Net Disposal Proceeds"** means, in relation to a Property Disposal, the Disposal Proceeds received by or on behalf of the Borrower from the Property Disposal after deducting an amount equal to the Property Disposal Costs in respect of that Property Disposal.

**"Net Rental Income"** means Rental Income received by or on behalf of the Borrower in respect of a Property after deducting (without double counting):

- (a) all Service Charge Proceeds in relation to that Property; and
- (b) any amount of Rental Income in respect of or which represents VAT; and
- (c) any unpaid ground rent and other sums due under any head lease including any amount due under such head lease in respect of or which represents VAT.

**"New Property"** means any property acquired or to be acquired with the proceeds of an Additional Loan.

**"New Tenant Lease"** means any Occupational Lease where the tenant is not a Major Tenant.

**"Obligors"** means the Borrower and the Borrower Parent and **"Obligor"** shall mean each of them.

**"Permitted Amendment"** means an amendment, variation or waiver in respect of an Occupational Lease, or Permitted Surrender, made in accordance with the principles of good estate management and the provisions of the Tax Deed of Covenant, in order to accommodate a Permitted Minor Disposal, Permitted Land Swap or Adjoining Land Development, and which does not:

- (a) provide for any reduction in rent or term or have the effect of reducing the amount of any payment due from the tenant under the relevant Occupational Lease;
- (b) have any effect on the tenant's obligations under the relevant Occupational Lease with respect to repair and maintenance, insurance, decoration, alterations, alienation or sub-letting, save in relation to the part of the Property surrendered, disposed of, exchanged or developed;
- (c) affect the terms relating to rent reviews or escalation under the relevant Occupational Lease; or
- (d) have the effect of increasing the relevant tenant's right to terminate or determine the relevant Occupational Lease.

**"Permitted Land Swap"** means a Permitted Minor Disposal where:

- (a) the consideration for the Permitted Minor Disposal is the simultaneous transfer of land contiguous to the remaining Property to the Borrower;
- (b) a supplemental Occupational Lease is entered into in respect of the swapped land on the date of its transfer to the Borrower, such supplemental Occupational Lease to be on same terms (save as to the level of principal rent) and with the same tenant as the Occupational Lease of the Property out of which such Permitted Minor Disposal is being effected; and
- (c) following the Permitted Land Swap, the aggregate of the Rental Income payable in respect of the Occupational Lease of the remaining Property out of which such Permitted Minor Disposal has been effected and the Rental Income payable in respect of the supplemental Occupational Lease of the swapped land is at least the same as the Rental Income that was payable in respect of the Occupational Lease of the relevant Property prior to the Permitted Land Swap.

**"Permitted Minor Disposal"** means the transfer or sale of the Borrower's interest in part of a Property where:

- (a) the transfer or sale is made for cash on arm's length terms or as part of a Permitted Land Swap;
- (b) the rent payable under each Occupational Lease on that Property (when aggregated, in the case of a Permitted Land Swap, with the rent payable pursuant to the supplemental Occupational Lease of the swapped land) is not reduced as a result of the transfer or sale;
- (c) the land the subject of the transfer or sale does not form part of a building on the relevant Property or part of a key access route and will not alter the then applicable access route(s) to that Property, unless an equivalent or better access route(s) is/are provided;
- (d) the transfer or sale would not impair the operation, use or enjoyment of the Property in any way which is reasonably likely to result in a material adverse impact on trading of the business being carried on at the Property by the tenant under the Occupational Lease;
- (e) the transfer or sale would not breach a planning condition affecting the Property or be made in breach of any Planning Acts, planning regulations or requirements;
- (f) the Borrower has certified to the Borrower Security Trustee that the transfer or sale would not result in a Loan Event of Default;
- (g) the Borrower has obtained and delivered to the Borrower Security Trustee a Maintenance of Value Certificate in respect of the proposed transfer or sale which shows that the Market Value of the Property will not diminish as a result of the Permitted Minor Disposal by an amount greater than the sale proceeds from the Permitted Minor Disposal that are to be made available to be applied in prepayment of the Loans; and
- (h) the Borrower has complied with the applicable provisions of the Tax Deed of Covenant.

**"Permitted Surrender"** means a surrender of part of an Occupational Lease where such surrender relates only to the Property disposed of by the Borrower in connection with a Permitted Minor Disposal or a Permitted Land Swap.

**"Property Disposal"** means any transfer, assignment or sale (including the grant of a lease at a premium and a compulsory purchase) of an Obligor's interest in all or part of any Property.

**"Property Disposal Costs"** means, in relation to any Property Disposal, the reasonable direct costs and expenses (including any amount in respect of or which represents VAT chargeable in respect of those costs and expenses in respect of which the Borrower is not entitled to credit or repayment from the relevant Tax Authority, but not including any other amount of, or liability of the Borrower to, Tax) properly incurred by the Borrower in connection with the Property Disposal.

**"Property MAE"** means:

- (a) a Material Adverse Effect;
- (b) a material adverse effect on the market value or vacant possession value of the relevant Property; or

- (c) any material liability for the Issuer or the Borrower Security Trustee on behalf of the Borrower Secured Creditors.

**"Receipts Account"** means the account so named in the name of the Borrower opened with the Borrower Account Bank.

**"Relevant Sainsbury's Company"** means each of Sainsbury's Supermarkets Ltd, Sainsbury's and any subsidiary of Sainsbury's that is a tenant under an Occupational Lease or a guarantor of a tenant's obligations under an Occupational Lease.

**"Relevant Sainsbury's Company Insolvency Event"** means:

- (a) any order is made by any competent court or resolution passed for winding up a Relevant Sainsbury's Company, or a Relevant Sainsbury's Company stops payment or threatens to stop payment of its obligations generally;
- (b) an encumbrancer takes possession or a receiver is appointed of the whole or any material part of the assets of a Relevant Sainsbury's Company or a distress or execution is levied or enforced upon or sued out against any material part of the assets of a Relevant Sainsbury's Company and is not removed, discharged or paid out within 21 days; or
- (c) an administrative receiver is appointed to a Relevant Sainsbury's Company of the whole or a material part of the assets of such Relevant Sainsbury's Company; or
- (d) an administrator or similar officer is appointed or an administration order is made with respect to a Relevant Sainsbury's Company.

**"Rental Income"** means all sums paid or payable to or for the benefit of any Obligor arising from the letting, use or occupation of all or any part of any Property, including, without limitation:

- (a) rents, licence fees and equivalent sums reserved or made payable;
- (b) sums received from any deposit held as security for performance of any tenant's obligations;
- (c) proceeds of insurance in respect of loss of rent or interest on rent;
- (d) receipts from or the value of consideration given for the grant, surrender or variation of any Lease;
- (e) any service charge payments;
- (f) proceeds paid for a breach of covenant or dilapidations under any Lease in relation to a Property and for expenses incurred in relation to any such breach;
- (g) any contribution to a sinking fund paid by an occupational tenant under an Occupational Lease;
- (h) any contribution by an occupational tenant of a Property to ground rent due under any head lease of that Property;
- (i) any payment from a guarantor or other surety in respect of any of the items listed in this definition;
- (j) interest, damages or compensation in respect of any of the items in the definition;
- (k) to the extent not already part of the amounts referred to in paragraphs (a) to (j) above, any amount in respect of or which represents VAT; and
- (l) any amount payable by the Lease Guarantor to the Borrower equal to the amount by which the Principal Rent (as defined in the Occupational Lease) payable by the Occupational Tenant in accordance with the relevant Occupation Lease has been or is reduced as a result of any compulsory purchase, any statutory apportionment or reduction of rents or any provision of statute.

**"Requisite Rating"** means a person with long or short term (as appropriate) unsecured debt instruments in issue which are neither subordinated nor guaranteed and which meet the following requirements:

- (a) in relation to a bank at which a Control Account is held or the Managing Agent's trust account into which Service Charge Proceeds are to be paid, short term instruments with ratings of P-1 (or better) by Moody's and A-1+ by S&P; and
- (b) in relation to an insurance company, an underwriter, a group of insurance companies or a group of underwriters:
  - (i) a rating with respect to long term instruments of, or a financial strength rating of A (or better) by S&P and A2 (or better) by Moody's; or
  - (ii) otherwise to the satisfaction of the Rating Agencies.

**"Service Charge Expenses"** means:

- (a) any expense or liability (but not including any expense or liability to the extent that it is a payment in respect of or which represents VAT on supplies made by the landlord to the tenant under the relevant Occupational Lease) incurred by a tenant under an Occupational Lease:
  - (i) by way of reimbursement of expenses (including amounts in respect of or which represent VAT to the extent provided for and otherwise in accordance with the relevant Occupational Lease) incurred, or on account of expenses (including amounts in respect of or which represent VAT to the extent provided for and otherwise in accordance with the Occupational Lease) to be incurred, by or on behalf of an Obligor in the management, maintenance and repair or similar obligation of, or the provision of services specified in that Occupational Lease in respect of, the relevant Property and the payment of insurance premiums for that Property;
  - (ii) to, or for expenses (including amounts in respect of or which represent VAT to the extent provided for and otherwise in accordance with the relevant Occupational Lease) incurred by or on behalf of, an Obligor for a breach of covenant where such amount is or is to be applied (in whole or in part) by that Obligor in remedying such breach or discharging such expenses; and
- (b) any contribution (but not including any amount or part of any amount in respect of or which represents VAT chargeable in respect of such contribution) to a sinking fund paid by a tenant under its Occupational Lease.

**"Service Charge Proceeds"** means any Rental Income (but not including any amount in respect of or which represents VAT) received by or on behalf of the Borrower which represents payment for Service Charge Expenses.

**"Subordinated Loan"** means the loans made or to be made under the Subordinated Loan Agreement or the principal amount outstanding under those loans.

**"VAT Account"** means the account so named in the name of the Borrower opened with the Borrower Account Bank.

### **The Subordinated Loan Agreement**

Under the Subordinated Loan Agreement, Sainsbury's Supermarkets Ltd as Subordinated Loan Provider will make a facility available to the Borrower (the "**Subordinated Loan Facility**"). On the Closing Date, the Subordinated Loan Provider will advance £371,760,000 (plus closing expenses) to the Borrower which will be used to fund the difference between (i) the purchase price payable in connection with the acquisition of the Properties and (ii) the aggregate of (a) the amount received by way of Additional Equity Injection and (b) the amount of the Initial Loans made by the Original Lenders under the Facility Agreement on the Closing Date and pay closing expenses of the Borrower (including the fees payable by the Borrower to the Issuer to enable the Issuer to pay its closing expenses).

The Borrower will be able to draw further advances under the Subordinated Loan Agreement in connection with the corresponding issue by the Issuer of New Notes and the advance by the Issuer to the Borrower of New Loans in accordance with the Facility Agreement.

The Borrower may pay interest on the Subordinated Loan on each Payment Date, to the extent that there are funds available to it to do so in accordance with the terms of the Borrower Cash Management Agreement. Any amounts of interest which have fallen due but which are not paid, will remain outstanding

and shall themselves bear interest at the same rate. The principal of the Subordinated Loan (together with any unpaid interest) will fall due to be repaid on the Payment Date falling after the date on which all of the Notes are repaid in full other than as prepaid under the Subordinated Loan Agreement.

The Subordinated Loan Provider will agree in the Subordinated Loan Agreement that all of its rights under the Subordinated Loan Agreement will be subordinated to the rights of the Issuer under the Facility Agreement.

The Subordinated Loan Agreement will be governed by English law.

### **The Borrower Account Bank Agreement**

The Borrower, the Borrower Cash Manager, the Borrower Account Bank and the Borrower Security Trustee will each enter into an agreement (the "**Borrower Account Bank Agreement**") on the Closing Date pursuant to which the Borrower will establish the Control Accounts into which all amounts of rental payments and other amounts received in connection with the Occupational Leases are required to be paid.

Payments out of the Control Accounts will be made in accordance with the provisions of the Facility Agreement, the Borrower Cash Management Agreement and the Borrower Debenture and in respect of the Control Accounts (other than the General Account) only with the prior written consent of the Borrower Security Trustee.

Pursuant to the terms of the Borrower Account Bank Agreement, the Borrower Account Bank has agreed to comply with all directions of the Borrower Cash Manager to effect payments from the Control Accounts, all in accordance with the terms of the Borrower Account Bank Agreement and the relevant bank mandate.

If the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the Borrower Account Bank are rated below the Requisite Rating, the Control Accounts are required to be transferred to another bank that has, *inter alia*, the Requisite Rating within 30 days (subject to the entering into of arrangements on similar terms to those contained in the Borrower Account Bank Agreement).

If, other than in the circumstances specified above, the Borrower Cash Manager wishes the bank or branch at which any account of the Borrower is maintained to be changed, the Borrower Cash Manager will be required to obtain the prior written consent of the Borrower and the Borrower Security Trustee, in the case of the Borrower such consent not to be unreasonably withheld, and the transfer of such account will be subject to the same directions and arrangements as are provided for above.

The Borrower shall inform the Rating Agencies of any transfer of the Control Accounts to any other bank for whatever reason.

The Borrower Bank Account Agreement will be governed by English law.

### **Borrower Cash Management Agreement**

On the Closing Date, the Borrower, the Borrower Security Trustee and the Borrower Cash Manager will enter into the Borrower Cash Management Agreement pursuant to which the Borrower Cash Manager will be appointed to act as cash manager to the Borrower in respect of amounts standing from time to time to the credit of the Control Accounts (other than the General Account). Prior to enforcement of the Borrower Security, the Borrower Cash Manager shall apply the funds standing to the credit of the Control Accounts (other than the General Account) on each Payment Date in accordance with the Borrower Pre-Enforcement Priority of Payments.

Pursuant to the Borrower Cash Management Agreement the Borrower Cash Manager will undertake certain cash management functions on behalf of the Borrower and, following the delivery of a Loan Enforcement Notice, the Borrower Security Trustee, including the following:

- (a) managing payments to and from the Control Accounts (other than the General Account) in accordance with the provisions of the Borrower Cash Management Agreement; and
- (b) in accordance with the provisions of the Borrower Cash Management Agreement, investing funds not immediately required by the Borrower in Authorised Investments.

The Borrower Cash Manager will give the Borrower Account Bank all directions necessary to enable the Borrower Account Bank to operate the Control Accounts provided that (other than in respect of the General Account) the Borrower Security Trustee has given its prior written consent to each such direction.

The Borrower will pay a fee to, and reimburse the expenses of, the Borrower Cash Manager for the performance of the services under the Borrower Cash Management Agreement.

The Borrower will be entitled, in certain circumstances and with the prior written consent of the Borrower Security Trustee, to terminate the appointment of the Borrower Cash Manager and to appoint a successor cash manager in its place.

The Borrower Cash Manager will be entitled to resign upon giving 60 days' written notice in accordance with the terms of the Borrower Cash Management Agreement.

Any such termination of appointment or retirement shall not become effective until a successor cash manager is appointed.

The Borrower Cash Management Agreement will be governed by English law.

### **Property Management Agreement**

On the Closing Date, the Borrower, the Managing Agent and the Borrower Security Trustee will enter into a Property Management Agreement pursuant to which the Managing Agent will be appointed by the Borrower to manage the Properties on behalf of the Borrower. The Managing Agent will be entitled to be paid a fee quarterly in arrear and to be reimbursed for the expenses and liabilities incurred by it in respect of its performance of the property management services in accordance with the Property Management Agreement.

The Managing Agent will be obliged to manage the Properties in accordance with the standards that would be reasonably be expected of a competent and reasonably prudent manager of properties similar to the Properties. Subject to certain conditions, the Managing Agent may subcontract or delegate the performance of all or any of its obligations under the Property Management Agreement.

The Borrower will be entitled to terminate the appointment of the Managing Agent (i) in the event that the Managing Agent fails in any material respect to perform or observe any of its duties, obligations or covenants under the Property Management Agreement (if such breach remains unremedied for a period of 30 Business Days), (ii) on the occurrence of certain insolvency events in respect of the Managing Agent or (iii) on the occurrence of a Loan Event of Default. The Managing Agent will be entitled to resign its appointment upon at least three months' notice. No such termination or resignation will be effective until a successor Managing Agent being a person which is an experienced manager of retail property is appointed by the Borrower and approved in writing by the Borrower Security Trustee.

After the 10<sup>th</sup> anniversary of the Closing Date, the Borrower Security Trustee shall (a) be entitled to request a certificate signed by two authorised signatories of the Managing Agent as to whether an event under item (i) of the previous paragraph has or has not occurred and (b) notwithstanding any such certificate, have the right (but not the obligation) to appoint an independent third party (being an experienced manager of retail property) to review the performance of the Managing Agent under the Property Management Agreement with a view to determining whether or not such an event has occurred. The Borrower Security Trustee shall not be permitted to request such a certificate or such a review more often than once every three years.

The Property Management Agreement will be governed by English law.



## THE BORROWER SECURITY

*The following is intended only to be a summary of certain provisions of, inter alia, the Borrower Security Documents.*

### **The Borrower Security**

#### *General*

The Borrower Security will secure, amongst other things, all of the obligations of, as the case may be, the Borrower and the Borrower Parent to the Borrower Secured Creditors (or any of them) pursuant to the Borrower Transaction Documents. The Borrower Security Trustee will hold the security created by the Borrower Debenture and the Borrower Legal Charge on trust for the Borrower Secured Creditors. The security created by the Securitisation Floating Charge Debenture will also be held by the Borrower Security Trustee on trust for the Borrower Secured Creditors (other than the Original Lenders).

#### ***Borrower Debenture***

As security for the Borrower Secured Obligations the Borrower and the Borrower Parent will enter into the Borrower Debenture. Pursuant to the Borrower Debenture, the Borrower will grant first fixed security, in favour of the Borrower Security Trustee, over all of its rights, title and interest in, *inter alia*:

- (a) the Properties by way of legal mortgage;
- (b) its interest in all the Rental Income;
- (c) monies standing to the credit of the Control Accounts;
- (d) insurance policies relating to the Properties and all proceeds paid or payable thereunder;
- (e) its book and other debts and monetary claims and all rights relating to the same; and
- (f) the Borrower Transaction Documents and each agreement, deed, undertaking, guarantee, covenant or other document entered into in relation to the Properties.

In addition, each of the Borrower and the Borrower Parent will grant a second ranking floating charge over all its property. As further security for the Borrower Secured Obligations, the Borrower Parent will pursuant to the Borrower Debenture grant first fixed security over the entire issued share capital of the Borrower and all its other present and future shares in the Borrower in favour of the Borrower Security Trustee.

#### ***Appointment of the Borrower Security Trustee***

The Borrower Debenture will contain provisions relating to the appointment of the Borrower Security Trustee and the terms on which it will hold the Borrower Security. The Borrower Debenture contains provisions entitling the Borrower Security Trustee to seek instructions from the Note Trustee as assignee of Issuer's rights under the Borrower Transaction Documents in relation to the exercise of its powers, duties and discretions in respect of the Borrower Security.

#### ***Modifications, Consents and Waivers***

The Borrower Debenture will provide that the Borrower Security Trustee may, without reference to the Note Trustee or the Borrower Secured Creditors authorise or waive any breach of, or agree with any relevant parties in making any modification to any of the provisions of any Borrower Transaction Document or give its consent to any event, matter or thing if:

- (a) in its opinion, the interests of the Issuer would not be materially prejudiced thereby;
- (b) in its opinion it is required to correct a manifest or demonstrable error or is of a formal, minor, administrative or technical nature or is necessary or desirable for the purposes of clarification;
- (c) it is required or permitted, subject to the satisfaction of specified conditions, under the terms of any Borrower Transaction Document and such conditions are satisfied; or
- (d) in relation to any modification or waiver in relation to which the relevant provision of the applicable Borrower Transaction Document permits the Borrower Security Trustee to give its consent subject to the satisfaction of the Ratings Test, the Ratings Test is satisfied.

## **Enforcement**

The Borrower Debenture will provide that at any time after the Borrower Security has become enforceable the Borrower Security Trustee shall, if so instructed by the Note Trustee (acting on the instructions of the holders of the Most Senior Class of Notes), enforce its rights in respect of the Borrower Security, subject to it being indemnified and/or secured to its satisfaction. However, neither the Borrower Security Trustee nor any Receiver appointed by it shall be entitled to exercise its power to sell, or grant a long lease of, the Properties in circumstances where an administrator or similar officer is appointed or an administration order is made with respect to a Relevant Sainsbury's Company and no other Loan Event of Default has occurred and is continuing unless (i) the Market Value of the Properties (taking into account the Relevant Sainsbury's Company Insolvency Event) as certified to the Borrower Security Trustee by an independent third party valuer appointed by the Borrower Security Trustee with equivalent qualification to the Property Adviser who is not the current Property Adviser at such time and annually thereafter is less than 125% of the aggregate Outstanding Principal Balance of the Loans; or (ii) the Rental Income or any part thereof in respect of which a Relevant Sainsbury's Company is the tenant or guarantor is in arrears. All rights or remedies provided for by the Borrower Transaction Documents as available at law or in equity will be exercisable by the Borrower Security Trustee.

Under the Borrower Debenture, each Borrower Secured Creditor will agree that, following enforcement of the Borrower Security (whether prior to or following an acceleration of the Borrower Secured Obligations), each Borrower Secured Creditor's claims shall rank according to the following priority of payments (the "**Borrower Post-Enforcement Priority of Payments**"):

- (a) *first*, in or towards any unpaid ground rent or other sums due under any head lease of any Property;
- (b) *second*, in or towards satisfaction, *pro rata* and *pari passu* according to the respective amounts due in respect of:
  - (1) the fees, costs and expenses (including any amount in respect of or which represents VAT) and other remuneration and indemnity payments (including any amount in respect of or which represents VAT) (if any) payable to the Borrower Security Trustee and any Receiver and other appointees (if any) appointed by the Borrower Security Trustee under the provisions of the Borrower Transaction Documents and any Liabilities (including any amount in respect of or which represents VAT) incurred by the Borrower Security Trustee and any Receiver and other appointees (if any) under the provisions of the Borrower Transaction Documents and any other amounts payable to the Borrower Security Trustee or any such Receiver and such other appointees under the provisions of the Borrower Transaction Documents, together with interest thereon as provided for therein; and
  - (2) that portion of the Issuer Cost Amount due and owing by the Borrower which relates to amounts due to the Note Trustee pursuant to item (a) of the Issuer Pre-Enforcement Priority of Payments or Issuer Post-Enforcement Priority of Payments, as the case may be;
- (c) *third*, in or towards satisfaction, *pro rata* and *pari passu*, according to the respective amounts due in respect of:
  - (1) any amounts payable by the Borrower in respect of the fees, costs, expenses and liabilities (including any amount in respect of or which represents VAT) of the Borrower Cash Manager under the Borrower Cash Management Agreement;
  - (2) any amounts payable by the Borrower in respect of the fees, costs, expenses and liabilities (including any amount in respect of or which represents VAT) of the Borrower Account Bank under the Borrower Account Bank Agreement; and
  - (3) where the Managing Agent is not a member of the Sainsbury's Group, any amounts payable by the Borrower in respect of the fees (including any amount in respect of or which represents VAT) of the Managing Agent under the Property Management Agreement;
- (d) *fourth*, in or towards satisfaction of the Issuer Cost Amount due and owing by the Borrower (less the amounts paid at (b)(2) above and (e)(2) below);
- (e) *fifth*, in or towards satisfaction, *pro rata* and *pari passu*, according to the respective amounts due in respect of:
  - (1) any interest due but unpaid in respect of the Tranche A Loan; and

- (2) that portion of the Issuer Cost Amount due and owing by the Borrower by way of Ongoing Facility Fees which relates to amounts due to the Hedge Counterparties pursuant to item (e)(1) of the Issuer Pre-Enforcement Priority of Payments or item (d)(1) of the Issuer Post-Enforcement Priority of Payments, as the case may be;
- (f) *sixth*, in or towards satisfaction of all amounts of principal and all other amounts in respect of the Tranche A Loan until such amounts have been paid in full;
- (g) *seventh*, in or towards satisfaction of any interest due but unpaid in respect of the Tranche B Loan;
- (h) *eighth*, in or towards satisfaction of all amounts of principal and all other amounts in respect of the Tranche B Loan until such amounts have been paid in full;
- (i) *ninth*, in or towards satisfaction of any interest due but unpaid in respect of the Tranche C Loan;
- (j) *tenth*, in or towards satisfaction of all amounts of principal and all other amounts in respect of the Tranche C Loan until such amounts have been paid in full;
- (k) *eleventh*, in or towards satisfaction, *pro rata* and *pari passu*, of amounts due by the Borrower in respect of the Issuer's obligations to pay:
  - (1) Hedge Subordinated Amounts; and
  - (2) Liquidity Facility Subordinated Amounts;
- (l) *twelfth*, in or towards satisfaction of all amount of interest, principal and all other amounts then due but unpaid in respect of the Subordinated Loan;
- (m) *thirteenth*, where the Managing Agent is a member of the Sainsbury's Group, any amounts payable by the Borrower in respect of the fees, costs, expenses and liabilities of the Managing Agent under the Property Management Agreement; and
- (n) *fourteenth*, the surplus (if any) to the Borrower or any other persons entitled thereto.

#### **Definitions**

"**Borrower Secured Creditors**" means:

- (a) the Borrower Security Trustee;
- (b) the Issuer;
- (c) the Original Lenders;
- (d) the Borrower Cash Manager;
- (e) the Borrower Account Bank;
- (f) the Managing Agent;
- (g) the Subordinated Loan Provider;
- (h) any Receiver appointed under the Borrower Debenture; and
- (i) any such other creditor who may accede to the Borrower Debenture from time to time in accordance with the terms thereof and is designated as a Borrower Secured Creditor.

"**Borrower Secured Obligations**" means the aggregate of all obligations, monies and liabilities (including the unpaid balance of every sum (of principal, interest or otherwise) and any liability in respect of any Loan, whether present or future, actual or contingent), which from time to time are or may become due, owing or payable by the Borrower to the Borrower Security Trustee (whether for its own account or as trustee for the Borrower Secured Creditors) or any of the other Borrower Secured Creditors under any Finance Document (other than Clause 8 of the Tax Deed of Covenant).

"**Borrower Security**" means the Security Interests created by the Borrower and Borrower Parent pursuant to the Borrower Security Documents.

"**Borrower Security Documents**" means each of:

- (a) the Borrower Debenture;
- (b) any Borrower Legal Charge;

- (c) the Securitisation Floating Charge Debenture;
- (d) the Security over Shares Deed;
- (e) any other document evidencing or creating security over any asset of an Obligor to secure any obligation of an Obligor to a Borrower Secured Creditor under the Borrower Transaction Documents; and
- (f) any other document designated as such by the Borrower Security Trustee and an Obligor.

**"Borrower Transaction Documents"** means:

- (a) each Finance Document;
- (b) each Occupational Lease;
- (c) each head lease of a Property;
- (d) each Property Transfer;
- (e) the Property Sale Agreement; and
- (f) any other agreement, instrument or deed designated as such by the Borrower and the Borrower Security Trustee.

**"Issuer Cost Amount"** means, on any Payment Date, the aggregate of the amounts required to be applied in satisfaction of items (a) to (d) and (e)(1) of the Issuer Pre-Enforcement Priority of Payments, or items (a) to (c) and (d)(1) of the Issuer Post-Enforcement Priority of Payments, as the case may be, other than scheduled payments to be made by the Issuer under the Hedge Agreements.

**"Property Sale Agreement"** means any sale agreement pursuant to which the sellers within the Vaughan Group sell the Properties to the Borrower.

**"Ratings Test"** means confirmation from the Rating Agencies (or where specified, one of them) that, in respect of any event or matter where such confirmation is required, the then current ratings of the Notes will not be materially adversely affected to the extent of being downgraded, qualified or withdrawn by the relevant event or matter in the opinion of the Rating Agencies.

The Borrower Debenture will be governed by English law.

#### ***Borrower Legal Charge***

Pursuant to the Borrower Legal Charge, the Borrower will grant first fixed security, in favour of the Borrower Security Trustee, over all of its rights, title and interest in the Properties. The security granted pursuant to the Borrower Legal Charge is supplemental to the security granted pursuant to the Borrower Debenture.

The Borrower Legal Charge will be governed by English law.

#### ***Securitisation Floating Charge Debenture***

Pursuant to a floating charge debenture to be entered into on the Closing Date (the "**Securitisation Floating Charge Debenture**") between, the Borrower, the Borrower Parent, the Issuer and the Borrower Security Trustee, each of the Borrower and the Borrower Parent will grant with full title guarantee in favour of the Borrower Security Trustee, a floating charge over all of its present and future assets, property and undertakings by way of security for a £100 loan to be made by the Issuer on the Closing Date to each of the Borrower and the Borrower Parent.

The Securitisation Floating Charge Debenture will rank above the floating charges created by the Borrower in favour of the Borrower Security Trustee pursuant to the Borrower Debenture.

The Securitisation Floating Charge Debenture will be governed by English law.

#### **Tax Deed of Covenant**

The obligations of the Borrower under the Facility Agreement will be supported by a deed of covenant (the "**Tax Deed of Covenant**") between, *inter alios*, the Issuer, the Borrower, the Borrower Parent, the Borrower Security Trustee, the Note Trustee and Sainsbury's to be dated the Closing Date under which, among other things, the Borrower, Sainsbury's and the Borrower Parent will give representations, warranties and covenants in relation to the tax affairs of the Borrower, Sainsbury's and other members of the Sainsbury's

Group. The Tax Deed of Covenant will also prohibit certain acquisitions and disposals of Properties by the Borrower in circumstances where the aggregate of the Borrower's actual and contingent tax liabilities from acquisitions and disposals of Properties or receipt of insurance proceeds has exceeded an agreed threshold and the Borrower has not put a cash reserve or other pre-agreed security mechanism in place in respect of the tax liabilities that will arise from the acquisitions or disposals in question.

The Tax Deed of Covenant will be governed by English law.

#### **Security Over Shares Deed**

In certain circumstances a contingent liability to corporation tax on chargeable gains and stamp duty land tax may arise in the Borrower with respect to certain transactions in relation to acquisitions of Properties, as more particularly described in the section entitled "*Investment Considerations - Taxation - United Kingdom Corporation Tax on Chargeable Gains*" above.

Pursuant to the Tax Deed of Covenant, Sainsbury's and the Borrower Parent will covenant with the Borrower Security Trustee not to take any steps, and, in the case of Sainsbury's, to procure that no steps are taken which would cause such a tax liability to arise, unless, before it does, it has indemnified the Borrower in respect of such tax liability. The obligations of Sainsbury's and the Borrower Parent under these provisions are secured by way of (i) a first ranking fixed charge in favour of the Borrower Security Trustee given by Sainsbury's over the entire issued share capital of the Borrower Parent and all its other present and future shares in the Borrower Parent and (ii) a second ranking fixed charge in favour of the Borrower Security Trustee given by the Borrower Parent over the entire issued share capital of the Borrower and all its other present and future shares in the Borrower.

The Security over Shares Deed will be governed by English law.

## DESCRIPTION OF THE ORIGINAL PROPERTIES

### Introduction

On the Closing Date, the Borrower will acquire from other companies in the Sainsbury's Group either the freehold title of, or the headlease in respect of, each of the Original Properties. The Original Properties are the food retail supermarkets currently operated by Sainsbury's Supermarkets Ltd.

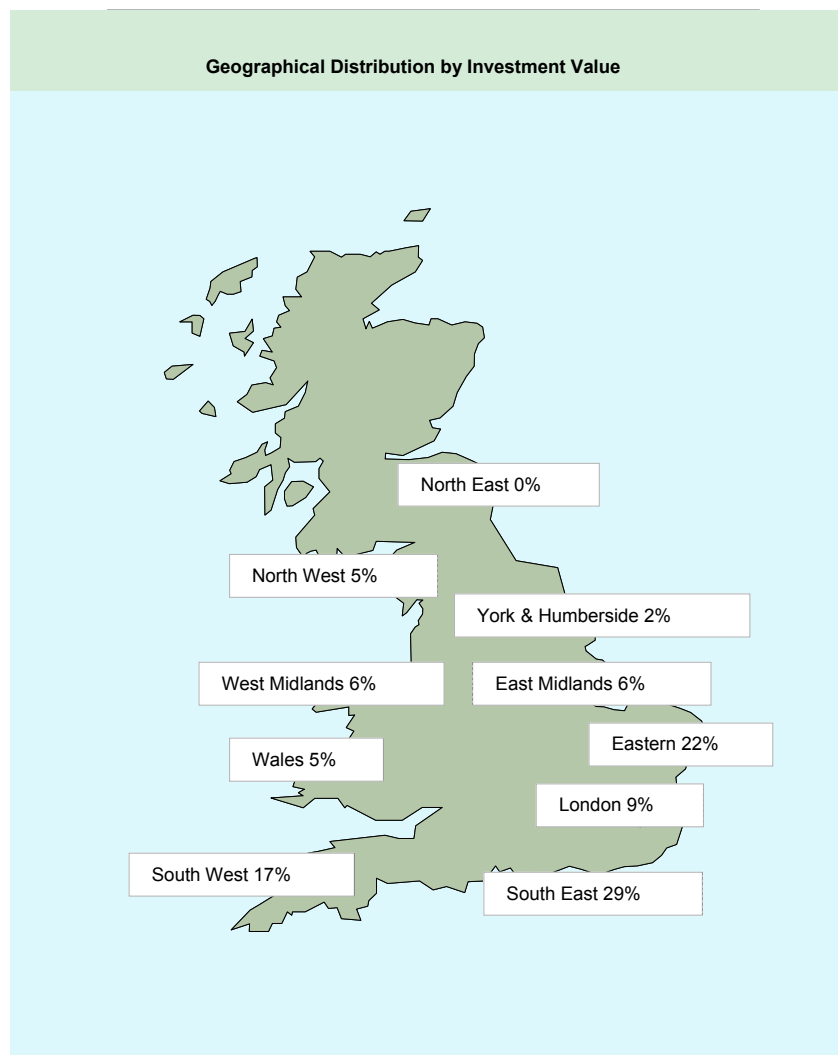
### Valuation

The Original Properties were valued by Atisreal Limited, 90 Chancery Lane, London, WC2A 1EU (the "**Initial Property Adviser**") on 20 March 2006 at £1,549,700,000 on a Market Value basis as investments making the special assumption that the Original Properties are leased upon the proposed terms. These valuations have been prepared in accordance with the Appraisal and Valuation Standards issued by the Royal Institution of Chartered Surveyors. See further - "*Property Valuation Report*".

In addition Atisreal Limited have provided advice upon the vacant possession value of each Original Property making the special assumption that the Original Properties are held with vacant possession other than subject to any third party lettings which currently exist.

### Geographical Distribution of the Original Properties

Set out below is a map showing the approximate locations of each of the Original Properties. For ease of reference, the numbers used in the list of Original Properties above are also used to locate each Original Property on the map.



## Title to the Original Properties

The Borrower, amongst others, has the benefit of the certificates of title issued by Addleshaw Goddard and Denton Wilde Sapte on 24 March 2006 in respect of each of the Original Properties (the "Certificates of Title"). The Certificates of Title certified that, subject to their terms, qualifications and reservations and on the basis set out therein, immediately before 24 March 2006, the seller had good and marketable title to the Original Properties and was solely and beneficially entitled to such interests in the Original Properties to which the Certificates of Title relate.

The Certificates of Title were given on terms and conditions, and subject to reservations common in conveyancing practice in England and Wales. Further, there are points relating to some of the Original Properties which commonly arise in relation to properties of this type in England and Wales (e.g. old restrictive covenants, title conditions, inconsistencies between the current use of the Original Properties and the use strictly permitted by the Town and Country Planning legislation and similar).

**Table 1 - Economic Region**

	Stores		Investment Value		Net Rent	
	Number	%	£	%	£	%
East Midlands	4	8%	93,400,000	6%	4,956,070	6%
Eastern	12	23%	334,300,000	22%	17,093,086	22%
London	4	8%	138,000,000	9%	6,985,235	9%
North East	-	-	-	-	-	-
North West	3	6%	73,000,000	5%	3,849,152	5%
South East	13	25%	448,600,000	29%	22,821,698	29%
South West	9	17%	264,900,000	17%	13,465,036	17%
Wales	3	6%	71,300,000	5%	3,751,606	5%
West Midlands	3	6%	92,400,000	6%	4,696,451	6%
Yorks and Humberside	1	2%	33,800,000	2%	1,666,395	2%
<b>TOTAL</b>	<b>52</b>	<b>100%</b>	<b>1,549,700,000</b>	<b>100%</b>	<b>79,284,729</b>	<b>100%</b>

**Table 2 - Sales Area (Sq ft)**

From	To	Stores		Investment Value		Net Rent	
		Number	%	£	%	£	%
0	10,000	-	-	-	-	-	-
10,001	20,000	-	-	-	-	-	-
20,001	30,000	3	6%	63,500,000	4%	3,354,622	4%
30,001	40,000	19	37%	475,200,000	31%	24,483,105	31%
40,001	50,000	19	37%	628,200,000	41%	32,043,122	40%
50,001	60,000	9	17%	316,300,000	20%	15,954,236	20%
60,001	70,000	2	4%	66,500,000	4%	3,449,644	4%
70,001	80,000	-	-	-	-	-	-
80,001	90,000	-	-	-	-	-	-
90,001	100,000	-	-	-	-	-	-
<b>TOTAL</b>		<b>52</b>	<b>100%</b>	<b>1,549,700,000</b>	<b>100%</b>	<b>79,284,729</b>	<b>100%</b>

**Table 3 - Rent (per Sq ft)**

From	To	Stores		Investment Value		Net Rent	
		Number	%	£	%	£	%
0.00	5.00	-	-	-	-	-	-
5.01	10.00	-	-	-	-	-	-
10.01	15.00	3	6%	59,300,000	4%	3,136,069	4%
15.01	20.00	16	31%	418,700,000	27%	21,801,589	27%
20.01	25.00	30	58%	949,400,000	61%	48,215,915	61%
25.01	30.00	3	6%	122,300,000	8%	6,131,156	8%
30.01	35.00	-	-	-	-	-	-
35.01	40.00	-	-	-	-	-	-
<b>TOTAL</b>		<b>52</b>	<b>100%</b>	<b>1,549,700,000</b>	<b>100%</b>	<b>79,284,729</b>	<b>100%</b>

**Table 4 - Tenure**

	Stores		Investment Value		Net Rent	
	Number	%	£	%	£	%
Freehold	48	92%	1,445,000,000	93%	73,683,550	93%
Leasehold Ground/ Geared Rent	-	-	-	-	-	-
Leasehold Peppercorn Rent	4	8%	104,700,000	7%	5,601,179	7%
Long Leasehold	-	-	-	-	-	-
Predominantly Leasehold	-	-	-	-	-	-
<b>TOTAL</b>	<b>52</b>	<b>100%</b>	<b>1,549,700,000</b>	<b>100%</b>	<b>79,284,729</b>	<b>100%</b>

**Table 5 - Yield**

From	To	Stores		Investment Value		Net Rent	
		Number	%	£	%	£	%
0.00%	4.50%	-	-	-	-	-	-
4.51%	4.75%	15	29%	534,000,000	34%	26,293,058	33%
4.76%	5.00%	33	63%	931,200,000	60%	48,323,098	61%
5.01%	5.25%	3	6%	64,400,000	4%	3,519,106	4%
5.26%	5.50%	1	2%	20,100,000	1%	1,149,467	1%
5.51%	5.75%	-	-	-	-	-	-
5.76%	6.00%	-	-	-	-	-	-
6.25%	6.50%	-	-	-	-	-	-
<b>TOTAL</b>		<b>52</b>	<b>100%</b>	<b>1,549,700,000</b>	<b>100%</b>	<b>79,284,729</b>	<b>100%</b>

**Table 6 - Location**

	Stores		Investment Value		Net Rent	
	Number	%	£	%	£	%
Retail Park	13	25%	372,800,000	24%	19,015,783	24%
Stand Alone	33	63%	1,011,700,000	65%	51,672,496	65%
Town Centre	6	12%	165,200,000	11%	8,596,450	11%
<b>TOTAL</b>	<b>52</b>	<b>100%</b>	<b>1,549,700,000</b>	<b>100%</b>	<b>79,284,729</b>	<b>100%</b>



Table 7 - Portfolio - Longstone Finance plc

Store Name	Town	Geographic Region	Tenure	Gross Area (sq ft)	Net Rent (£)	Investment Value (£)	VPV (£)
Northfleet Pepper Hill	Northfleet	South East	Freehold	78,456	2,115,468	43,000,000	44,500,000
Whitstable	Whitstable	South East	Freehold	54,196	1,212,551	22,200,000	18,800,000
Worthing Lyons Farm	Worthing	South East	Freehold	69,535	1,722,045	33,200,000	34,680,000
Ashford Bybrook	Ashford	South East	Freehold	75,096	1,528,204	29,400,000	34,500,000
Hitchin	Hitchin	Eastern	Freehold	38,618	857,320	16,500,000	13,900,000
Horsham	Horsham	South East	Freehold	86,161	2,141,909	41,300,000	40,800,000
Harringay	Harringay	London	Freehold	61,604	1,531,437	29,500,000	25,900,000
Stevenage	Stevenage	Eastern	Freehold	69,234	1,235,443	23,800,000	21,850,000
Bury St Edmunds	Bury St Edmunds	Eastern	Leasehold peppercorn rent	82,973	1,980,151	38,200,000	38,000,000
Haverhill	Haverhill	Eastern	Freehold	81,183	1,614,527	31,100,000	33,000,000
Winchmore Hill	Enfield	London	Freehold	83,448	2,122,709	40,900,000	36,700,000
Letchworth	Letchworth	Eastern	Leasehold peppercorn rent	73,387	1,247,350	24,000,000	21,800,000
Ipswich Hadleigh Road	Ipswich	Eastern	Freehold	77,398	1,063,158	20,500,000	18,800,000
Biggleswade	Biggleswade	Eastern	Freehold	53,730	1,284,751	24,800,000	29,600,000
Stevenage Coreys Mill	Stevenage	Eastern	Freehold	69,578	1,415,912	27,300,000	22,400,000
Norwich Pound Lane	Norwich	Eastern	Freehold	92,069	1,775,696	34,200,000	29,300,000
Sittingbourne	Sittingbourne	South East	Freehold	64,300	1,427,460	27,500,000	26,800,000
Blackheath	Blackheath	West Midlands	Freehold	58,636	1,342,398	25,900,000	24,100,000
Leicester Glen Road	Oadby	East Midlands	Freehold	53,395	1,183,798	22,800,000	21,280,000
Brentwood	Brentwood	Eastern	Freehold	61,871	1,430,767	29,100,000	53,500,000
Rhyl	Rhyl	Wales	Freehold	58,836	1,082,343	19,800,000	19,100,000
Bridgend	Bridgend	Wales	Freehold	75,348	1,149,999	22,200,000	24,800,000
South Ruislip	South Ruislip	London	Freehold	69,225	1,892,979	38,400,000	41,400,000
Fulham	Fulham	London	Freehold	62,379	1,438,110	29,200,000	30,250,000
Godalming	Godalming	South East	Freehold	72,371	1,799,098	36,500,000	46,300,000
Bracknell Bagshot Road	Bracknell	South East	Freehold	92,650	2,078,735	40,000,000	37,625,000
Camberley Watchmoor Park	Camberley	South East	Freehold	109,016	1,941,166	37,400,000	36,800,000
Poole Talbot Heath	Poole	South West	Freehold	82,884	1,524,729	29,400,000	29,700,000
Bristol Emersons Green	Bristol	South West	Freehold	80,120	1,793,486	36,400,000	38,300,000
Bristol Winterstoke Rd	Bristol	South West	Freehold	89,796	1,866,619	35,900,000	31,110,000
Staines	Staines	South East	Freehold	86,540	1,979,224	40,200,000	46,000,000
Fareham Broadcut	Fareham	South East	Freehold	69,516	1,626,848	33,000,000	33,950,000
Exeter Pinhoe Road	Exeter	South West	Freehold	84,898	1,900,442	38,600,000	39,100,000
Frome	Frome	South West	Freehold	58,931	1,287,827	24,800,000	36,750,000
Norwich Longwater	Norwich	Eastern	Freehold	63,932	1,496,169	30,400,000	40,650,000
York Monks Cross	York	Yorks & Humberside	Freehold	79,801	1,666,395	33,800,000	28,500,000
Worksop	Worksop	East Midlands	Freehold	63,162	1,073,557	20,700,000	18,700,000
Nantwich	Nantwich	North West	Freehold	71,159	1,520,490	29,300,000	27,400,000

Table 7 - Portfolio - Longstone Finance plc

Store Name	Town	Geographic Region	Tenure	Gross Area (sq ft)	Net Rent (£)	Investment Value (£)	VPV (£)
Coventry Canley Street	Coventry Street	West Midlands	Freehold	81,066	1,773,420	36,000,000	35,700,000
Bristol Filton	Bristol	South West	Freehold	79,456	1,580,181	32,100,000	29,200,000
Paignton	Paignton	South West	Freehold	86,285	1,508,478	29,100,000	27,900,000
Lancaster	Lancaster	North West	Freehold	59,700	1,104,450	21,300,000	18,350,000
Beeston	Beeston	East Midlands	Leasehold peppercorn rent	57,293	1,149,467	20,100,000	21,110,000
Salford	Salford	North West	Leasehold peppercorn rent	84,030	1,224,212	22,400,000	19,200,000
Newton Abbot	Newton Abbott	South West	Freehold	64,506	1,154,577	22,200,000	21,300,000
Tamworth	Tamworth	West Midlands	Freehold	75,694	1,580,633	30,500,000	31,400,000
Wrexham	Wrexham	Wales	Freehold	84,881	1,519,264	29,300,000	27,200,000
Sury Basin	Surrey	South East	Freehold	72,265	2,108,628	42,900,000	45,500,000
Chafford Hundred	Chafford Hundred	Eastern	Freehold	77,337	1,691,844	34,400,000	28,000,000
Arnold	Nottingham	East Midlands	Freehold	69,245	1,549,249	29,800,000	46,000,000
Newhaven Harbour	Newhaven	South East	Freehold	58,706	1,140,364	22,000,000	26,700,000
<b>Total</b>				<b>3,762,796</b>	<b>79,284,729</b>	<b>1,549,700,000</b>	<b>1,600,705,000</b>

## PROPERTY VALUATION REPORT

### Private & Confidential

Longstone Finance PLC  
35 Great St. Helen's  
London EC3A 6AP

Sainsbury Propco B Limited (the "**Borrower**")  
33 Holborn  
London EC1N 2HT

The Bank of New York, as Borrower Security Trustee  
48<sup>th</sup> Floor  
One Canada Square  
London E14 5AL

Morgan Stanley Bank International Limited  
Morgan Stanley & Co, International Limited  
25 Cabot Square  
Canary Wharf  
London E14 4QA

UBS AG, London Branch  
UBS Limited  
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20 March 2006

Gentlemen

### **PROJECT VAUGHAN PORTFOLIO OF 52 SAINSBURY'S FOOD SUPERSTORES**

#### **1. Terms of Reference**

- 1.1 In accordance with instructions received from J Sainsbury plc, we have inspected the 52 properties listed in the Schedule which follows in order to provide advice upon value as detailed below and for the purposes of inclusion of this report and valuation in a prospectus.
- 1.2 The properties, which are the subject of this report, comprise a portfolio of 52 food superstores currently owned and operated by J Sainsbury plc or its affiliates across the UK. 48 are held freehold, whilst 4 are held long leasehold. It is proposed that this portfolio will be transferred to the Borrower, a subsidiary of J Sainsbury plc who will be the ultimate parent company. The properties will then be leased back to Sainsbury's Supermarkets Ltd under the terms of a common 30 year lease, the terms and rents of which are summarised below. Finance will be raised against the value of and indirectly secured against the properties by a range of bonds offered to the financial markets.
- 1.3 Our valuations have been prepared in accordance with the RICS Appraisal and Valuation Standards (the "**Red Book**"). The extent of our investigations and the sources of information on which we have relied are described below and in the Valuation Procedure and Assumptions attached. In addition our valuations have been prepared in accordance with the relevant provisions of the Listing Rules issued by the London Stock Exchange.
- 1.4 All of the properties which are the subject of this exercise have been inspected by our staff during November and December 2005 and valuations have been prepared under the supervision of P M Gerold BSc FRICS and I M Watson BSc MRICS.

- 1.5 We are required by RICS regulations to disclose the following:
- 1.5.1 P M Gerold has supervised the valuation for internal management and accounting purposes of selections of properties owned by J Sainsbury plc or its affiliates on a regular basis since 2002.
  - 1.5.2 This company has been undertaking valuation, management and corporate advisory work for J Sainsbury plc as well as advising upon acquisitions and disposals since 2001.
  - 1.5.3 In our financial year ending 31 December 2005, the total fees earned from J Sainsbury plc and connected parties was less than 5% of our company turnover.
- 1.6 We can confirm that we have no interest in any of the properties and that we have undertaken this valuation in the capacity of External Valuers.

## 2. **Material Considerations**

- 2.1 A schedule is attached to this report listing each of the properties which comprise this portfolio. This schedule identifies each property by reference number, address and post code. It also provides a brief description of the property and summary detail upon tenure, gross and sales area, petrol filling station and, rental to be paid under proposed lease. Our opinion is also provided upon Market Value subject to the proposed lease after allowance for acquisition costs (5.75%), market value assuming vacant possession, together with our valuation approach adopted to derive the latter.
- 2.2 We understand that no directors of J Sainsbury plc or any other party associated with this matter has had any interest in any disposal or acquisition of any of the properties in the portfolio during the two years preceding this valuation.

## 3. **Information Provided**

- 3.1 In order to conduct this exercise, we have inspected all properties and made local enquiries including conducting interviews with the store managers. In addition we have been provided with the following information/data by J Sainsbury plc:
- 3.1.1 Store area – gross and sales
  - 3.1.2 Opening date
  - 3.1.3 Reinvigoration date
  - 3.1.4 Extension data and size
  - 3.1.5 Financial data on the store and the petrol filling stations for the financial years 2003/4 and 2004/5 and forecasts for 2005/6
  - 3.1.6 Current competition including size
  - 3.1.7 Future competitors based upon planning applications known
  - 3.1.8 Relevant town planning information
  - 3.1.9 Planned investments
- 3.2 To assist us in reaching our conclusions upon vacant possession values, we have considered current guidance available from the Competition Commission, and liaised with competition specialists, regarding assumptions which are reasonable to make for each property as to potential alternative food store operators.
- 3.3 Although we have not carried out detailed on site measurement of all stores, we have been provided with a comprehensive set of CAD drawings which for all properties we have scaled to derive gross internal floor areas (GIA) as a check against the floor areas provided. We have also carried out on site measurements of a sample of stores.
- 3.4 In the case of those areas subject to third party occupation we have conducted on site measurements to derive floor areas.

## 4. **Title**

- 4.1 During the course of our work we have liaised with the lawyers who have been appointed by J Sainsbury plc and its advisors to carry out investigation into title and to structure the proposed leases

including ensuring all issues associated with the proposed lease demise are addressed. We have reviewed final draft Certificates of Title and Title Materiality Reports produced by Addleshaw Goddard and Denton Wilde Sapte and have taken their findings into account in our valuation.

## 5. Environmental Investigation

- 5.1 Desktop environmental/due diligence has been conducted for a sample of the portfolio and we have been provided with a summary overview report. As a consequence of the desktop studies some properties were identified as presenting a potential risk due to their close proximity to major aquifers providing potable supplies. Other properties were identified as presenting a potential risk due to the historic use of the site prior to current use.
- 5.2 In all cases the advice given was preliminary and merely intended to identify potential rather than actual risk, so as to determine the scope of any future geo-environmental investigation. As a consequence in the absence of further information on either the sample or remaining properties which would enable us to quantify the potential risk or decontamination costs we have not made any adjustments to our valuations to reflect these aspects. A review of the sample suggests to us a range of issues typical of a portfolio of its size and type.

## 6. The lease

- 6.1 Each property is to be held under the terms of a standard lease
- 6.2 A summary of the principal provisions is as follows:
  - 6.2.1 The lease is to be for a standard term of 30 years with the tenant responsible for all repairs, for effecting or reimbursing the cost of insurance, and for the payment of all outgoings including rates, void rates included. The rent, payable quarterly in arrear, will be subject to annual indexation to the movement in the RPI, subject to it being contained within a 0% and + 5% per annum band.
  - 6.2.2 Alienation provisions permit assignment of the whole but not part and subletting of the whole or parts. The latter is limited to a combined total of no more than 25% of the gross internal area (GIA) or 45% if this includes all concessions. Any disposition of the whole is subject to a provision whereby the tenant provides the landlord with a "Maintenance of Value" certificate which confirms that the value of the landlords interest subject to the lease is not damaged. Otherwise alienation/subletting is subject to conventional landlord's reasonable consent.
  - 6.2.3 Alterations are tested as either De Minimis, Minor or Major. Whilst the original tenant is in occupation, he may carry out De Minimis (not effectively increasing the GIA) and Minor (not increasing the original GIA by more than 20%) subject to providing the landlord with certain information in advance. Major alterations are not only subject to landlord's reasonable consent but also to the provision by the tenant of a "Maintenance of Value" certificate confirming that the value of the landlord's interest with vacant possession is not damaged.
  - 6.2.4 Use is limited to that of a retail store with paragraph (a) of Use A1 of the Town & Country Planning (Use classes) Order 1987 together with ancillary and/or subsidiary but complimentary uses.
  - 6.2.5 Otherwise the proposed lease is drawn upon conventional market terms and not subject to any terms or provisions which impact adversely upon value.

## 7. Valuation

- 7.1 Our valuations which are detailed in the schedule which follow, comprise:
  - 7.1.1 Market Value of freehold or long leasehold interest subject to the proposed 30 year lease to be taken by Sainsbury's Supermarkets Ltd - ("**Investment Value**")
  - 7.1.2 Market Value of the freehold or long leasehold interest assuming vacant possession ("**Vacant Possession Value**")
- 7.2 All our valuations are upon the basis of Market Value. This is an internationally recognised basis and is defined as:

*"The estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."*

- 7.3 Our valuations are as at 20 March 2006 and are detailed in the Schedule, which follows.
- 7.4 The total values given below do not represent our views as to the value of these properties as a portfolio or in groups. Each property has been valued upon an individual basis and total figures given are an aggregate of those individual values.
- 7.5 Property values may change significantly over a relatively short period. Consequently our valuations may not be valid on any date other than the stated valuation date.
- 7.6 The Market Value is the price that would be agreed, with no adjustment made for cost that would be incurred by the parties to any transaction including any liability for VAT, stamp duty or other taxes. It is also gross of any mortgage or similar financial encumbrance.
- 7.7 We have not been provided with details of the VAT status of any of the properties. Our valuations are exclusive of VAT and we have assumed that there are no VAT issues which are material to value, and that the tenant would be able to recover VAT if any property individually were registered from VAT.

7.7.1 **Investment Value – aggregate value £1,549,700,000 (one billion five hundred and forty nine million seven hundred thousand pounds)**

- (i) **Special assumption** – that the interest being valued is subject to the lease to Sainsbury's Supermarkets Ltd as described.
- (ii) In arriving at our opinion of Investment Value, our approach has been to assess the value of each property individually upon a conventional investment basis, assuming the property leased and subject to the rental determined for each property and applying an all risks yield taking account of the characteristics of individual properties.
- (iii) Our valuations are individually net of an allowance of 5.75% to reflect the costs of stamp duty and fees that a purchaser would incur.

7.7.2 **Vacant Possession Value – aggregate value £1,600,705,000 (one billion six hundred million, seven hundred and five thousand pounds)**

- (i) **Special assumption** – that the interest being valued is held with vacant possession other than subject to any third party lettings which currently exist.
- (ii) We have approached the assessment of Vacant Possession Value in one of two ways.
- (iii) In most cases we have concluded that a sale of the property with vacant possession would be to another food store operator. In these circumstances, we have concluded that vacant possession value would be maximised by a sale of the property having regard to the future trading potential that would be anticipated by an incoming replacement operator.
- (iv) The value that we have determined individually upon this basis represents our assessment of the price that would be payable by an incoming operator to acquire the freehold or long leasehold interest with vacant possession but as a fully fitted store. Our assessment of future trading potential has regard to the trading achieved at each property under Sainsbury's operation, taking due account of their experience in income derived and costs incurred. We have adjusted this, to reflect the assumption that the store had ceased operation and that trading would be re-established over a period of up to 4 years in each case to return to/achieve sustainable levels.

Our vacant possession valuation by this method includes:

- (i) The land and buildings
- (ii) Fixtures, fittings and equipment but not moveable furniture and equipment.
- (iii) An assessment of the trading potential which we believe would be made by an incoming operator but excluding goodwill, an assumed ability to renew existing licences consents, registrations, permits and certificates. Stock is excluded, as is an assumption of the re-employment of existing staff.

In a very few cases where either the potential to transfer the store to another retailer is very limited or where the alternative use value exceeds that of the trading potential, we have concluded that vacant possession value is maximised by a sale of the interest for another use. This is generally for non food retailing but also may include other uses such as residential and commercial.

Our assessment of value upon this basis takes account of the prospects of achieving appropriate planning consents, timetable and risks associated including demolition costs as appropriate.

## 7.8 Rent payable

**Aggregate rents payable £79,284,729 per annum (seventy nine million, two hundred and eighty four thousand, seven hundred and twenty nine pounds per annum)**

7.8.1 We have provided separate advice upon the market rental value of each store assuming the terms of the proposed lease as described earlier. The schedule of values identifies the rent that will be payable under the proposed lease. In each case the rent shown is after an adjustment which across the portfolio has resulted in an aggregate overall reduction of 7.5%.

## 7.9 Pre existing third party investment income

7.9.1 At 8 of the properties, income is receivable from third party tenants, largely from adjacent retail units and fast food outlets which range in size from small lock up shops to much larger non food retail stores.

7.9.2 Third party investment income is underwritten by Sainsbury's Supermarkets Ltd as head tenant of the entire property which includes all third party leased areas. Our investment valuations include these third party rents which are added to the rent payable by Sainsbury's Supermarkets Ltd for the foodstore.

7.9.3 Our vacant possession valuation of any property where third party leases exist separately identifies any third party income and values this as investment income on a market value basis. This value has then been added to our vacant possession valuation.

7.9.4 We have taken no account of income derived from in store concessions. Such agreements are short term and terminable at short notice. Our valuation approach has been to assume Sainsbury's Supermarkets Ltd as tenant or the owner of the freehold/long leasehold interest if viewed with vacant possession, is in control of any accommodation affected and that vacant possession can be provided at short notice if required.

## 8. General Conditions

8.1 This report and valuation has been prepared on the basis that there has been full disclosure of all relevant information and facts which may affect the valuation.

8.2 This report may not be disclosed to any third parties, nor published in any document or circular, without our prior written consent. Although we attach a draft of a suitable abbreviated reference, our written consent to the final form and context in which it shall appear is still required.

Yours faithfully

P M Gerold  
Director

I M Watson  
Director

For and on behalf of Atisreal Limited

## VALUATION PROCEDURE AND ASSUMPTIONS

The investigations and enquiries upon which all of our valuations are based are carried out by valuation surveyors, making appropriate investigations having regard to the purpose of the valuation. Our reports and valuations are prepared in accordance with the RICS Appraisal and Valuation Standards (the “Red Book”).

Subject to any variation expressly agreed and recorded, our work will be on the basis set out below:

### 1. **Condition and Repair**

Unless specifically instructed to carry out a separate building survey, or commission a test of service installations, our valuation will assume:

- 1.1.1 That except for any defects specifically noted in our report, the property is in good condition.
- 1.1.2 That no construction materials have been used that are deleterious, or likely to give rise to structural defects.
- 1.1.3 That no hazardous materials are present.
- 1.1.4 That all relevant statutory requirements relating to use or construction have been complied with.
- 1.1.5 That any services, together with any associated computer hardware and software, are fully operational and free from impending breakdown or malfunction

### 2. **Ground Conditions and Environmental Risks**

Unless provided with information to the contrary our valuation will assume:

- 2.1.1 That the site is physically capable of development or redevelopment, when appropriate, and that no special or unusual costs will be incurred in providing foundations and infrastructure.
- 2.1.2 That there are no archaeological remains on or under the land which could adversely impact on value.
- 2.1.3 That the property is not adversely affected by any form of pollution or contamination.
- 2.1.4 That there is no abnormal risk of flooding.

We shall, however, comment on any factors discovered during the course of our valuation enquiries that could affect the market perception of risks caused by these factors.

### 3. **Tenure and tenancies**

We shall rely upon information provided by you or your solicitor relating to tenure, and related matters. We will not commission a formal legal search and will assume the information provided to be accurate, up-to-date and complete.

### 4. **Planning and highway enquiries**

We shall make informal enquiries of the local planning and highway authorities and also rely on information that is publicly published or available free of charge. Any information obtained will be assumed to be correct. No local searches will be instigated. Except where stated to the contrary, we shall assume that there are no local authority planning or highway proposals that might involve the use of compulsory purchase powers or otherwise directly affect the property.

### 5. **Floor areas**

All measurements will be taken in accordance with the RICS Code of Measuring Practice. The floor areas in our report will be derived from measurements taken on site or that have been scaled from the drawings supplied and checked by sample measurements on site.

### 6. **Plant and machinery**

We will include in our valuations those items of plant and machinery normally considered to be part of the service installations to a building and which would normally pass with the property on a sale or letting. We will exclude all items of process plant and machinery and equipment, together with their special foundations and supports, furniture and furnishings, vehicles, stock and loose tools, and tenants fixtures and fittings. In the case of our vacant possession valuations we will assume, where appropriate, that the store is fully fitted other than moveable furniture and equipment.



7. **Tenant status**

Although we reflect our general understanding of a tenant's status in our valuation, we will make no detailed enquiries about the financial status of tenants. We will assume that appropriate enquiries were made when leases were originally exchanged, or when consent was granted to any assignment or underletting.

8. **Development properties**

For properties in course of development, we will reflect the stage reached in construction and the costs remaining to be spent at the date of valuation. We have regard to the contractual liabilities of the parties involved in the development and any cost estimates that have been prepared by the professional advisers to the project. For recently completed developments we will take no account of any retentions, nor will we make allowance for any outstanding development costs, fees, or other expenditure for which there may be a liability.

**PORTFOLIO OF 52 SAINSBURY'S FOOD SUPERSTORES  
SCHEDULE OF VALUES AS AT 20 MARCH 2006**

Each property listed below will be subject to the same standard lease to J Sainsbury Plc as described in the accompanying report, subject to individual rents as detailed.

<b>Branch No</b>	<b>Property</b>	<b>Description, Age and Tenure</b>	<b>Sub-Tenancy</b>	<b>Proposed Rent £ per annum</b>	<b>Market Value Subject to Proposed Lease £</b>	<b>Vacant Possession Value £</b>
3	<b>Northfleet Pepper Hill</b> 7 Springhead Road Northfleet Kent DA11 8JH	Large standalone store with a gross internal area of 7,289 m <sup>2</sup> (78,456 sq ft) with 410 car parking spaces and a petrol filling station. Site area  2.86 ha (7.07 acres).  Built in July 1992.  Freehold.	None.	£2,115,468	£43,000,000	£44,500,000
55	<b>Whitstable</b> Thanet Way Chestfield Whitstable Kent CT5 3QS	Edge of town standalone store with a gross internal area of 5,035 m <sup>2</sup> (54,196 sq ft) with 380 car parking spaces and a petrol filling station. Site area 4.15 ha (10.25 acres).  Built in November 1992.  Freehold.	Seeboard Plc, electricity sub-station, for 99 years, expires 7 Jun 2091 at a peppercorn rent.	£1,212,551	£22,200,000	£18,800,000
58	<b>Worthing Lyons Farm</b> Downlands Business Park Upper Brighton Road Worthing West Sussex BN14 9LA	Out of town store in retail park location with a gross internal area of 6,460 m <sup>2</sup> (69,535 sq ft) with 475 car parking spaces and a petrol filling station. Site area 4.04 ha (9.98 acres).  Built in August 1993.  Freehold.	Aqualife Aquatics Limited, shop unit of 91 m <sup>2</sup> (983 sq ft) for 10 years, expiring 31 May 2014, at a rent of £24,000 per annum. There is a break option and rent review at 31 May 2009.  Seeboard Plc, electricity sub-station, for 60 years, expires 3 Jan 2053 at a peppercorn rent.	£1,722,045	£33,200,000	£34,680,000

**PORTFOLIO OF 52 SAINSBURY'S FOOD SUPERSTORES  
SCHEDULE OF VALUES AS AT 20 MARCH 2006**

Each property listed below will be subject to the same standard lease to J Sainsbury Plc as described in the accompanying report, subject to individual rents as detailed.

<b>Branch No</b>	<b>Property</b>	<b>Description, Age and Tenure</b>	<b>Sub-Tenancy</b>	<b>Proposed Rent £ per annum</b>	<b>Market Value Subject to Proposed Lease £</b>	<b>Vacant Possession Value £</b>
59	<b>Ashford Bybrook</b> Warren Interchange Simone Weil Avenue Ashford Kent TN24 8YN	Standalone store with a gross internal area of 6,977 m <sup>2</sup> (75,096 sq ft) with 630 car parking spaces and a petrol filling station. Site area 5.26 ha (13.0 acres).  Built in August 1992.  Freehold.	Seeboard Plc, electricity sub-station, for 99 years, expires 7 Mar 2092 at a peppercorn rent.	£1,528,204	£29,400,000	£34,500,000
65	<b>Hitchin</b> Whinbush Road Hitchin Hertfordshire SG5 1PU	Standalone store with a gross internal area of 3,588 m <sup>2</sup> (38,618 sq ft) with 200 car parking spaces. Site area 1.53 ha (3.79 acres).  Built in September 2001.  Freehold.	None	£857,320	£16,500,000	£13,900,000
391	<b>Horsham</b> Tanbridge School Site Worthing Road Horsham West Sussex RH12 1SQ	Town centre store with a gross internal area of 8,005 m <sup>2</sup> (86,161 sq ft) with 630 car parking spaces and a petrol filling station. Site area 3.96 ha (9.78 acres).  Built in May 1995.  Freehold.	Horsham District Council, children's play area, for 125 years, expires 23 Jun 2129 at a peppercorn rent.  Seeboard Plc, electricity sub-station, expires 19 Dec 2094 at a peppercorn rent.  Horsham District Council, piazza, for 125 years, expires 23 Jun 2129 upon at a peppercorn rent.	£2,141,909	£41,300,000	£40,800,000
406	<b>Harringay</b> Williamson Road	Standalone store with a gross internal area of 5,723	Eastern Electricity Plc, electricity sub-station, for 99 years, expires 7 Sep 2088,	£1,531,437	£29,500,000	£25,900,000

**PORTFOLIO OF 52 SAINSBURY'S FOOD SUPERSTORES  
SCHEDULE OF VALUES AS AT 20 MARCH 2006**

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<b>Branch No</b>	<b>Property</b>	<b>Description, Age and Tenure</b>	<b>Sub-Tenancy</b>	<b>Proposed Rent £ per annum</b>	<b>Market Value Subject to Proposed Lease £</b>	<b>Vacant Possession Value £</b>
	Green Lanes London N4 1UJ	m <sup>2</sup> (61,604 sq ft) with 400 car parking spaces and a petrol filling station. Site area 2.78 ha (6.87 acres).  Built in October 1989.  Freehold.	at a rent of £5 per annum.			
410	<b>Stevenage</b> The Poplars Gresly Way Stevenage Hertfordshire SG2 7DU	Standalone store with a gross internal area of 6,432 m <sup>2</sup> (69,234 sq ft) with 542 car parking spaces and a petrol filling station. Site area 2.94 ha (7.26 acres).  Built in July 1986.  Freehold.	Lloyds Pharmacy Ltd, chemist shop, 78 m <sup>2</sup> (843 sq ft) for 10 years, expires 14 Jul 2014, terms at a rent of £16,500 per annum. Rent review at 15 Jul 2004 outstanding.  Anthony Michael Tanousis, former coffee shop, 187 m <sup>2</sup> (2,022 sq ft) for 15 years, expires 26 Sep 2009, upon FRI terms at a rent of £14,163 per annum.  Eastern Electricity Board, electricity sub-station, expires 29 Mar 2089, at a rent of £1 per annum	£1,235,443	£23,800,000	£21,850,000

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411	<b>Bury St Edmunds</b> Bedingfield Way Moreton Hall Bury St Edmunds Suffolk IP32 7BT	Standalone store with a gross internal area of 7,708 m <sup>2</sup> (82,973 sq ft) with 521 car parking spaces and a petrol filling station. Site area 3.67 ha (9.07 acres).  Built in October 1987.  Long Leasehold. 125 year term from 1984 at a fixed peppercorn rent.	None.	£1,980,151	£38,200,000	£38,000,000
419	<b>Haverhill</b> Haycocks Road Haverhill Suffolk CB9 7RP	Standalone store with a gross internal area of 7,542 m <sup>2</sup> (81,183 sq ft) with 512 car parking spaces and a petrol filling station. Site area 3.10 ha (7.66 acres).  Built in September 1990.  Freehold.	None.	£1,614,527	£31,100,000	£33,000,000
420	<b>Winchmore Hill</b> Green Lanes-Haslemere Road Winchmore Hill Enfield London N21 3RS	Standalone store with a gross internal area of 7,752 m <sup>2</sup> (83,448 sq ft) with 425 car parking spaces and a petrol filling station. Site area 3.94 ha (9.74 acres).  Built in January 1991.  Freehold.	Eastern Electricity Plc, electricity sub-station, for 60 years, expires 24 Mar 2052 at a rent of £5 per annum.	£2,122,709	£40,900,000	£36,700,000

**PORTFOLIO OF 52 SAINSBURY'S FOOD SUPERSTORES  
SCHEDULE OF VALUES AS AT 20 MARCH 2006**

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<b>Branch No</b>	<b>Property</b>	<b>Description, Age and Tenure</b>	<b>Sub-Tenancy</b>	<b>Proposed Rent £ per annum</b>	<b>Market Value Subject to Proposed Lease £</b>	<b>Vacant Possession Value £</b>
421	<b>Letchworth</b> Letchworth Business Park Third Avenue Letchworth Hertfordshire SG6 2HX	Standalone store with a gross internal area of 6,818 m <sup>2</sup> (73,387 sq ft) with 540 car parking spaces and a petrol filling station. Site area 2.54 ha (6.29 acres).  Built in March 1991.  Long leasehold expiring August 2137 at a peppercorn rent.	Eastern Electricity Plc, electricity sub-station, for 99 years, expires 30 Jan 2091 at a peppercorn rent.	£1,247,350	£24,000,000	£21,800,000
422	<b>Ipswich Hadleigh Road</b> 2 Hadleigh Road London Road Ipswich Suffolk IP2 0BX	Edge of town store in a retail park location with a gross internal area of 7,190 m <sup>2</sup> (77,398 sq ft) with 465 car parking spaces and a petrol filling station. Site area 3.58 ha (8.85 acres).  Built in October 1992.  Freehold.	None.	£1,063,158	£20,500,000	£18,800,000
426	<b>Biggleswade</b> Hill Lane Biggleswade Bedfordshire SG18 0NA	Modern store, originally of Town and Country format with a gross internal area of 4,992 m <sup>2</sup> (53,730 sq ft) with 330 car parking spaces and a petrol filling station. Site area 1.95 ha (4.83 acres).  Built in November 1994.  Freehold.	None.	£1,284,751	£24,800,000	£29,600,000

**PORTFOLIO OF 52 SAINSBURY'S FOOD SUPERSTORES  
SCHEDULE OF VALUES AS AT 20 MARCH 2006**

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Branch No	Property	Description, Age and Tenure	Sub-Tenancy	Proposed Rent £ per annum	Market Value Subject to Proposed Lease £	Vacant Possession Value £
434	<b>Stevenage Coreys Mill</b> Hitchin Road Stevenage Hertfordshire SG1 4AE	Modern stand alone store with a gross internal area of 6,464 m <sup>2</sup> (69,578 sq ft) with 570 car parking spaces and a petrol filling station. Site area 3.19 ha (7.89 acres).  Built in February 1993.  Freehold.	Eastern Electricity Plc, electricity sub-station, for 99 years, expires 18 Mar 2092 at a peppercorn rent.	£1,415,912	£27,300,000	£22,400,000
441	<b>Norwich Pound Lane</b> Pound Lane Thorpe St Andrew Norwich Norfolk NR7 0SR	Purpose built edge of town centre store with a gross internal area of 8,553 m <sup>2</sup> (92,069 sq ft) with 509 car parking spaces. Site area 4.16 ha (10.28 acres).  Built in October 1989.  Freehold.	Barnardos, shop unit, 100 m <sup>2</sup> (1,076 sq ft) for 10 years, commencing 15Jul 2005, holding over upon FRI terms at a rent of £15,000 per annum.  Home Entertainment Corporation Ltd, shop unit, 127 m <sup>2</sup> (1,367 sq ft) for 15 years, expires 24 Mar 2010 upon FRI terms at a rent of £17,000 per annum.  Home Entertainment Corporation Ltd, shop unit, 98 m <sup>2</sup> (1,055 sq ft) for 15 years, expires 24 Mar 2010 upon FRI terms at a rent of £15,000 per annum.  Home Entertainment Corporation Ltd, shop unit, 98 m <sup>2</sup> (1,055 sq ft) for 15 years, expires 24 Mar 2010 upon FRI terms at a rent of £15,000 per annum.  Homeform Showrooms Ltd, shop unit, 92 m <sup>2</sup> (990 sq ft) for 10 years, expires 1 Feb 2011 upon FRI terms at a rent of £20,000 per annum with a review at 2	£1,775,696	£34,200,000	£29,300,000

**PORTFOLIO OF 52 SAINSBURY'S FOOD SUPERSTORES  
SCHEDULE OF VALUES AS AT 20 MARCH 2006**

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Branch No	Property	Description, Age and Tenure	Sub-Tenancy	Proposed Rent £ per annum	Market Value Subject to Proposed Lease £	Vacant Possession Value £
			Feb 2006.  A doctor's surgery, for 99 years, expires 24 Dec 2089 at a peppercorn rent.  Eastern Electricity Board, electricity sub-station, for 99 years, expires 20 Mar 2089 at a peppercorn rent.  Broadland Primary Care Trust, walk in surgery, for 90 years at a peppercorn rent.			
522	<b>Sittingbourne</b> Bull Ground Roman Square Sittingbourne Kent ME10 4BJ	Town Centre store with a gross internal area of 5,974 m <sup>2</sup> (64,300 sq ft) with 420 car parking spaces. Site area 2.10 ha (5.19 acres).  Built in August 1996.  Freehold.	None.	£1,427,460	£27,500,000	£26,800,000
541	<b>Blackheath Birmingham</b> Halesowen Road Blackheath Rowley Regis W Midlands B69 2AW	Town Centre store with a gross internal area of 5,447 m <sup>2</sup> (58,636 sq ft) with 480 car parking spaces and a petrol filling station. Site area 2.51 ha (6.20 acres).  Built in July 1997.  Freehold.	None.	£1,342,398	£25,900,000	£24,100,000



**PORTFOLIO OF 52 SAINSBURY'S FOOD SUPERSTORES  
SCHEDULE OF VALUES AS AT 20 MARCH 2006**

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543	<b>Leicester Glen Road</b> Glen Road Oadby Leicester LE2 4PE	Standalone store with a gross internal area of 4,961 m <sup>2</sup> (53,395 sq ft) with 420 car parking spaces and a petrol filling station. Site area 3.37 ha (8.33 acres).  Built in December 1997.  Freehold.	Churchward, Moore, O'Keefe & Dadge, doctor's surgery, 538 m <sup>2</sup> (5,791 sq ft) for  25 years, expires 28 Sep 2023 at a rent of £68,810 per annum. Next rent review on  29 Sep 2008.	£1,183,798	£22,800,000	£21,280,000
544	<b>Brentwood</b> 51 William Hunter Way Brentwood Essex CM14 4WQ	Town Centre store with a gross internal area of 5,748 m <sup>2</sup> (61,871 sq ft) with 454 car parking spaces. Site area  2.60 ha (6.43 acres).  Built in February 1998.  Freehold.	None.	£1,430,767	£29,100,000	£53,500,000
633	<b>Rhyl</b> Rhuddlan Road Rhuddlan Denbighshire LL18 2TP	Modern store adjoining a retail park with a gross internal area of 5,466 m <sup>2</sup> (58,836 sq ft) with 220 car parking spaces and a petrol filling station. Site area 3.09 ha (7.63 acres).  Built in June 1993.  Freehold.	None	£1,082,343	£19,800,000	£19,100,000

**PORTFOLIO OF 52 SAINSBURY'S FOOD SUPERSTORES  
SCHEDULE OF VALUES AS AT 20 MARCH 2006**

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643	<b>Bridgend</b> The Derwin Bridgend Mid Glamorgan CF32 9ST	Edge of town store on retail park location with a gross internal area of 7,000 m <sup>2</sup> (75,348 sq ft) with 600 car parking spaces and a petrol filling station. Site area 3.25 ha (8.03 acres).  Built in August 1993.  Freehold.	None.	£1,149,999	£22,200,000	£24,800,000
644	<b>South Ruislip</b> 11 Long Drive South Ruislip Middlesex HA4 0HQ	Standalone store with a gross internal area of 6,431 m <sup>2</sup> (69,225 sq ft) with 307 car parking spaces and a petrol filling station. Site area 2.06 ha (5.09 acres).  Built in January 1998.  Freehold.	Eastern Electricity Plc, electricity sub-station, for 99 years, expires 11 Mar 2091, at a peppercorn rent.	£1,892,979	£38,400,000	£41,400,000
658	<b>Fulham</b> 51 Townmead Fulham London SW6 2SY	Standalone store with a gross internal area of 5,795 m <sup>2</sup> (62,379 sq ft) with 309 car parking spaces. Site area 1.90 ha (4.69 acres).  Built in March 1989.  Store & Car Park Freehold.  Additionally, rolling lease for Jetty from Port of London Authority, RPI rent reviews, current rent	London Electricity, Plc, electricity sub-station, for 99 years, expires 29 March 2089, at a peppercorn rent.	£1,438,110	£29,200,000	£30,250,000

**PORTFOLIO OF 52 SAINSBURY'S FOOD SUPERSTORES**  
**SCHEDULE OF VALUES AS AT 20 MARCH 2006**

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		£4,404 pa.				
670	<b>Godalming</b> Woolsack Way Godalming Surrey GU7 1LQ	Standalone store with a gross internal area of 6,723 m <sup>2</sup> (72,371 sq ft) with 436 car parking spaces and a petrol filling station. Site area 2.66 ha (6.57 acres).  Built in March 1992.  Freehold.	None.	£1,799,098	£36,500,000	£46,300,000
673	<b>Bracknell</b> Bagshot Road Bracknell Hants RG12 3SS	Standalone store with a gross internal area of 8,607 m <sup>2</sup> (92,650 sq ft) with 600 car parking spaces and a petrol filling station. Site area 3.88 ha (9.59 acres).  Built in November 1991.  Freehold.	Drs S K Ball, A Grieg & C Burton, Doctors Surgery, for a term of 35 years expiring on 24 December 2033 at a current rent of £51,900 per annum. Next rent review 25 December 2008.	£2,078,735	£40,000,000	£37,625,000
675	<b>Camberley Watchmoor Park</b> Blackwater Valley Road Camberley Surrey GU15 3YN	Standalone store with a gross internal area of 10,128 m <sup>2</sup> (109,016 sq ft) with 572 car parking spaces and a petrol filling station. Site area 3.91 ha (9.66 acres).  Built in June 1992.  Freehold.	None.	£1,941,166	£37,400,000	£36,800,000

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676	<b>Poole Talbot Heath</b> 4 Alder Road Talbot Heath Poole Dorset BH12 4BA	Standalone store with a gross internal area of 7,700 m <sup>2</sup> (82,884 sq ft) with 511 car parking spaces and a petrol filling station. Site area 6.31 ha (15.59 acres).  Built in November 1990.  Freehold.	The Council of the Borough and County of the town of Poole Nature Reserve for a term of 999 years expiring on 16 July 2996 at a peppercorn rent.	£1,524,729	£29,400,000	£29,700,000
677	<b>Bristol, Emersons Green</b> Emersons Way Emersons Green Bristol BS16 7AE	Store in retail park location with a gross internal area of 7,443 m <sup>2</sup> (80,120 sq ft) with 632 car parking spaces and a petrol filling station. Site area 3.68 ha (9.09 acres).  Built in September 1996.  Freehold.	None.	£1,793,486	£36,400,000	£38,300,000
678	<b>Bristol – Winterstoke Road</b> 111 Winterstoke Road Ashton Bristol BS3 2NS	Standalone store with a gross internal area of 8,342 m <sup>2</sup> (89,796 sq ft) with 610 car parking spaces and a petrol filling station. Site area 4.07 ha (10.06 acres).  Built in June 1992  Freehold.	Blockbuster Express Ltd, shop unit, 361 m <sup>2</sup> (3,890 sq ft) for 25 years, expires 24 Mar 2022 on FRI terms at a rent of £39,270 per annum. Next rent review on 25 Mar 2007.	£1,866,619	£35,900,000	£31,110,000

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679	<b>Staines</b> The Causeway Staines Middx TW18 3AP	Standalone store with a gross internal area of 8,040 m <sup>2</sup> (86,540 sq ft) with 560 car parking spaces and a petrol filling station. Site area 2.44 ha (6.03 acres).  Built in April 1992.  Freehold.	None.	£1,979,224	£40,200,000	£46,000,000
681	<b>Fareham Broadcut</b> Wallington Fareham Hants P016 8SU	Store in a retail park location with a gross internal area of 6,458 m <sup>2</sup> (69,516 sq ft) with 440 car parking spaces and a petrol filling station. Site area 3.82 hectares (9.44 acres).  Built in July 1993.  Freehold.	Southern Electric Plc, electricity sub-station, for 99 years, expires 19 May 2092 at a rent of £1 per annum.	£1,626,848	£33,000,000	£33,950,000
682	<b>Exeter Pinhoe Road</b> 1 Hill Barton Road Pinhoe Exeter EX1 3PF	Stand alone edge of town centre store with a gross internal area of 7,887 m <sup>2</sup> (84,898 sq ft) with 448 car parking spaces and a petrol filling station. Site area 4.27 ha (10.55 acres).  Built in September 1993.  Freehold.	None.	£1,900,442	£38,600,000	£39,100,000

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685	<b>Frome</b> Wessex Fields Frome BA11 4DH	Store in retail park location with a gross internal area of 5,475 m <sup>2</sup> (58,931sq ft) with 355 car parking spaces and a petrol filling station. Site area 2.59 ha (6.40 acres).  Built in June 1993.  Freehold.	McDonalds Restaurants Limited, fast food restaurant, for 125 years, expires 23 June 2126, at a peppercorn rent.	£1,287,827	£24,800,000	£36,750,000
706	<b>Norwich Longwater</b> Longwater Off A1074/A47 Norwich Norfolk NR5 0JS	Store in retail park location with a gross internal area of 5,939 m <sup>2</sup> (63,932sq ft) with 682 car parking spaces and a petrol filling station. Site area 4.93 ha (12.18 acres).  Built in March 1997.  Freehold.	The Royal London Mutual Insurance Society, installation of advertising signs, commencing 28 September 2005 at a rent of £1,100 per annum with a review at 28 September 2006.	£1,496,169	£30,400,000	£40,650,000
713	<b>York Monks Cross</b> Jockey Lane Monks Cross York North Yorkshire YO3 9XX	Store in retail park location with a gross internal area of 7,414 m <sup>2</sup> (79,801 sq ft) with 481 car parking spaces and a petrol filling station. Site area 3.65 ha (9.02 acres).  Built in October 1991.  Freehold.	Northern Electric Plc, electricity sub-station, for 99 years, expires 25 December 2090 at a peppercorn rent.	£1,666,395	£33,800,000	£28,500,000

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735	<b>Worksop</b> Highground Road Rhodesia Worksop Nottinghamshire S80 3AT	Standalone store in edge of town centre location with a gross internal area of 5,868 m <sup>2</sup> (63,162 sq ft) with 382 car parking spaces and a petrol filling station. Site area 2.38 ha (5.88 acres).  Built in September 1993.  Freehold.	McDonalds Restaurant Ltd, pedestrian link, for 15 years, expires 15 December 2012 at a rent of £1 per annum.	£1,073,557	£20,700,000	£18,700,000
738	<b>Nantwich</b> Middlewich Road Nantwich CW5 6PE	Standalone store with a gross internal area of 6,611 m <sup>2</sup> (71,159 sq ft) with 410 car parking spaces and a petrol filling station. Site area 3.03 ha (7.49 acres).  Built in February 1995.  Freehold.	None.	£1,520,490	£29,300,000	£27,400,000
773	<b>Coventry Canley</b> 330 Fletchampstead Highway Coventry West Midlands CV4 9BJ	Store in retail park location with a gross internal area of 7,531 m <sup>2</sup> (81,066 sq ft) with 654 car parking spaces and a petrol filling station. Site area 3.99 ha (9.86 acres).  Built in November 1993.  Freehold.	None.	£1,773,420	£36,000,000	£35,700,000

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788	<b>Street</b> Gravechon Way Street BA16 0HS	Standalone store with a gross internal area of 5,286 m <sup>2</sup> (56,900 sq ft) with 284 car parking spaces and a petrol filling station. Site area 3.01 ha (7.44 acres).  Built in February 1996.  Freehold.	None.	£848,699	£16,400,000	£26,500,000
797	<b>Bristol Filton</b> Fox Den Road Stoke Gifford Bristol BS34 8SS	Standalone out of town store with a gross internal area of 7,382 m <sup>2</sup> (79,456 sq ft) with 413 car parking spaces and a petrol filling station. Site area 2.74 ha (6.77 acres).  Built in January 1989.  Freehold.	None.	£1,580,181	£32,100,000	£29,200,000
801	<b>Paignton</b> Brixham Road Paignton TQ4 7PE	Standalone store with a gross internal area of 8,016 m <sup>2</sup> (86,285 sq ft) with 381 car parking spaces and a petrol filling station. Site area 2.61 ha (6.45 acres).  Built in November 1996.  Freehold.	None.	£1,508,478	£29,100,000	£27,900,000



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856	<b>Lancaster</b> Cable Street Lancaster Lancashire LA1 1HH	Town centre store with a gross internal area of 5,546 m <sup>2</sup> (59,700 sq ft) with 297 car parking spaces. Site area 1.72 ha (4.25 acres).  Built in September 1985.  Freehold.	None.	£1,104,450	£21,300,000	£18,350,000
859	<b>Beeston</b> Stoney Street Beeston Notts NG9 2LA	Town centre store with a gross internal area of 5,323 m <sup>2</sup> (57,293 sq ft) with 435 car parking spaces and a petrol filling station. Freehold site area 0.53 ha (1.31 acres); leasehold site area 1.67 ha (4.12 acres).  Built in April 1995.  Part freehold (part car park)/part leasehold (main store and car parking). Held on a lease for 125 years expiring 24 March 2108 at a peppercorn rent.	Jardines UK Ltd, Unit 2, for 25 years expiring 23 June 2012 at a current rent of £11,500 per annum. Next review 24 June 2007.  Rayner & Keeler Ltd, Unit 3, for 25 years expiring 26 June 2011 at a current rent of £13,800 per annum. Next review 27 June 2006.  Heather Jane Hill, Unit 4, for 10 years expiring 27 September 2010 at a current rent of £11,000 per annum. No further reviews.  East Midlands Electricity Board, electricity sub-station, for 21 years expiring 4 February 2007, peppercorn rent.  Greater Nottingham Co-Operative Society, right of way from 49 - 53 High Road, for 118 years expiring 24 March	£1,149,467	£20,100,000	£21,110,000

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Each property listed below will be subject to the same standard lease to J Sainsbury Plc as described in the accompanying report, subject to individual rents as detailed.

<b>Branch No</b>	<b>Property</b>	<b>Description, Age and Tenure</b>	<b>Sub-Tenancy</b>	<b>Proposed Rent £ per annum</b>	<b>Market Value Subject to Proposed Lease £</b>	<b>Vacant Possession Value £</b>
			2108 at a fixed rent of £150 per annum. McDonald Property Company Limited, right of way from 55 - 57 High Road, for 118 years expiring 24 March 2108 at a fixed rent of £100 per annum. G Mansford & M Carr, right of way, for 114 years expiring 24 March 2108 at a peppercorn. B Fisher, A Eden & M Alfred, right of way, for 123 years expiring 24 March 2108 at a peppercorn			
873	<b>Salford</b> 100 Regent Road Salford Greater Manchester M5 4QU	Standalone store in retail park location with a gross internal area of 7,807 m <sup>2</sup> (84,030 sq ft) with 615 car parking spaces and a petrol filling station. Site area 3.37 ha (8.33 acres).  Built in April 1990.  Long leasehold. The property is held on a lease expiring in February 2141 at a peppercorn rent.	COIF Nominees Limited, Staples shop unit, for 137 years, expires 15 February 2141 at peppercorn rent.	£1,224,212	£22,400,000	£19,200,000

**PORTFOLIO OF 52 SAINSBURY'S FOOD SUPERSTORES  
SCHEDULE OF VALUES AS AT 20 MARCH 2006**

Each property listed below will be subject to the same standard lease to J Sainsbury Plc as described in the accompanying report, subject to individual rents as detailed.

Branch No	Property	Description, Age and Tenure	Sub-Tenancy	Proposed Rent £ per annum	Market Value Subject to Proposed Lease £	Vacant Possession Value £
882	<b>Newton Abbot</b> Keyberry Road Newton Abbot TQ12 1BN	Standalone store with a gross internal area of 5,993 m <sup>2</sup> (64,506 sq ft) with 435 car parking spaces and a petrol filling station. Site area 4.57 ha (11.30 acres).  Built in November 1996.  Freehold.	McDonald's Restaurants Ltd, fast food restaurant, for 125 years, expires 24 March 2122 at a rent of £5 per annum.	£1,154,577	£22,200,000	£21,300,000
887	<b>Tamworth</b> Bonehill Road Biterscote Tamworth Staffs B78 3HD	Store in retail park location with a gross internal area of 7,032 m <sup>2</sup> (75,694 sq ft) with 512 car parking spaces and a petrol filling station. Site area 3.07 ha (7.59 acres).  Built in March 1989.  Freehold.	None.	£1,580,633	£30,500,000	£31,400,000
890	<b>Wrexham</b> Plas Coch Road Stansty Wrexham Clwyd LL11 2BW	Standalone store with a gross internal area of 7,886 m <sup>2</sup> (84,881 sq ft) with 550 car parking spaces and a petrol filling station. Site area 3.29 ha (8.13 acres).  Built in September 1991.  Freehold.	None.	£1,519,264	£29,300,000	£27,200,000
2053	<b>Kingston</b> Richmond Road	Standalone store with a gross internal area of 6714	Esporta Plc, gym, 3,518 m <sup>2</sup> (37,862 sq ft) for 27 years, expires 28 January	£2,108,628	£42,900,000	£45,500,000

**PORTFOLIO OF 52 SAINSBURY'S FOOD SUPERSTORES  
SCHEDULE OF VALUES AS AT 20 MARCH 2006**

Each property listed below will be subject to the same standard lease to J Sainsbury Plc as described in the accompanying report, subject to individual rents as detailed.

Branch No	Property	Description, Age and Tenure	Sub-Tenancy	Proposed Rent £ per annum	Market Value Subject to Proposed Lease £	Vacant Possession Value £
	Kingston Upon Thames Surrey KT2 5EN	m <sup>2</sup> (72,265 sq ft) with 431 car parking spaces. Site area 2.58 ha (6.37 acres).  Built in December 2001.  Freehold.	2027, on full FRI terms at a rent of £437,500 per annum with a review at 29 January 2007.			
2071	<b>Chafford Hundred</b> Burghley Road Chafford Hundred Essex RM16 6QQ	Standalone store with a gross internal area of 7,185 m <sup>2</sup> (77,337 sq ft) with 422 car parking spaces and a petrol filling station. Site area 3.33 ha (8.23 acres).  Opened in August 2004.  Freehold.	Eastern Electricity Plc, electricity sub-station, for 25 years, expires 8 January 2018 at a peppercorn rent.	£1,691,844	£34,400,000	£28,000,000
2100	<b>Arnold</b> Home Brewery Nottingham Road Arnold Nottingham NG5 7EL	Store in retail park location with a gross internal area of 6,433 m <sup>2</sup> (69,245 sq ft) with 365 car parking spaces and a petrol filling station. Site area 3.51 ha (8.66 acres).  Built in December 1998.  Freehold.	None.	£1,549,249	£29,800,000	£46,000,000

**PORTFOLIO OF 52 SAINSBURY'S FOOD SUPERSTORES  
SCHEDULE OF VALUES AS AT 20 MARCH 2006**

Each property listed below will be subject to the same standard lease to J Sainsbury Plc as described in the accompanying report, subject to individual rents as detailed.

<b>Branch No</b>	<b>Property</b>	<b>Description, Age and Tenure</b>	<b>Sub-Tenancy</b>	<b>Proposed Rent £ per annum</b>	<b>Market Value Subject to Proposed Lease £</b>	<b>Vacant Possession Value £</b>
2136	<b>Newhaven Harbour</b> The Drove Newhaven BN9 0AG	Standalone store with a gross internal area of 5,454 m <sup>2</sup> (58,706 sq ft) with 420 car parking spaces and a petrol filling station. Site area 2.65 ha (6.55 acres).  Built in March 2006.  Freehold.	None.	£1,140,364	£22,000,000	£26,700,000

## DESCRIPTION OF THE OCCUPATIONAL LEASES

*The following is a summary of the principal terms and conditions of the standard form for each Occupational Lease ("**Occupational Leases**" and each of them an "**Occupational Lease**" means the leases granted in respect of the Properties on the terms described below, pursuant to which, as at the Closing Date, the Occupational Tenant is the tenant, its obligations under such leases being guaranteed by the Lease Guarantor).*

### **Principal terms**

The principal terms of each Occupational Lease are as follows:

### **Initial Parties**

Each Occupational Lease is granted by the Borrower (the "**Landlord**") to Sainsbury's Supermarkets Ltd (the "**Occupational Tenant**"). The Occupational Tenant's obligations under each Occupational Lease are guaranteed by Sainsbury's (the "**Lease Guarantor**").

### **Term**

A term of years expiring 30 years from the Closing Date. Security of tenure will be excluded.

### **Leased property**

There is a separate lease of each Property.

### **Rent**

The initial rents are set out in the Property Valuation Report opposite the name of the relevant Property.

The initial rents include an index-linked element and will be adjusted annually by reference to the LPI Index Factor (provided that references in such definition to the Payment Dates should refer to Rent Payment Dates and reference to April of any calendar year should refer to March of any calendar year). Rent is payable without deductions or set-off quarterly in arrear on 25 March, 24 June, 29 September and 25 December (the "**Rent Payment Dates**") in every year of the term, the final day of the term will also be a Rent Payment Date.

### **Interest on late rent**

Interest is payable at 2% over the base rate of Barclays Bank plc from time to time (or such other London clearing bank as the Landlord may nominate in writing) on the principal rents, if such rent is not paid on the Rent Payment Date (for the avoidance of doubt, there is no grace period).

### **Rents net of additional charges, costs and expenses**

The Occupational Tenant is responsible for the payment of all existing and future rates, duties, charges, assessments, impositions and other outgoings.

### **Repairs**

The Occupational Tenant is to keep all parts of the land and buildings on the property in good and tenable repair and condition. The landlord's fixtures and fittings and equipment are to be replaced when beyond repair with new items of similar quality.

If the property is damaged or destroyed whether or not by an insured risk then the Occupational Tenant is to reinstate the property (save where the landlord insures (see below)).

### **Alterations**

For so long as Sainsbury's Supermarkets Ltd is the Occupational Tenant, it may (a) carry out internal or external non-structural alterations, changes to signage and other minor operational alterations to the premises subject only to obtaining any necessary consents of superior landlords, and (b) carry out structural alterations or additions which increase the gross external area of buildings on the premises but not by more than 20% ("**Minor Alterations**") subject, in addition to any necessary such superior landlord's consents, that it also complies with requirements to supply reasonable written details of the proposed works to the Landlord and any mortgagee, and appoints appropriate professional(s) to be responsible for design and supervision and where it would be usual practice to do

so, contractors, professionals and principal sub-contractors providing collateral warranties in favour of the Landlord and to supply to the Landlord and any mortgagee a certificate signed by two directors of the Occupational Tenant certifying that the Minor Alterations do not form part of a larger scheme or series of works and no other alterations are envisaged and all other requisite consents and permits have been obtained for the commencement of the proposed alterations. Where proposed structural alterations or additions are not Minor Alterations the tenant may not carry out such works without, in addition to the requirements set out above, the Landlord's prior written consent (such consent not to be unreasonably withheld) and the tenant delivering to the Landlord and the Borrower Security Trustee a certificate signed by two authorised signatories of the Property Adviser (a) confirming that the alteration in question does not adversely affect the Market Value of the premises (a "**Maintenance of Value Certificate**") and (b) certifying in writing to the Landlord that it has available to it requisite funds or funding arrangements in order to meet all payments for the completion of the proposed Major Alteration.

Where Sainsbury's Supermarkets Ltd is not the Occupational Tenant, the Occupational Tenant (i) may carry out the works as described in (a) above, subject to the Occupational Tenant first obtaining all necessary consents from the superior landlord (ii) is prohibited from carrying out any works the net effect of which is to reduce the gross external area of the buildings on the premises, and (iii) in relation to all other alterations whether Minor Alterations or otherwise, may carry out such alterations subject to, the requirements set out above for Minor Alterations, and the requirements for landlord's consent and provision of a Maintenance of Value Certificate as set out above.

In relation to all works carried out at the Properties by Occupational Tenant(s) there are additional requirements concerning the manner of carrying out and standards to which such works must be completed.

#### ***Reinstatement***

All alterations or additions, if the Landlord reasonably requires, are to be reinstated at the end (or sooner determination) of the term, in doing so well and substantially reinstating the Property, and at the Occupational Tenant's discretion all Occupational Tenant's plant removed. In addition the Occupational Tenant is obliged to effect separation works to be carried out to the Landlord's reasonable satisfaction so that buildings on the Property are wholly separated from any structures on any adjoining land.

#### ***Permitted use***

The permitted use under the Occupational Leases is use as a retail store within paragraph (a) of Class A1 of the Town and Country Planning (Use Classes) Order 1987 together with such ancillary and/or subsidiary but complementary uses, including but not restricted to a banking (or other financial services) facility, a coffee shop, a restaurant, a pharmacy, dry cleaners, crèche, post office, doctors'/dentists' surgeries, petrol filling station and/or car wash, estate agent, travel agent, and any additional use permitted pursuant to any existing lease or renewal thereof as at the Closing Date over part of the Property in favour of any third party.

#### ***Assignment and Underletting***

Transfer of any part of a Property by the Occupational Tenant is prohibited. Transfer of the whole by the Occupational Tenant is permitted subject to the Landlord's prior written consent (not to be unreasonably withheld).

It is agreed that in certain circumstances it shall be reasonable for the Landlord to withhold such consent to assign, in particular, where (a) the proposed transferee is not resident or incorporated in the United Kingdom, (b) the proposed transferee is a group company of the transferor, (c) the proposed transferee has a right or claim to sovereign or diplomatic immunity or exemption from liability in respect of any of the Occupational Tenant's covenants in the lease, or (d) where there are any current arrears of rent or outstanding material breaches of the Occupational Tenant's covenants in the Occupational Lease.

It is also agreed that it is reasonable for the Landlord to impose certain conditions upon any transfer, including (a) that if the Landlord shall reasonably so require the transferor shall procure an acceptable guarantor of a proposed transferee, (b) that the transferor and any guarantor for it shall execute an authorised guarantee agreement, or (c) that the transferor shall obtain and deliver to the

landlord a Maintenance of Value Certificate in respect of the proposed transfer (assuming the Occupational Lease remains in place with the proposed assignee as tenant).

The Occupational Tenant may underlet part of the premises with the Landlord's prior written consent (not to be unreasonably withheld) if, *inter alia*, the gross internal area of the permitted part, when aggregated with the gross internal area of any other existing or proposed underlet parts of the premises, does not exceed 25% (not taking into account any sub-leases existing as at the Closing Date) of the gross internal area of the premises at the time of the proposed underletting (subject to such underlet premises when aggregated with any licensed, franchised or concessionary space as set out below not exceeding 45% of the gross internal area of the premises). The underlet space must comprise space capable of being occupied and used as a separate economic unit with all necessary services and access and the Landlord and Tenant Act 1954 must be excluded from the ambit of the underlease.

The Occupational Tenant may underlet a proportion of space of each property with an element of turnover rent subject to there being not more than 2 such occupations of each Property accounting for not more than 15,000 square feet and with a minimum base rent not less than 90% of market rental value at the relevant time.

The Occupational Tenant may underlet the whole of the premises with the Landlord's prior written consent (not to be unreasonably withheld) if, *inter alia*, the Occupational Tenant shall obtain and deliver to the Landlord a Maintenance of Value Certificate in respect of the proposed underletting.

The Occupational Tenant may grant licences, concessions or franchises for the operation of one or more departments of the business or permitting an occupation of part provided that such occupations shall not in aggregate occupy in excess of 30% of the gross internal area of buildings on the property and either such occupation does not create the relationship of landlord and tenant or is excluded from the statutory security of tenure provisions (subject to the aggregated cap on not more than 45% of the gross internal area of the premises being underlet or the subject of a licence, franchise or concession).

The Occupational Tenant may share occupation of the whole or any part of the premises with a company which is and remains a group company for so long as such occupation does not create the relationship of landlord and tenant.

### ***Insurance***

For so long as the Occupational Tenant is Sainsbury's Supermarkets Ltd the Occupational Tenant at its own cost is to insure (but the Landlord may do so at the cost of the Occupational Tenant if the Occupational Tenant does not) with an insurance company or office with at least the Requisite Rating:

- (a) the property in its full reinstatement value. The insured risks are (to the extent that any of the same are insurable in the United Kingdom or European insurance market) fire, storm, tempest, flood, earthquake, lightning, terrorism, explosion, impact, aircraft (other than hostile aircraft) and other aerial devices and articles dropped from them, riot, civil commotion and malicious damage, bursting or overflowing of water tanks, apparatus or pipes, and such other risks as the Landlord or the Occupational Tenant may from time to time reasonably require;
- (b) third party public liability and property owner's risk; and
- (c) loss of the principal rent (including such amounts as the Landlord may reasonably consider prospectively payable on review) for three years (or such longer period as the Landlord or the Occupational Tenant shall reasonably require).

The insurance is to be effected with the Borrower and the Borrower Security Trustee named as co-insured. Such insurance is only to contain such deductions, excesses, exclusions and terms as are normal in the United Kingdom or European insurance markets. If at any time the insurer does not maintain a Requisite Rating the Occupational Tenant shall immediately notify the Landlord in writing and shall within 90 days of such notification replace such insurer with a replacement insurer with a Requisite Rating.

Where Sainsbury's Supermarkets Ltd is no longer the Occupational Tenant, the Landlord assumes the obligation to insure the property on the same basis as described above and may recover the costs of doing so from the Occupational Tenant as rent payable on demand. In these circumstances, where the premises have been damaged by an insured risk, it shall be the Landlord's obligation (subject



to all necessary consents) to lay out the buildings insurance proceeds in reinstating the premises. Furthermore in circumstances where the premises (or part of them) are damaged so as to be unfit for occupation and use, the principal rent (or a fair proportion of it) payment obligation shall be suspended from the date the Landlord first becomes entitled to receive the loss of rent insurance proceeds until the expiry of such loss of rent insurance or the premises being rebuilt or reinstated (whichever is the sooner)

### ***Right of Renewal***

The Occupational Tenant has a contractual right to renew any Occupational Lease at the expiry of the contractual term by giving notice not more than 60 months nor less than 12 months prior to the expiry of the term. The new lease is to be on the same terms as the existing Occupational Lease for a term of 10, 15, 20, 25 or 30 years, however it will not be contracted outside the security of tenure protection of the Landlord and Tenant Act 1954 (so that any statutory security of tenure will be available to the Tenant), will not contain a further contractual right of renewal and the principal rent is to be rebased by a review to the then market rent.

### ***Superior Leases***

The Occupational Tenant covenants to perform and observe the Landlord's covenants in any superior lease save those relating to the payment of principal rent and other sums due under such superior lease (albeit such sums are recoverable from the Occupational Tenant as additional rent pursuant to the Occupational Lease).

### ***Forfeiture***

The Landlord may forfeit the Occupational Lease (subject to the relevant English statutory framework allowing the Occupational Tenant to claim relief from forfeiture in certain circumstances) on the occurrence of any of the following:

- non-payment of the rents or any part of them for ten business days after it becomes payable, whether formally demanded or not;
- breach of covenant;
- on the Occupational Tenant's insolvency;
- on the Lease Guarantor's insolvency.

### ***VAT***

The Occupational Tenant must pay an amount equal to all VAT chargeable on any taxable supplies made to it under the Occupational Lease in addition to any other consideration for such supplies.

### ***Indemnity***

The Occupational Tenant has covenanted not to do or omit or permit or suffer any act or thing or omit to do anything in, on or under the property that may subject the Borrower or Borrower Security Trustee to any liability or responsibility for injury or damage or to any liability by reason of failing to comply with a legal requirement or a requirement of any governmental authority. The Occupational Tenant further covenants to indemnify the Borrower in respect of a wide range of matters if they occur during the term of the Occupational Lease, including in respect of anything done at the property, any use, possession, occupation, alteration, condition, operation or management of the Property, any act, omission or negligence by the Occupational Tenant or any undertenant or any of its or their respective officers, agents, employees, contractors, invitees or licensees, any injury to third parties or their property, any damage to the environment, any breach by the Occupational Tenant of any covenant, any failure to comply with any statutory obligations (including those relating to hazardous materials), any lien or claim which is alleged to have arisen in relation to a Property or created by the Occupational Tenant against any asset, any breach of covenants, restrictions, obligations or other provisions to be observed and performed by the Occupational Tenant in relation to the Property.

## SUBSTITUTION OF PROPERTIES

### **The Substitution Agreement**

On the Closing Date each of Sainsbury's Supermarkets Ltd ("SSL"), the Lease Guarantor, the Borrower and the Borrower Security Trustee will enter into an agreement (the "**Substitution Agreement**") under which the Borrower will be entitled to require a substitution of or, in certain circumstances, will be obliged to substitute, a Property. The Substitution Agreement will further provide that in certain circumstances the Borrower will be entitled to a release of a Property or Properties by withdrawal. A Property may be substituted only in accordance with the provisions of the Substitution Agreement.

The Substitution Agreement in certain circumstances will provide for the posting of security by SSL in connection with proposed Alterations to a Property.

The Lease Guarantor will guarantee the obligations of SSL under the Substitution Agreement.

### ***Substitutions***

The Borrower may (at its election) or, following a Substitution Event, must substitute a Property (a "**Substituted Property**") with a replacement property (a "**Replacement Property**").

A "**Substitution Event**" occurs when a competent authority makes an order to purchase the whole or part of a Property or the rights which benefit it by the exercise of compulsory purchase powers and the purchase is likely to reduce the Investment Value of the Property by at least 10%.

A substitution is only permitted if the following criteria are satisfied:

#### ***Income/Value Criteria***

- (a) The Investment Value of the Replacement Property is at least the same as the Investment Value of the property to be substituted (the "**Substituted Property**").
- (b) The Market Rental Value of, and the rent to be reserved by, the Occupational Lease of the Replacement Property will be respectively at least the same as the Market Rental Value of, and the rent reserved by, the Occupational Lease of the Substituted Property.
- (c) The Vacant Possession Value of the Replacement Property is no less than the Vacant Possession Value of the Substituted Property.

All valuations are to be undertaken by the Property Adviser on the basis that it owes a duty of care to the Borrower and the Borrower Security Trustee.

#### ***Qualitative Criteria***

- (a) The Replacement Property is primarily a retail supermarket or superstore.
- (b) The geographic concentration of the Properties by area will be within the following limits on completion of the substitution.

#### **% Vacant Possession Value**

<b>Area</b>	<b>Limits at the date of relevant substitution</b>
Greater London	5-35%
South East	10-40%
Eastern	5-35%
East Midlands and West Midlands	5-35%
North, North West, Yorkshire and Humberside	5-35%
South West & Wales	5-35%

#### ***Legal/technical Criteria***

- (a) The Replacement Property is located in England or Wales;
- (b) The Replacement Property is owned by a Sainsbury's Group company freehold or leasehold for a term of years not less than 125 years;
- (c) If the Replacement Property is leasehold, the terms of the lease satisfy specified requirements and are suitable for security purposes;
- (d) The Borrower and the Borrower Security Trustee receive (1) a certificate of title from the Borrower's solicitors disclosing no materially adverse matters in respect of the Replacement Property (2) a structural report in respect of the Replacement Property disclosing no materially adverse matters (if the costs of remedying any defect or want of repair will not exceed 0.5% of the Vacant Possession Value of the Replacement Property such a matter will not be considered to be materially adverse for these purposes) and (3) a desktop environmental report disclosing that the environmental risk with respect to the Replacement Property is considered to be low;
- (e) Certain other conditions precedent set out in the Substitution Agreement are satisfied and the conditions in the Tax Deed of Covenant for substitutions are met,

(such criteria as set out under the headings "*Income/Value Criteria*", "*Qualitative Criteria*" and "*Legal/Technical Criteria*", being the "**Substitution Criteria**").

The Occupational Lease of the Replacement Property shall be on substantially the same terms as the Occupational Lease of the Substituted Property including in particular the same term and rental uplifts.

If the Substitution Criteria are not met or if the relevant substitution would result in Properties accounting for more than the Substitution Threshold having been substituted or if a Loan Event of Default has occurred and is continuing under the Facility Agreement or there is a subsisting forfeiture event in respect of any Occupational Lease, then the substitution will not be permitted without the prior written consent of the Borrower Security Trustee and confirmation that the Ratings Test is satisfied in respect of S&P.

The Occupational Tenant will be responsible for all stamp duty land tax or similar taxes which are payable in connection with a substitution. All reasonable legal and other costs and expenses incurred by the parties in connection with a substitution are to be paid by SSL but each of the parties is to bear its own liability for any tax arising out of any substitution except as mentioned in the previous paragraph.

For the purposes of the Substitution Agreement:

"**Coverage Projection Ratio**" means the ratio, expressed as a percentage that (x) the aggregate amount of the certificated net rent under the Occupational Leases of the Properties that is scheduled to fall due for payment to the Borrower from the date the proposed Withdrawal has taken place to the relevant Expected Maturity Date bears to (y) the aggregate amount of the Quarterly Payment Amounts payable by the Borrower in respect of the Loans in the same period. For this purpose, it shall be assumed that (i) rents will increase in accordance with terms of the Occupational Lease and (ii) the Quarterly Payment Amounts will increase in accordance with the terms of the Facility Agreement, each on the basis of the LPI Index Factor for the Interest Period in which the relevant Withdrawal is to be made;

"**Geographic Test**" means that the geographic concentration of the Properties will be within the limits described in the "**Qualitative Criteria**" (above) on completion of the substitution or Withdrawal in question;

"**Investment Value**" means in respect of a Property, the amount determined to be its Market Value as at the date of valuation, assuming (if not the fact) that the Property is subject to a lease on the terms of the relevant Occupational Lease;

"**LTMV**" means the ratio (expressed as a percentage) that the aggregate principal amount outstanding of the Notes bears to the aggregate Market Value of the Properties as shown in the most recent Valuation delivered by the Borrower to the Borrower Security Trustee pursuant to the terms of the Facility Agreement.

"**LTVPV**" means the ratio (expressed as a percentage) that the aggregate principal amount outstanding of the Notes bears to the aggregate Vacant Possession Value of the Properties as shown in

the most recent Valuation delivered by the Borrower to the Borrower Security Trustee pursuant to the terms of the Facility Agreement.

"**Manual**" means the RICS Appraisal and Valuation Standards current at the time of a relevant valuation or, failing that, the nearest equivalent document defining generally accepted valuation terms, requirements and practices, in each case as amended from time to time;

"**Market Rental Value**" means in respect of an Occupational Lease, the amount determined to be the Market Rent at the relevant time, assuming (if not the fact):

- (a) that any building on the Property has been constructed to a shell finish;
- (b) a lease on the terms of the Occupational Lease (other than the amount of rent but including the provisions for rent review or escalation);
- (c) that no premium passed and that any rent free period is in respect of the time which would have been needed by the incoming tenant to make the Property fit for occupation (the benefit of which the incoming tenant has received);
- (d) in respect of a Substituted Property only, that the obligations on the part of the tenant in the Occupational Lease have been observed and performed; and
- (e) in respect of a Substituted Property only, if the Property has been destroyed or damaged, that the Property has been fully reinstated as at the valuation date;

"**Market Value**" in respect of a Property, has the meaning given to that term in the Manual:

- (a) assuming that any building on the Property has been constructed to a shell finish;
- (b) in respect of a Substituted Property only, assuming that the obligations on the part of the tenant in the Occupational Lease have been observed and performed;
- (c) in respect of a Substituted Property only, if the Property has been destroyed or damaged, assuming that the Property has been fully reinstated as at the valuation date;
- (d) disregarding any discount which might be applied in respect of the Property if all or other parts of the Borrower's Portfolio were placed on the market at the same time; and
- (e) allowing for purchaser's costs of 5.75%;

"**Original Property**" means one of the Properties as at the Closing Date;

"**Original Valuation**" means the valuation of the Original Properties dated 20 March 2006 issued by the Initial Property Adviser in favour of, amongst others, the Borrower Security Trustee;

"**Projected Market Value**" bears the meaning given by the Valuation Report;

"**Property Adviser**" means the Initial Property Adviser or a reputable firm of chartered surveyors, as may be nominated by the Borrower and whose identity and terms of appointment are approved from time to time by the Borrower and the Borrower Security Trustee pursuant to the Substitution Agreement, acting by a chartered surveyor who is a fellow of the RICS with at least ten years' experience of retail property in the United Kingdom and whose identity is approved by the Borrower and the Borrower Security Trustee pursuant to the Substitution Agreement;

"**Relevant VP Percentage**" means the relevant percentage taken from the following table:

<b>Relevant VP Percentage</b>	<b>Applies if:</b>
30%	LTVPV is equal to or greater than 52%
40%	LTVPV is below 52% but equal to or greater than 41.5%
50%	LTVPV is below 41.5% but equal to or greater than 31%
60%	LTVPV is below 31%

"**RICS**" means Royal Institution of Chartered Surveyors;

"**Substitution Threshold**" is exceeded if (a) the Vacant Possession Value as shown in the Original Valuation of Substituted Properties is, or would as a result of the substitution, exceed the

Relevant VP Percentage of the aggregate Vacant Possession Value as shown in the Original Valuation of the Original Properties, or (b) in any 3 year period the Vacant Possession Value as shown in the Original Valuation of Substituted Properties substituted in such 3 year period is, or would as a result of the substitution, exceed 15% of the aggregate Vacant Possession Value as shown in the Original Valuation of the Original Properties (in each case excluding any Properties which have been Withdrawn or the subject of a Property Disposal); and

"**Vacant Possession Value**" means in respect of a Property, the amount determined to be its Market Value as at the date of valuation, assuming (if not the fact) that vacant possession of all parts of the Property has been provided and that the option to renew the Occupational Lease granted by its terms has not been, and will not be, exercised.

The Borrower may, upon at least 14 day's written notice to the Borrower Security Trustee signed by two directors of the Borrower (a "**Withdrawal Notice**"), withdraw (each, a "**Withdrawal**" and "**Withdrawn**" shall be construed accordingly) a Property from the Borrower Security, provided that the Borrower Security Trustee is satisfied that the following conditions, as certified in such Withdrawal Notice, are met at the time of the Withdrawal:

- (a) no Loan Event of Default has occurred and is continuing;
- (b) on Withdrawal the Withdrawn Property will be transferred to an entity not being an Obligor and amounts equal to all Property Disposal Costs and Relevant Tax Liability (if any) arising in connection with such transfer(s) are met by an entity not being an Obligor;
- (c) upon such transfer the Borrower will obtain a release of its obligations as lessor under the relevant Occupational Lease;
- (d) (assuming the proposed Withdrawal has taken place) the Geographic Test is satisfied;
- (e) (assuming the proposed Withdrawal has taken place) the Coverage Projection Ratio is not less than 150 per cent;
- (f) (assuming the proposed Withdrawal has taken place) the LTMV is not more than 45%; and
- (g) the Ratings Test is satisfied save that Properties may not be withdrawn on more than one occasion per year.

#### ***Adjoining Land Developments***

An "**Adjoining Land Development**" is an alteration, addition to, or extension of, an existing building and the construction of a new building that, in any such case, involves the acquisition of land adjoining the Property and may involve the construction of a new building wholly on the Property or wholly on the adjoining land or partly on both. Any land acquired by either Obligor will be acquired in accordance with the Finance Documents, including the provision of security over the relevant land. Sainsbury's has agreed that it will not permit any Sainsbury's Group entity to carry out any Adjoining Land Development unless the Property Adviser has certified to the Borrower Security Trustee that as a result of the proposed Adjoining Land Development there shall be no adverse effect on the Investment Value, Vacant Possession Value or Market Rental Value of the relevant Property.

#### ***Provision of Security in respect of certain alterations***

Subject to the conditions of the Occupational Leases, alterations or additions to the buildings in the premises the subject of each of the Occupational Leases are permitted. However, if, upon commencing any Alterations (other than *De Minimis* Alterations) at a Property (a "**Specified Property**") where the tenant is a company in the Sainsbury's Group (a "**Sainsbury's Property**"), those Alterations, when taken into account with all other Alterations (other than *De Minimis* Alterations) which are at that time being carried out or have been authorised, would result in a temporary or permanent closure of more than 10 per cent. of the aggregate trading area of the buildings in all the Sainsbury's Properties for a period in excess of three months, the Occupational Tenant will be required to provide security to the Borrower in such amount as the Borrower may reasonably require (not exceeding 110 per cent. of the estimated costs of completing the proposed Alterations at the Specified Property) to be held until the proposed Alterations at the Specified Property have been completed and evidence of payment in full (other than customary contractual retentions).

## DESCRIPTION OF THE ISSUER TRANSACTION DOCUMENTS

*The following is a summary of certain provisions of the principal documents relating to the transactions described herein and is qualified in its entirety by reference to the detailed provisions of the Issuer Transaction Documents.*

### **Loan Novation Documents**

#### *General*

Pursuant to the terms of the Loan Novation Documents, the Original Lenders will novate the Initial Loans to the Issuer and the Issuer will acquire the right, title, interests, benefits and obligations of the Original Lenders in the other Loan Assets. Consequently, as and from the novation of the Initial Loans, the Issuer will be the sole Lender under the Facility Agreement.

The consideration payable by the Issuer to the Original Lenders pursuant to the Loan Novation Agreement will be equal to £868,000,000 (which will equal the principal amount of the Initial Loans on the Closing Date together with any accrued but unpaid interest) thereon.

#### *Representations and Warranties*

Neither the Issuer nor the Note Trustee has made (or will make) any of the enquiries, searches or investigations which a prudent person receiving a loan by novation would normally make in relation to the novation of the Initial Loans. In addition, neither the Issuer nor the Note Trustee has made (or will make) any enquiry, search or investigation at any time in relation to compliance by any party with respect to the provisions of the Loan Novation Documents or in relation to any applicable laws or the execution, legality, validity, perfection, adequacy or enforceability of the Loan Assets.

In relation to all of the foregoing matters concerning the Loan Assets and the circumstances in which the Initial Loans were made to the Borrower prior to the novation of the Initial Loans to the Issuer, the Issuer and the Note Trustee will rely on representations and warranties to be given by the Original Lenders to the Issuer and the Note Trustee which are contained in the Loan Novation Agreement and the reports relating to the Initial Loans of which the Issuer and Note Trustee have the benefit. Furthermore, following its novation and purchase of the Loan Assets, the Issuer will have the benefit of the representations and warranties given by the Borrower in the Facility Agreement.

Subject to the agreed exceptions, materiality qualifications and, where relevant, the general principles of law limiting the same, each Original Lender under the Loan Novation Agreement will represent and warrant that, amongst other things:

- (a) it is entitled to novate, transfer and assign its interests in the Loan Assets to the Issuer, both pursuant to the Loan Novation Agreement and the Transfer Certificate and also at law;
- (b) it is not aware of any material default under any Finance Document which has not been remedied, cured or waived (but only in a case where a reasonably prudent lender of money secured on commercial property would grant such a waiver);
- (c) it has performed in all material respects all of its obligations under or in connection with the Initial Loans and, so far as it is aware, the Borrower has not taken or has not threatened to take any action against it for any material failure on its part to perform any such obligations; and
- (d) it has not received written notice of any default or forfeiture of any Occupational Lease which would, in any case, in its reasonable opinion, render any Property unacceptable as security for the Initial Loans.

The representations and warranties given by the Original Lenders in connection with the Loan Assets under the Loan Novation Agreement are referred to collectively as the "**Loan Warranties**".

#### *Remedy for Material Breach of Loan Warranty*

In the event of a Material Breach of Loan Warranty, the Original Lenders will be required to notify the Issuer and the Note Trustee of the same and, within 60 days (or such longer period not exceeding 75 days as the Issuer or the Note Trustee may agree) of receipt of written notice of the relevant Material Breach of Loan Warranty from the Issuer or the Note Trustee, to remedy the matter giving rise to such Material Breach of Loan Warranty, if such matter is capable of remedy. A "**Material Breach**" means, in respect of a Loan Warranty, a breach of a Loan Warranty in any material respect where the facts and circumstances giving rise to that breach have a material adverse effect on

the ability of the Issuer to discharge in full its obligations under the Issuer Transaction Documents to which it is a party.

If a Material Breach of Loan Warranty is not capable of remedy or is not remedied within the specified period, the Original Lenders (or, where one Original Lender only has materially breached a Loan Warranty, the relevant Original Lender) will be required to indemnify, on demand, the Issuer against all losses, claims, demands, taxes and all other expenses or other liabilities incurred by the Issuer as a result of such breach or Material Breach of Loan Warranty. Neither the Issuer nor the Note Trustee will have any claim in respect of any breach of any Loan Warranty that is not a Material Breach of Loan Warranty.

In the event that the Issuer or the Note Trustee makes a demand for indemnity in respect of a Material Breach of Loan Warranty, the Original Lenders (or relevant Original Lender) will be entitled (but will not be obliged), as an alternative to one or both of the Original Lenders (as the case may be) being required to indemnify the Issuer, to require the novation from the Issuer to them of the Initial Loans and to receive an assignment of the remainder of the Loan Assets (or, in circumstances where one Original Lender only is in material breach, a percentage of the principal balance of the Initial Loans outstanding as at the date of novation, such percentage being equal to the percentage of the Initial Loans held by the relevant Original Lender immediately before it novated the Initial Loans to the Issuer pursuant to the Loan Novation Agreement) on a date not later than the second Payment Date following the demand. The consideration payable in these circumstances will include an amount equal to the principal balance of the Initial Loans then outstanding plus any accrued but unpaid interest thereon. In the event that one Original Lender only intends to require the novation of part of the Initial Loans, the novation must be on terms acceptable to the Issuer, the other Original Lender and the Note Trustee as regards, *inter alia*, intercreditor arrangements between the Issuer and that Original Lender as to their respective interest in the Initial Loans.

The Loan Novation Agreement will be governed by English law.

## **Issuer Deed of Charge**

### *Issuer Security*

On the Closing Date, the Issuer and the Issuer Secured Creditors will enter into a deed of charge (the "**Issuer Deed of Charge**") pursuant to which the Notes and certain other obligations of the Issuer (including the amounts owing to the Note Trustee under the Trust Deed, to the Note Trustee and any Receiver under the Issuer Deed of Charge, to the Issuer Account Bank under the Issuer Account Bank Agreement, to the Liquidity Facility Provider under the Liquidity Facility Agreement, to the Issuer/Holdings Corporate Services Provider under the Issuer/Holdings Corporate Services Agreement, to the Hedge Counterparties under the Hedge Agreements, to the Issuer Cash Manager under the Issuer Cash Management Agreement and to the Paying Agents under the Paying Agency Agreement) will be secured in favour of the Note Trustee on behalf of itself and the other Issuer Secured Creditors by the Issuer Security comprising the following security interests:

- (a) an assignment by way of first fixed security of the Benefit of the Issuer under the Borrower Transaction Documents;
- (b) an assignment by way of first fixed security of the Benefit of the Issuer under each Issuer Transaction Document (other than the Trust Documents) and, in respect of the Hedge Agreements, subject to the application of the netting and set-off provisions contained therein;
- (c) a first fixed charge of the Benefit of the Issuer Transaction Account and any bank or other accounts in which the Issuer may at any time have or acquire any Benefit;
- (d) a first fixed charge of the Benefit of each Authorised Investment of the Issuer; and
- (e) a floating charge over the whole of the Issuer's undertaking, assets, property and rights whatsoever and wheresoever situated, present and future, including the Issuer's uncalled capital.

"**Issuer Secured Creditors**" means:

- (a) the Note Trustee (for itself and for and on behalf of the Noteholders and the other Issuer Secured Creditors);
- (b) the Liquidity Facility Provider;

- (c) the Hedge Counterparties;
- (d) the Issuer Cash Manager;
- (e) the Issuer Account Bank;
- (f) the Paying Agents;
- (g) the Issuer/Holdings Corporate Services Provider;
- (h) the Borrower in relation to the Hedge Termination Receipts payable by the Issuer in accordance with the Facility Agreement;
- (i) any Receiver appointed under the Issuer Deed of Charge; and
- (j) such other creditor who may be a party to or accede to, the terms of the Issuer Deed of Charge from time to time in accordance with the terms thereof and is designated an Issuer Secured Creditor.

*Note Events of Default and Delivery of a Note Enforcement Notice*

Pursuant to Condition 11 (*Note Events of Default*), the Note Trustee may, and in certain circumstances shall, deliver a Note Enforcement Notice to the Issuer if a Note Event of Default occurs and is continuing. Upon the delivery of a Note Enforcement Notice, all classes of the Notes then outstanding shall immediately become due and repayable at their Principal Amount Outstanding together with accrued interest as provided in the Trust Deed and the Issuer Security shall become enforceable by the Note Trustee in accordance with the Issuer Deed of Charge. The Note Trustee may institute such proceedings as it thinks fit to enforce its rights under (i) the Trust Deed in respect of the Notes of each class and (ii) the Issuer Transaction Documents.

*Issuer Post-Enforcement Priority of Payments*

All monies received by the Issuer or the Note Trustee following the delivery of a Note Enforcement Notice, other than amounts standing to the credit of the Liquidity Standby Account (which are to be paid directly and only to the Liquidity Facility Provider) or the Swap Collateral Accounts (which are to be paid to each Hedge Counterparty in accordance with the provisions of the relevant Hedge Agreement Credit Support Document), and all monies standing to the credit of the Issuer Transaction Account will be applied in accordance with the Issuer Post-Enforcement Priority of Payments:

- (a) *first*, in or towards satisfaction, *pro rata* and *pari passu*, of the amounts due in respect of the fees, costs and expenses (including any amount in respect of or which represents VAT) and other remuneration and indemnity payments (including any amount in respect of or which represents VAT) (if any) payable to the Note Trustee and any Receiver and other appointees (if any) appointed by the Note Trustee under the Trust Documents and any Liabilities (including any amount in respect of or which represents VAT) incurred by the Note Trustee and any Receiver and other appointees (if any) (as the case may be) under the provisions of the Trust Documents and any other amounts payable to the Note Trustee, any Receiver and such other appointees under the Trust Documents, together with interest thereon as provided for therein;
- (b) *second*, in or towards satisfaction, *pro rata* and *pari passu*, according to the respective amounts due and owing by the Issuer in respect of:
  - (1) the fees, other remuneration, indemnity payments, costs, charges and expenses (including any amount in respect of or which represents VAT) of the Paying Agents incurred under the Paying Agency Agreement;
  - (2) the fees, other remuneration, indemnity payments, costs, charges and expenses (including any amount in respect of or which represents VAT) of the Liquidity Facility Provider under the Liquidity Facility Agreement (other than in respect of any Liquidity Facility Subordinated Amounts);
  - (3) the fees, other remuneration, indemnity payments, costs, charges and expenses (including any amount in respect of or which represents VAT) of the Issuer Account Bank under the Issuer Account Bank Agreement;



- (4) the fees, other remuneration, indemnity payments, costs, charges, and expenses (including any amount in respect of or which represents VAT) of the Issuer Cash Manager under the Issuer Cash Management Agreement; and
- (5) the fees, other remuneration, indemnity payments, costs, charges and expenses (including any amount in respect of or which represents VAT) of the Issuer/Holdings Corporate Services Provider under the Issuer/Holdings Corporate Services Agreement;
- (c) *third*, in or towards satisfaction of payment of all amounts of principal, interest and other amounts due and payable to the Liquidity Facility Provider under the Liquidity Facility Agreement (other than amounts referred to in paragraph (b) above and any Liquidity Facility Subordinated Amounts);
- (d) *fourth*, in or towards satisfaction *pro rata* and *pari passu*, according to the respective amounts due and owing by the Issuer:
  - (6) all amounts due but unpaid to the Hedge Counterparties under the Hedge Agreements, such amounts to include any Hedge Termination Payments (other than any Hedge Subordinated Amounts); and
  - (7) in or towards satisfaction, *pro rata* and *pari passu*, of any amounts of interest and principal and all other amounts under the Class A Notes until such amounts have been paid in full;
- (e) *fifth*, in or towards satisfaction, *pro rata* and *pari passu*, of any amounts of interest and principal and all other amounts under the Class B Notes until such amounts have been paid in full;
- (f) *sixth*, in or towards satisfaction, *pro rata* and *pari passu*, of any amounts of interest and principal and all other amounts under the Class C Notes until such amounts have been paid in full;
- (g) *seventh*, in or towards satisfaction, *pro rata* and *pari passu* according to the respective amounts in respect of (i) any Liquidity Facility Subordinated Amounts payable to the Liquidity Facility Provider and (ii) any Hedge Subordinated Amounts;
- (h) *eighth*, any amount owed to the Borrower under the Facility Agreement and representing an amount equal to any Hedge Termination Receipts received from the Hedge Counterparties; and
- (i) *ninth*, any surplus to the Issuer.

The Issuer Deed of Charge will be governed by English law.

## **Liquidity Facility Agreement**

### *General*

To address the risk of the Borrower failing to make payments on the Initial Loans when due in accordance with the terms of the Facility Agreement, the Issuer will enter into a liquidity facility agreement (the "**Liquidity Facility Agreement**") to be dated the Closing Date between the Liquidity Facility Provider, the Issuer Cash Manager, the Note Trustee and the Issuer, whereby the Liquidity Facility Provider will provide a 364-day committed revolving Liquidity Facility (the "**Liquidity Facility Availability Period**") of up to an initial maximum principal amount of £120,000,000 (as reduced or cancelled from time to time under the Liquidity Facility Agreement) available to the Issuer from the Closing Date (the "**Liquidity Facility**") and which will be renewable as described below.

Prospective Noteholders should note that the purpose of the Liquidity Facility Agreement is to provide liquidity, not credit support, and that the Liquidity Facility Provider is entitled to receive interest on drawings made under the Liquidity Facility Agreement in priority to payments to Noteholders which could ultimately reduce the amount available for distribution to Noteholders.

### *Drawings on the Liquidity Facility*

On the Calculation Date prior to each Payment Date, the Issuer Cash Manager will determine whether the Available Issuer Income anticipated to be available on the immediately succeeding Payment

Date will be sufficient to make the payments set out under items (a) to (j) (inclusive) of the Issuer Pre-Enforcement Priority of Payments. If such amounts are insufficient (such event being a "**Liquidity Shortfall**"), the Issuer Cash Manager (on behalf of the Issuer) will, subject to the provisions of the following paragraphs, make a drawing (a "**Liquidity Drawing**") in accordance with the terms of the Liquidity Facility Agreement in an amount equal to such anticipated deficiency. Such Liquidity Drawing will be deposited into the Issuer Transaction Account and will be applied by the Issuer together with the Available Issuer Income on the immediately succeeding Payment Date.

The Issuer will pay a commitment fee (the "**Liquidity Facility Commitment Fee**") of 0.225 per cent. per annum on the then undrawn portion of the Liquidity Facility to the Liquidity Facility Provider.

The interest rate on Liquidity Drawings will be the sum of LIBOR for Sterling deposits for the appropriate period plus 0.45 per cent. per annum of the then aggregate outstanding balance of Liquidity Drawings (the "**Liquidity Facility Margin**") plus the mandatory costs rate (calculated in accordance with the Liquidity Facility Agreement).

Interest will accrue on each Liquidity Drawing from the date of the drawing to but excluding the next Payment Date. The Issuer will be obliged to repay the outstanding balance of any Liquidity Drawings on each Payment Date in accordance with the Issuer Pre-Enforcement Priority of Payments. Amounts repaid may, subject to certain conditions, be redrawn.

Provided that the Liquidity Facility Provider meets certain requirements, if any monies are required to be withheld or deducted for or on account of tax from any payment made by the Issuer to the Liquidity Facility Provider under the Liquidity Facility Agreement, the amount of payment due from the Issuer will in certain circumstances be increased to the extent necessary to ensure that, after such withholding or deduction has been made, the amount received by the Liquidity Facility Provider is equal to the amount that it would have received had no such withholding or deduction been required to be made. Such increased amounts will, as set out below, be Liquidity Facility Subordinated Amounts and, in such circumstances, will rank junior to payments due and payable under the Notes in accordance with the Issuer Pre-Enforcement Priority of Payments.

All payments due under the Liquidity Facility Agreement (other than in respect of any Liquidity Facility Subordinated Amounts) will rank in point of priority ahead of payments of interest on the Notes.

#### *Availability of the Liquidity Facility to Fund Liquidity Shortfalls*

In respect of a Liquidity Shortfall, the Issuer Cash Manager shall determine the amount of the relevant Liquidity Shortfall on the relevant Calculation Date and shall determine the Available Liquidity Facility.

The Issuer may make a Liquidity Drawing in an amount corresponding to the Available Liquidity Facility.

The amount of the Available Liquidity Facility available to meet items (a) to (j) of the Issuer Pre-Enforcement Priority of Payment will be limited as follows:

- (a) the entire Available Liquidity Facility on the Payment Date on which the relevant drawing is to be made to make the payments and provisions referred to in items (a) to (f) of the Issuer Pre-Enforcement Priority of Payments;
- (b) an amount not greater than 60 per cent. of the Available Liquidity Facility on the Payment Date on which the relevant drawing is to be made to make the payments and provisions referred to in items (g) to (h) of the Issuer Pre-Enforcement Priority of Payments;
- (c) an amount not greater than 50 per cent. of the Available Liquidity Facility on the Payment Date on which the relevant drawing is to be made to make the payments and provisions referred to in items (i) to (j) of the Issuer Pre-Enforcement Priority of Payments;

At no time may a Liquidity Drawing be made on the Liquidity Facility which is greater than the Available Liquidity Facility.

**"Available Liquidity Facility"** means, in respect of any Payment Date, the Liquidity Facility less the aggregate of outstanding Liquidity Drawings after taking account of the amount of Available Issuer Income which will be applied at item (d) of the Issuer Pre-Enforcement Priority of Payments to repay the Liquidity Facility on such Payment Date.

*Reduction in the Amount Available Under the Liquidity Facility*

The available commitment under the Liquidity Facility will be subject to periodic review and the size of the available Liquidity Facility and its application to, as applicable, each class of Notes may reduce subject to the satisfaction of certain conditions specified in the Liquidity Facility Agreement.

*Liquidity Events and Liquidity Standby Drawings*

The Liquidity Facility Agreement will provide that if:

- (i) the Liquidity Facility Provider declines to renew the commitment of the Liquidity Facility; and/or
- (ii) the Liquidity Facility Provider's short-term unsecured, unsubordinated and unguaranteed debt obligations cease to be rated at least A-1+ by S&P and P-1 by Moody's (the "**Liquidity Requisite Rating**"),

each such event, a "**Liquidity Event**", then within 30 days from the occurrence of such Liquidity Event the Liquidity Facility Provider shall assign, transfer or novate its rights and obligations to another liquidity facility provider that has the Liquidity Requisite Rating and meets certain other criteria or other arrangements shall be made for the Issuer to enter into a new liquidity facility with a liquidity facility provider that, *inter alia*, has the Liquidity Requisite Rating. If any such steps are not undertaken within the requisite time, then the Issuer may require the Liquidity Facility Provider to advance a drawing (a "**Liquidity Standby Drawing**") of the total commitment under the Liquidity Facility Agreement then available for drawing under the Liquidity Facility in the case of (i) above, on the last Business Day of the Liquidity Facility Availability Period and in the case of (ii) above, within 30 days after the occurrence of such liquidity downgrade event. The Liquidity Facility Provider shall pay such Liquidity Standby Drawing into a designated bank account of the Issuer (the "**Liquidity Standby Account**") maintained with either:

- (a) the Liquidity Facility Provider (for so long as it has the Liquidity Requisite Rating); or
- (b) where the Liquidity Facility Provider does not have the Liquidity Requisite Rating, the then Issuer Account Bank or any other bank, the short-term, unsecured, unsubordinated and unguaranteed debt obligations of which are rated at least the Liquidity Requisite Rating and which is a bank for the purposes of section 349 of the Income and Corporation Taxes Act 1988.

If the Liquidity Standby Account is opened with the Liquidity Facility Provider, the Liquidity Facility Provider shall pay interest on the funds standing to the credit of the Liquidity Standby Account (the "**Liquidity Standby Deposit**") at the normal commercial rate in the ordinary course of its business. In addition, the Liquidity Standby Deposit may be invested in Authorised Investments at the sole discretion of the Liquidity Facility Provider.

If the Liquidity Standby Account is not with the Liquidity Facility Provider, each of the Issuer and the Issuer Cash Manager is under an obligation to use reasonable endeavours to ensure that the interest rate on the Liquidity Standby Deposit is at an arm's length commercial rate and that any interest which accrues on the Liquidity Standby Deposit and/or any return on Authorised Investments made in respect of the Liquidity Standby Deposit will be paid into the Liquidity Standby Account.

The Issuer will pay to the Liquidity Facility Provider the Liquidity Facility Commitment Fee on the Liquidity Standby Deposit plus the interest received by the Issuer on the Liquidity Standby Account.

Payments of interest on funds standing to the credit of the Liquidity Standby Account and any returns on Authorised Investments, together with the Liquidity Standby Deposit and the Liquidity Standby Account, will not, in accordance with the terms of the Issuer Deed of Charge be available to the Issuer Secured Creditors and payments of interest on funds standing to the credit of the Liquidity Standby Account and any returns on Authorised Investments will be made available upon request to the Liquidity Facility Provider.

Amounts standing to the credit of the Liquidity Standby Account which represent a Liquidity Standby Deposit, will, subject to the terms of the Liquidity Facility Agreement (including the

conditions described above as to availability of drawings), be available to the Issuer by way of Liquidity Drawings in the event of there being a Liquidity Shortfall. The interest rate on such a Liquidity Drawing will be the sum of LIBOR for Sterling deposits for the appropriate period plus the Liquidity Facility Margin plus the mandatory costs rates which will be repayable as described above, except that, until the Liquidity Facility Provider is replaced or the Liquidity Event that gave rise to the Liquidity Standby Drawing is remedied, repayment will be made into the relevant Liquidity Standby Account.

The Liquidity Facility Agreement contains certain events of default such as failure to pay amounts due and payable to the Liquidity Facility Provider. Following the occurrence of any such event of default any undrawn commitment under the Liquidity Facility shall be cancelled and all amounts outstanding may become immediately due and payable.

#### *Liquidity Facility Subordinated Amounts*

To the extent that amounts payable by the Issuer to the Liquidity Facility Provider pursuant to the terms of the Liquidity Facility Agreement which are the aggregate of (a) gross-up payments and increased costs (except under (b)) payable by the Issuer in respect of the Liquidity Facility Amount in excess of 0.125% of the total commitment; (b) increases in the commitment fee for capital adequacy reasons payable in excess of 0.25%; and (c) any other payments to the Liquidity Facility Provider except principal, interest, commitment fees, expenses and increased costs, increases in the commitment fee and gross-up payments within the limits in (a) and (b) then such amounts shall be "**Liquidity Facility Subordinated Amounts**" and will, in accordance with the Issuer Payment Priorities, rank junior to payments then due and payable under the Notes.

The Liquidity Facility Agreement will be governed by English Law.

#### **Hedge Agreements**

On or before the Closing Date, the Issuer will enter into one or more hedging transactions (each a "**Hedge Transaction**", and together the "**Hedge Transactions**"), each evidenced by a hedge confirmation (the "**Hedge Confirmation**", and together the "**Hedge Confirmations**") with a Hedge Counterparty which shall be entered into pursuant to a master agreement which shall be in the form of an International Swaps and Derivatives Association, Inc ("**ISDA**") 1992 Master Agreement (Multicurrency - Cross Border) (together with the schedule thereto and the Hedge Confirmations entered into pursuant thereto, a "**Hedge Agreement**", and together the "**Hedge Agreements**") to be entered into between the Issuer and such Hedge Counterparty. The purpose of the Hedge Agreements is to provide hedging protection to the Issuer against Indexation Risk arising in relation to the Facility Agreement and the Notes.

Subject to the occurrence of any termination events or events of default pursuant to the Hedge Agreements, under the terms of each of the Hedge Transactions, the Issuer will be obliged to make payments to each Hedge Counterparty equal to the excess (if any) of (a) an amount equal to 50% of the Quarterly Payment Amounts due to be paid to the Issuer under the Facility Agreement ("**X**") over (b) the sum of (i) an amount equal to 50% of the sum of any interest and principal payments which the Issuer is obliged to pay in respect of the Class A Notes, the Class B Notes and the Class C Notes ("**Y**"), and (ii) an amount equal to 50% of the profit which the Issuer is expected to make ("**Z**"). The Hedge Counterparty will be obliged to make payments to the Issuer equal to the excess (if any) of (i) the sum of Y and Z, over (ii) X. In the event that the Notes are redeemed prior to their scheduled maturity date, a corresponding proportion of the relevant Hedge Transaction may be terminated resulting in a termination payment to be paid by either the Issuer or the Hedge Counterparty.

Each Hedge Counterparty is obliged to pay 50% of the aggregate amount due to be paid by the Hedge Counterparties under the Hedge Agreements. Failure by one Hedge Counterparty to make any payment (or part thereof) which it is required to make pursuant to the Hedge Agreement to which it is a party will not oblige the other Hedge Counterparty to pay an amount greater than the amount that it would be otherwise have been required to pay pursuant to the Hedge Agreement to which it is a party.

#### *Termination*

Each Hedge Agreement may be terminated, in whole or in part, in accordance with certain termination events and events of default, some of which are more particularly described below:

- (a) delivery of a Note Enforcement Notice by the Note Trustee to the Issuer;
- (b) an unscheduled redemption of some or all of the Notes;

- (c) a failure to make a payment when due;
- (d) an insolvency of the Issuer or the relevant Hedge Counterparty pursuant to the terms of the Hedge Agreement; and
- (e) the circumstances described under the heading "*Withholding Tax*" below.

In any of the above circumstances, either the Issuer or the relevant Hedge Counterparty may be required to pay a termination payment to the other as a result of such termination. In the event that only a proportion of the Notes are redeemed, only a corresponding proportion of the related Hedge Transactions may be terminated.

Subject to the following, each Hedge Counterparty is only obliged to make payments under the Hedge Agreement to which it is a party to the extent that the Issuer makes the corresponding payments thereunder.

Prior to the delivery of a Note Enforcement Notice, any Hedge Termination Payment will rank *pari passu* with all payments of interest in respect of the Class A Notes and in priority to all other payments of interest and principal in respect of the Notes and, after the delivery of a Note Enforcement Notice, any Hedge Termination Payment will rank *pari passu* with all payments of interest and principal in respect of the Class A Notes and in priority to all other payments of interest and principal in respect of the Notes, unless, in each case, such Hedge Termination Payment is payable as a result of a termination of a Hedge Agreement which termination is due to a default by the relevant Hedge Counterparty.

#### *Withholding Tax*

If a Hedge Counterparty is required to deduct or withhold an amount on account of tax in respect of any payment it is obliged to make pursuant to a Hedge Transaction, then, in addition to such payment, it will be obliged, in accordance with the provisions of the Hedge Agreement to which it is a party, to pay to the Issuer such additional amount as is necessary to ensure that the net amount actually received by the Issuer will equal the full amount which the Issuer would have received had no such deduction or withholding been required. In such circumstances such Hedge Counterparty will have the right to terminate the Hedge Agreement to which it is a party.

If the Issuer is required to deduct or withhold an amount on account of tax in respect of any payment it is obliged to make to a Hedge Counterparty pursuant to a Hedge Transaction, then, in addition to such payment, it will be obliged, in accordance with the provisions of the Hedge Agreement to which it is a party, to pay to such Hedge Counterparty such additional amount as is necessary to ensure that the net amount actually received by such Hedge Counterparty will equal the full amount which such Hedge Counterparty would have received had no such deduction or withholding been required. In such circumstances the Issuer will have the right to terminate such Hedge Agreement unless the Issuer fails to pay such additional amount to such Hedge Counterparty in which case such Hedge Counterparty will have the right to terminate such Hedge Agreement.

If either a Hedge Counterparty or the Issuer terminates a Hedge Agreement then the Issuer may be required to pay (or entitled to receive) a swap termination payment in respect of that Hedge Agreement.

#### *The Hedge Agreement Credit Support Documents*

Each Hedge Counterparty will enter into a 1995 ISDA Credit Support Annex (Bilateral Form - Transfer) with the Issuer (a "**Hedge Agreement Credit Support Document**") on or around the Closing Date in support of the obligations of such Hedge Counterparty under the Hedge Agreement to which it is a party.

Pursuant to the terms of a Hedge Agreement Credit Support Document, if at any time a Hedge Counterparty is required to provide collateral in respect of any of its obligations under the Hedge Agreement to which it is a party, the relevant Hedge Agreement Credit Support Document will provide that, from time to time and subject to the conditions specified in that Hedge Agreement Credit Support Document and the relevant Hedge Agreement, such Hedge Counterparty will make transfers of cash or securities by way of collateral to the Issuer in support of its obligations under such Hedge Agreement and the Issuer will be obliged to return such collateral in accordance with the terms of such Hedge Agreement Credit Support Document.

The Issuer will keep any collateral received from a Hedge Counterparty pursuant to a Hedge Agreement Credit Support Document in separate accounts opened with a bank whose short term unsecured, unsubordinated, unguaranteed debt obligations satisfy the Minimum Short-Term Rating (a "**UBS Swap Collateral Account**" or a "**MS Swap Collateral Account**", together the "**Swap Collateral Accounts**"). The Issuer may only make payments or transfers utilising any monies and securities held in the Swap Collateral Accounts if such payments and transfers are made in accordance with the terms of the relevant Hedge Agreement Credit Support Document.

#### *Hedge Counterparty Rating Downgrade*

If the short term unsecured, unsubordinated debt obligations of a Hedge Counterparty or a Hedge Counterparty's credit support provider (as the case may be) are rated below P-1 by Moody's or A-1 by S&P at any time, or the long term unsecured, unsubordinated debt obligations of a Hedge Counterparty or a Hedge Counterparty's credit support provider (as the case may be) are rated below A1 by Moody's (a "**Hedge Counterparty Downgrade**"), and, in the case of a downgrade by Moody's the then current rating of the Notes is downgraded or placed under review for possible downgrade, then the relevant Hedge Counterparty will be obliged to take one of the following actions:

- (a) procure that a third party which is rated no lower than the rating specified in the relevant Hedge Agreement from all relevant Rating Agencies becomes a co-obligor or guarantor of the obligations of such Hedge Counterparty with respect to the relevant Hedge Agreement; or
- (b) provide collateral in support of such Hedge Counterparty's obligations under the relevant Hedge Agreement Credit Support Document in the amounts specified in the relevant Hedge Agreement and the relevant Hedge Agreement Credit Support Document; or
- (c) transfer all of its obligations (or the credit support provider's obligations, as the case may be) with respect to the relevant Hedge Agreement to a replacement third party which is rated by each of the relevant Rating Agencies no lower than the ratings specified in the relevant Hedge Agreement; or
- (d) take such other action as may be agreed with the relevant Rating Agency.

If at any time, the rating of a Hedge Counterparty or a Hedge Counterparty's credit support provider (as the case may be) falls below a further rating level specified in the Hedge Agreement to which it is a party, the remedial measures available to such Hedge Counterparty may be more limited.

If the relevant Hedge Counterparty fails to take one of the actions described above within the specified periods referred to in the Hedge Agreement, then the Issuer will be entitled to terminate the relevant Hedge Agreement.

#### *Governing Law*

The Hedge Agreements will be governed by English law.

#### **Issuer Account Bank Agreement**

The Issuer, the Issuer Cash Manager, the Issuer Account Bank and the Note Trustee will each enter into an agreement (the "**Issuer Account Bank Agreement**") on the Closing Date pursuant to which the Issuer will establish the Issuer Transaction Account into which all amounts of interest and principal and other amounts received in connection with the Loan Assets are required to be paid.

Payments out of the Issuer Transaction Account will be made only with the prior written consent of the Note Trustee and in accordance with the provisions of the Issuer Cash Management Agreement and the Issuer Deed of Charge.

Pursuant to the terms of the Issuer Account Bank Agreement, the Issuer Account Bank will agree to comply with all directions of, as applicable, the Issuer (or the Issuer Cash Manager on its behalf) and, following the service of a Note Enforcement Notice by the Note Trustee, the Note Trustee (or the Issuer Cash Manager on its behalf) to effect payments from the Issuer Transaction Account in accordance with the terms of the Issuer Account Bank Agreement and the relevant bank mandate.

If the short-term, unsecured, unsubordinated and unguaranteed debt obligations of the Issuer Account Bank are rated below the Minimum Short-Term Rating, the Issuer Transaction Account is required to be transferred to another bank that has, *inter alia*, the Minimum Short-Term Rating within 30 days (subject to the entering into of arrangements on similar terms to those contained in the Issuer

Account Bank Agreement). If at a time when a transfer of the Issuer Transaction Account would otherwise have to be made there is no other bank that has a Minimum Short-Term Rating and meets the other requirements or if no bank that has a Minimum Short-Term Rating and meets the other requirements agrees to accept the Issuer Transaction Account, the Issuer Transaction Account need not be transferred until such time as there is a bank which has a Minimum Short-Term Rating and meets the other requirements or a bank with a Minimum Short-Term Rating and meets the other requirements and agrees to the transfer or such other arrangement satisfactory to the Rating Agencies is made.

If, other than in the circumstances specified above, the Issuer Cash Manager wishes the bank or branch at which any account of the Issuer is maintained to be changed, the Issuer Cash Manager will be required to obtain the prior written consent of the Issuer and the Note Trustee, in the case of the Issuer such consent not to be unreasonably withheld, and the transfer of such account will be subject to the same directions and arrangements as are provided for above.

The Issuer shall inform the Rating Agencies of any transfer of the Issuer Transaction Account to any other bank for whatever reason.

The Issuer Bank Account Agreement will be governed by English law.

### **Issuer Cash Management Agreement**

#### *General*

The Issuer will appoint The Bank of New York as the Issuer Cash Manager pursuant to a cash management agreement dated the Closing Date (the "**Issuer Cash Management Agreement**") between, *inter alios*, the Issuer, the Note Trustee and the Issuer Cash Manager. Pursuant to the terms of the Issuer Cash Management Agreement the Issuer Cash Manager will undertake certain cash management functions on behalf of the Issuer and, following a Note Event of Default, the Note Trustee, including the following:

- (a) the management of the Issuer Transaction Account and the Swap Collateral Accounts and administering payments to and from the Issuer Transaction Account and the Swap Collateral Accounts in accordance with the provisions of the Issuer Transaction Documents;
- (b) investing funds not immediately required by the Issuer in Authorised Investments in accordance with the provisions of the Issuer Cash Management Agreement; and
- (c) preparing each Quarterly Investor Report.

The Issuer Cash Manager, on behalf of the Issuer, will as at each Calculation Date be required to determine the various amounts required to pay interest and principal on the Notes on such Payment Date, together with all other amounts then due and payable by the Issuer and the amounts expected to be available to make such payments. In addition, the Issuer Cash Manager will calculate the Principal Amount Outstanding for each class of Notes for the Interest Period commencing on such Payment Date.

The amounts standing to the credit of the Issuer Transaction Account on the immediately succeeding Payment Date shall constitute the available funds to be applied in accordance with the terms of the Issuer Cash Management Agreement.

In performing the cash management services, the Issuer Cash Manager will undertake to exercise the same level of skill, care and diligence as it would apply if it were the beneficial owner of the monies to which the cash management services relate, and that it will comply with any directions given by or on behalf of the Issuer or, as applicable, the Note Trustee in accordance with and pursuant to the terms of the Issuer Cash Management Agreement. The Issuer Cash Manager may, in accordance with the terms of the Issuer Cash Management Agreement, delegate its obligations under the Issuer Cash Management Agreement to third parties.

#### *Issuer Pre-Enforcement Priority of Payments*

Prior to the delivery of a Note Enforcement Notice, amounts standing to the credit of the Issuer Transaction Account will be applied by the Issuer Cash Manager (on behalf of the Issuer) in accordance with the following priority of payments (the "**Issuer Pre-Enforcement Priority of Payments**") on each Payment Date in making payment of or provision for any amounts then due and payable (provided that payments may be made out of the Issuer Transaction Account other than on a Payment Date to satisfy the liabilities in paragraph (c) below), in each case only to the extent that preceding items have been paid in full and the relevant payment does not cause the Issuer Transaction Account to become

overdrawn:

- (a) *first*, in or towards satisfaction, *pro rata* and *pari passu*, of the amounts due in respect of the fees, costs and expenses (including any amount in respect of or which represents VAT) and other remuneration and indemnity payments (including any amount in respect of or which represents VAT) (if any) payable to the Note Trustee and other appointees (if any) appointed by the Note Trustee under the Trust Documents and any Liabilities (including any amount in respect of or which represents VAT) incurred by the Note Trustee and other appointees (if any) under the Trust Documents and any other amounts payable to the Note Trustee and such other appointees, under the Trust Documents, together with interest thereon as provided for therein;
- (b) *second*, in or towards satisfaction, *pro rata* and *pari passu*, of the amounts due in respect of any amounts due and owing by the Issuer in respect of:
  - (1) the fees, other remuneration, indemnity payments, costs, charges and expenses (including any amount in respect of or which represents VAT) of the Paying Agents incurred under the Paying Agency Agreement;
  - (2) the fees, other remuneration, indemnity payments, costs, charges and expenses (including any amount in respect of or which represents VAT) of the Liquidity Facility Provider under the Liquidity Facility Agreement (other than in respect of any Liquidity Facility Subordinated Amounts);
  - (3) the fees, other remuneration, indemnity payments, costs, charges and expenses (including any amount in respect of or which represents VAT) of the Issuer Account Bank under the Issuer Account Bank Agreement;
  - (4) the fees, other remuneration, indemnity payments, costs, charges and expenses (including any amount in respect of or which represents VAT) of the Issuer Cash Manager under the Issuer Cash Management Agreement; and
  - (5) the fees, other remuneration, indemnity payments, costs, charges and expenses (including any amount in respect of or which represents VAT) of the Issuer/Holdings Corporate Services Provider under the Issuer/Holdings Corporate Services Agreements;
- (c) *third*, in or towards satisfaction, *pro rata* and *pari passu*, of:
  - (1) payment of amounts due and payable to any third party creditors of the Issuer, or to become due and payable to any third party creditors of the Issuer during the following Interest Period (other than those referred to later in this Issuer Pre-Enforcement Priority of Payments and in item (c)(2) below), approved in writing by the Note Trustee and of which the Issuer Cash Manager has notice prior to the relevant Payment Date, which amounts have been incurred without breach by the Issuer of the Issuer Transaction Documents to which it is a party (and for which payment has not been provided for elsewhere); and
  - (2) any amounts due and payable by the Issuer and for which the Issuer is primarily liable in respect of all United Kingdom corporation tax and other Tax for which the Issuer is liable under the laws of any jurisdiction;
- (d) *fourth*, in or towards satisfaction of payment (after application of all amounts in the Liquidity Standby Account (if any) for such purpose) of all amounts of interest, principal and other amounts due and payable to the Liquidity Facility Provider under the Liquidity Facility Agreement (other than amounts referred to in paragraph (b) above and any Liquidity Facility Subordinated Amounts);
- (e) *fifth*, in or towards satisfaction *pro rata* and *pari passu* according to the respective amounts due in respect of:
  - (1)
    - (i) all amounts due but unpaid to the Hedge Counterparties under the Hedge Agreements, such amounts to include any Hedge Termination Payments (other than any Hedge Subordinated Amounts) and provided that the amount of any premium or other upfront payment paid to the Issuer to enter into a hedge



transaction to replace one or more Hedge Agreements shall be applied first in payment of any Hedge Termination Payments (including Hedge Subordinated Amounts referred to below) or,

- (ii) in the event the relevant Hedge Agreement is terminated and a termination payment is due to be paid thereunder by the Hedge Counterparties, until the entry by the Issuer into a replacement Hedge Agreement, towards a reserve for the payment of any fees, costs and expenses which may be needed by the Issuer to enter into such replacement Hedge Agreement; and
- (2) all amounts of interest due or overdue but unpaid under the Class A Notes;
- (f) *sixth*, in or towards satisfaction, *pro rata* and *pari passu*, of all amounts of principal and all other amounts then due and payable under the Class A Notes;
  - (g) *seventh*, in or towards satisfaction, *pro rata* and *pari passu*, of all amounts of interest due or overdue but unpaid under the Class B Notes;
  - (h) *eighth*, in or towards satisfaction, *pro rata* and *pari passu*, of all amounts of principal and all other amounts then due and payable under the Class B Notes;
  - (i) *ninth*, in or towards satisfaction, *pro rata* and *pari passu*, of all amounts of interest due or overdue but unpaid under the Class C Notes;
  - (j) *tenth*, in or towards satisfaction, *pro rata* and *pari passu*, of all amounts of principal and all other amounts then due and payable under the Class C Notes;
  - (k) *eleventh*, in or towards satisfaction, *pro rata* and *pari passu*, of the amounts due in respect of (i) any Liquidity Facility Subordinated Amounts payable to the Liquidity Facility Provider and (ii) any Hedge Subordinated Amounts, provided that the amount of any premium or other upfront payment paid to the Issuer to enter into a hedge transaction to replace the relevant Hedge Agreement shall be applied first in payment of any Hedge Subordinated Amounts;
  - (l) *twelfth*, any amount owed to the Borrower under the Facility Agreement and representing an amount equal to any Hedge Termination Receipts received from the Hedge Counterparties; and
  - (m) *thirteenth*, any surplus to the Issuer.

On each Calculation Date, to the extent that the Available Issuer Income on the relevant Payment Date are anticipated to be insufficient to make the payments under paragraphs (a) to (j) (inclusive) of the Issuer Pre-Enforcement Priority of Payments, the Issuer Cash Manager (on behalf of the Issuer) will direct the Issuer to make a drawing under the Liquidity Facility in accordance with the terms thereof in an amount equal to such deficiency to the extent of the Available Liquidity Facility or, to the extent credited thereto, the Liquidity Standby Account. See "*Description of the Issuer Transaction Documents - Liquidity Facility Agreement*" above.

#### *Costs and Expenses of the Issuer Cash Manager*

On each Payment Date, the Issuer will, in accordance with the then relevant Issuer Payment Priorities, pay the Issuer Cash Manager any fees then owed to the Issuer Cash Manager pursuant to the terms of the Issuer Cash Management Agreement and reimburse the Issuer Cash Manager for all out-of-pocket costs and expenses properly incurred by the Issuer Cash Manager in the performance of its obligations on behalf of the Issuer. Amounts due to the Issuer Cash Manager will be payable in priority to payments of interest on the Notes.

#### *Termination of the Appointment of the Issuer Cash Manager*

Pursuant to the terms of the Issuer Cash Management Agreement, the Issuer (with the prior written consent of the Note Trustee) or the Note Trustee may at any time (with 30 days' prior notice) terminate the Issuer Cash Manager's appointment and appoint (in accordance with the terms of the Issuer Cash Management Agreement) a successor cash manager.

The appointment of the Issuer Cash Manager shall terminate forthwith if the Issuer Cash Manager becomes incapable of acting or becomes insolvent or defaults in the performance of any of its obligations under the Issuer Cash Management Agreement and such default is not cured or waived within three Business Days of it occurring. Events of default in respect of the Issuer Cash Manager include, *inter alia*: (i) a default in the performance of any of the Issuer Cash Manager's material

covenants or obligations pursuant to the terms of the Issuer Cash Management Agreement; and (ii) the occurrence of certain insolvency related events in relation to the Issuer Cash Manager. In such a case, the Issuer shall forthwith appoint a substitute Issuer cash manager.

In addition, the Issuer Cash Manager may resign by giving at least 60 days' written notice to the Issuer and the Note Trustee.

Regardless of the reason, the termination of the appointment of the Issuer Cash Manager will not take effect until a successor cash manager has been appointed in its place. The identity and terms of appointment of any successor cash manager must meet certain criteria set out in the Issuer Cash Management Agreement. The fee payable to any successor cash manager must not exceed the rate then commonly charged by cash managers of similar transactions in England.

Upon the termination of its appointment, the Issuer Cash Manager is required (subject to any legal or regulatory restrictions) to deliver the documents, information, computer stored data and monies held by it in relation to its appointment to the successor cash manager and is required to take such further lawful action as the successor cash manager may reasonably request in order to enable such successor cash manager to perform its cash management duties.

In no circumstances shall the Note Trustee be obliged to assume the obligations of the Issuer Cash Manager.

The Issuer Cash Management Agreement will be governed by English law.

## DESCRIPTION OF THE HEDGE COUNTERPARTIES

### **MSIL**

Morgan Stanley & Co. International Limited ("**MSIL**"), a private limited company incorporated in England and Wales with registered number 02068222 and whose registered office is at Legal Department, 25 Cabot Square, Canary Wharf, London E14 4QA. In providing services in this capacity, MSIL is acting through its offices at Legal Department, 25 Cabot Square, Canary Wharf, London E14 4QA.

MSIL is engaged in the business of, among other things, conducting forward payment business, including interest rate swaps, currency swaps and interest rate guarantees.

### **UBS AG, London Branch**

UBS AG, a company incorporated with limited liability in Switzerland on June 29 1998 registered at the Commercial Registry Office of the Canton of Zurich and the Commercial Registry Office of the Canton of Basel-City with Identification No: CH-270.3.004.646-4 having its registered offices at Bahnhofstrasse 45, 8001 Zurich and Aeschenvorstadt 1, 4051 Basel, Switzerland.

With headquarters in Zurich and Basel, Switzerland, UBS AG operates in over 50 countries and from all major international centres. As of December 31 2004, UBS AG had total invested assets of CHF 2,217 billion, a market capitalisation of CHF104 billion and employed more than 67,000 people. As at the date of this prospectus, UBS AG has a long-term debt credit rating of "Aa2" from Moody's, AA+ from Fitch and "AA+" from S&P.

UBS AG is publicly owned, and its shares are listed on the SWS Swiss Exchange, New York and Tokyo Stock Exchange. UBS AG is subject to the informational requirements of the Exchange Act, and, in accordance therewith, files reports and other information with the Commission. The reports and other information filed by UBS AG with the Commission may be inspected (and copied at prescribed rates) at the public reference facilities maintained by the Commission at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. UBS AG's Common Stock is listed on the NYSE under the symbol "UBS." Reports and other information filed may be inspected at the offices of NYSE at 20 Broad Street, New York, New York 10005 and can also be reviewed by accessing the Commission's Internet site at <http://www.sec.gov>.

*The information contained herein with respect to MSIL and UBS AG relates to and has been obtained from each of them. The delivery of this prospectus shall not create any implication that there has been no change in the affairs of MSIL or UBS AG since the date hereof, or that the information contained or referred to herein is correct as of any time subsequent to its date.*

*The information contained in preceding paragraphs has been provided by each of MSIL and UBS AG in relation to itself only for use in this prospectus. Except for the foregoing paragraphs, none of MSIL or UBS AG or their respective affiliates has been involved in the preparation of, and do not accept responsibility for, this prospectus as a whole.*

## THE SAINSBURY'S GROUP

### Introduction

Sainsbury's is a leading United Kingdom food retailer with interests in financial services. Sainsbury's is the holding company of numerous subsidiaries (together, the "Sainsbury's Group") including Sainsbury's Supermarkets Ltd ("SSL") and Sainsbury's Bank PLC ("Sainsbury's Bank"). SSL comprises supermarkets, convenience stores and Sainsbury's on line, a home shopping service. Sainsbury's shares have been traded on the London Stock Exchange since 1973. As at 26 March 2005, the Sainsbury's Group employed 153,000 people.

### SSL

As at 8 October 2005, SSL had over 15 million customer transactions a week and operated from 741 stores, including 288 convenience stores and 453 supermarkets ranging in size. A large SSL supermarket offers around 30,000 products, about 50 per cent. of these are SSL's own brand, including fresh produce. SSL supermarkets stock a wide range of food and groceries, general merchandise, clothing and petrol stations.

### Sainsbury's on line

Sainsbury's on line is an internet-based home delivery service which covers around 77 per cent. of the UK. This service is fully integrated with the SSL stores for the delivery of groceries to home or office. In addition, the online service includes over 250,000 books, CDs, DVDs, videos and computer games and a DVD rental service with over 28,000 titles. Flowers, wine, gifts, kitchen appliances and electrical appliances can also be purchased online.

### Sainsbury's Convenience Stores

SSL operates convenience stores, under the "Sainsbury's Local" and "Sainsbury's @" brands and as Bells and Jacksons. Bells and Jacksons are being re-branded as "Sainsbury's @ Bells" and "Sainsbury's@Jacksons".

### Sainsbury's Bank

Sainsbury's Bank opened for business on 19 February 1997. A joint venture between Sainsbury's and HBoS, Sainsbury's Bank was the first supermarket bank in the United Kingdom. As at 8 October 2005, Sainsbury's Bank had attracted over 2.4 million customer accounts. The current product range includes insurances, loans and credit cards and savings.

### Financial Review

In the financial year ending March 2005, Sainsbury's Group sales, including VAT, from continuing operations increased by 5.5 per cent to £16,364 million. Underlying Sainsbury's Group profit before tax, exceptional items and amortisation of goodwill was £254 million (UK GAAP) and £238 million (restated IFRS). Capital expenditure for the financial year ending March 2005 was £797 million.

### Sainsbury's and SSL as Parties to the Transaction

As described under "*Description of the Occupational Lease*", SSL will at the Closing Date become the Occupational Tenant under the Occupational Leases over the Original Properties. As described under "*Description of the Borrower Transaction Documents - the Subordinated Loan Agreement*", SSL will at the Closing Date become the Subordinated Loan Provider under the Subordinated Loan Agreement. As described under "*Description of the Occupational Lease*", Sainsbury's will at the Closing Date become the Lease Guarantor in respect of the Occupational Leases over the Original Properties and the Managing Agent under the Property Management Agreement and, it will subscribe for shares in the Borrower Parent in order that the Borrower Parent can subscribe for shares in the Borrower in connection with the Additional Equity Injection.

### Statement

The information provided in this section has been provided by Sainsbury's for use in this Prospectus. The Sainsbury's Group does not accept responsibility for this Prospectus as a whole.

## THE ISSUER

### *Introduction*

The Issuer was incorporated in England and Wales on 29 December 2005, under the name Pillvale plc (with registered number 5663652), as a public company with limited liability under the Companies Act 1985 (as amended). The name of the Issuer was changed to Longstone Finance plc by a special resolution dated 14 February 2006. The registered office of the Issuer is at 35 Great St. Helen's, London EC3A 6AP.

The issued share capital of the Issuer is comprised of 50,000 ordinary shares of £1 each, of which 2 ordinary shares are fully paid up and 49,998 ordinary shares are one quarter paid up. 49,999 ordinary shares are held by Longstone Finance Holdings Limited ("**Holdings**") and 1 ordinary share is held by SFM Nominees Limited (the "**Issuer Share Nominee**"). The one share held by the Issuer Share Nominee is held under the terms of a trust established under English law pursuant to the terms of a nominee declaration of trust (the "**Nominee Share Trust**") dated 14 February 2006, with Holdings having the beneficial interest in the Nominee Share Trust. The entire issued share capital of Holdings is held by the Holdings Share Trustee on discretionary trust for exclusively charitable purposes.

### *Principal Activities*

The principal objects of the Issuer are set out in paragraph 4 of its Memorandum of Association and are, *inter alia*, to raise or borrow money and to grant security over its property for the performance of its obligations or the payment of money, to lend money and to invest in and acquire loans and other similar investments.

The Issuer is organised as a special purpose company. The Issuer was established to raise capital by the issue of the Notes and to use an amount equal to the aggregate gross proceeds of the issue of the Notes to enter into by novation or take an assignment of the Loan Assets from the Original Lenders in accordance with the Loan Novation Documents. The Issuer's ongoing activities will principally comprise: (i) the issue of the Notes; (ii) the acquisition of the Loan Assets pursuant to the terms of the Loan Novation Documents; (iii) the entering into of the Issuer Transaction Documents to which it is expressed to be a party for the purpose of making a profit; and (iv) the exercise of related rights and powers and other activities referred to in this Prospectus or reasonably incidental to those activities.

The Issuer has not engaged, since its incorporation, in any activities other than those incidental to: (i) its registration as a public company under the Companies Act 1985 (as amended); (ii) the authorisation and issue of the Notes; (iii) the ownership of such interests and other assets referred to herein; (iv) the other matters contemplated in this Prospectus; (v) the authorisation and execution of the other documents referred to in this Prospectus to which it is or will be a party; and (vi) other matters which are incidental or ancillary to those activities.

The Issuer will covenant to observe the Issuer Covenants.

The Issuer has no subsidiaries, employees or non-executive directors.

The current financial period of the Issuer will end on 31 December 2007.

### *Directors and Secretary*

The directors of the Issuer and their respective business addresses and principal activities are:

<i>Name</i>	<i>Business Address</i>	<i>Principal Activities</i>
SFM Directors Limited	35 Great St. Helen's London EC3A 6AP	Directors of special purpose companies
SFM Directors (No.2) Limited	35 Great St. Helen's London EC3A 6AP	Directors of special purpose companies

The company secretary of the Issuer is SFM Corporate Services Limited, whose business address is 35 Great St. Helen's, London EC3A 6AP.

### *Issuer/Holdings Corporate Services Agreement*

Pursuant to the terms of the Issuer/Holdings Corporate Services Agreement, the Issuer/Holdings Corporate Services Provider will provide directors to the Issuer and Holdings. The Issuer/Holdings Corporate Services Provider will also provide other corporate services to the Issuer and Holdings in consideration for the payment by the Issuer of a fee payable semi-annually to the Issuer/Holdings Corporate Services Provider.

Pursuant to the terms of the Issuer/Holdings Corporate Services Agreement, the Issuer (with the prior written consent of the Note Trustee) may, upon an event of default by the Issuer/Holdings Corporate Services Provider, at any time (with thirty days prior notice) terminate the Issuer/Holdings Corporate Services Provider's appointment and appoint (in accordance with the terms of the Issuer/Holdings Corporate Services Agreement) a successor corporate services provider.

Events of default in respect of the Issuer/Holdings Corporate Services Provider include, *inter alia*: (i) a default in the performance of any of the Issuer/Holdings Corporate Services Provider's covenants or obligations pursuant to the terms of the Issuer/Holdings Corporate Services Agreement; and (ii) the occurrence of certain insolvency related events in relation to the Issuer/Holdings Corporate Services Provider.

In addition, the Issuer/Holdings Corporate Services Provider may resign by giving at least ninety days notice to the Issuer and the Note Trustee.

Regardless of the reason, the termination of the appointment of the Issuer/Holdings Corporate Services Provider will not take effect until a successor corporate services provider has been appointed in its place.

Upon the termination of its appointment, the Issuer/Holdings Corporate Services Provider is required (subject to any legal or regulatory restrictions) to deliver all books of account, records, registers, correspondence and all documents relating to the affairs of or belonging to the Issuer and held by the Issuer/Holdings Corporate Services Provider in relation to its appointment to the successor corporate services provider and is required to take such further lawful action as the successor corporate services provider may reasonably request in order to enable such successor corporate services provider to perform its servicing duties.

In no circumstances shall the Note Trustee be obliged to assume the obligations of the Issuer/Holdings Corporate Services Provider.

The Issuer/Holdings Corporate Services Agreement will be governed by English law.

### *Capitalisation and Indebtedness*

The following table shows the unaudited capitalisation and indebtedness of the Issuer as at the date of this Prospectus, adjusted for the Notes now being issued, as follows:

#### **Share capital**

##### **Authorised**

50,000 ordinary shares of £1 each..... £50,000

##### **Issued**

50,000 ordinary shares of £1 each, two of which are fully paid up and  
49,998 of which are one quarter paid up..... £12,501.50

##### **Loan capital**

£542,500,000 Class A Notes due 2036 (now being issued)..... £542,500,000

£46,500,000 Class B Notes due 2036 (now being issued)..... £46,500,000

£279,000,000 Class C Notes due 2036 (now being issued)..... £279,000,000

**Total Capitalisation**..... **£868,012,501.50**

Save as disclosed above, at the date of this Prospectus, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued, or created but unissued), liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent

liabilities. There has been no material change to the capitalisation, borrowings, guarantees and/or contingent liabilities of the Issuer from its incorporation to the date of this Prospectus.

## HOLDINGS

### *Introduction*

Holdings was incorporated in England and Wales on 29 December 2005 under the name of Cinderview Limited (with registered number 05663649), as a private company with limited liability under the Companies Act 1985 (as amended). The name of Holdings was changed to Longstone Finance Holdings Limited by a special resolution dated 14 February 2006. The registered office of Holdings is at 35 Great St. Helen's, London EC3A 6AP.

Holdings' authorised share capital as at the date of this Prospectus comprised 100 ordinary shares of £1 each. Holdings issued share capital as at the date of this Prospectus comprised 1 ordinary share of £1 (which is fully paid up).

All of Holdings' issued share capital is held by SFM Corporate Services Limited (in such capacity, the "**Holdings Share Trustee**"). The shares held by the Holdings Share Trustee are held under the terms of a trust established under English law pursuant to the terms of a declaration of trust (the "**Holdings Share Trust Deed**") dated 14 February 2006, for exclusively charitable purposes.

### *Principal Activities*

The principal objects of Holdings, as set out in paragraph 3 of its Memorandum of Association, are, *inter alia*, to act as an investment holding company and to acquire the whole of or any part of the stock, shares, debentures, debenture stocks, bonds and other securities issued by a body corporate.

Holdings is organised as a special purpose company. Since its incorporation, other than subscribing for or otherwise acquiring the issued share capital of the Issuer, Holdings has not engaged in any other activities.

Holdings holds all of the issued share capital of the Issuer (other than one ordinary share of the Issuer which is held by the Issuer Share Nominee on trust for Holdings).

Holdings has no employees.

The current financial period of Holdings will end on 31 December 2007.

### *Directors and Secretary*

The directors of Holdings and their respective addresses and principal activities are:

<i>Name</i>	<i>Business Address</i>	<i>Principal Activities</i>
SFM Directors Limited	35 Great St. Helen's London EC3A 6AP	Directors of special purpose companies
SFM Directors (No.2) Limited	35 Great St. Helen's London EC3A 6AP	Directors of special purpose companies

The company secretary of Holdings is SFM Corporate Services Limited, whose business address is 35 Great St. Helen's, London EC3A 6AP.

Pursuant to the terms of the Issuer/Holdings Corporate Services Agreement, the Issuer/Holdings Corporate Services Provider will provide directors to Holdings and the Issuer/Holdings Corporate Services Provider will also provide other corporate services to Holdings in consideration for the payment by Holdings (or the Issuer on its behalf) of an annual fee to the Issuer/Holdings Corporate Services Provider.



## OPTIONS

### *Introduction*

Options was incorporated in England and Wales on 29 December 2005 under the name Cinderbay Limited (with registered number 5663690), as a private company with limited liability under the Companies Act 1985 (as amended). The name of Options was changed to Hartland Options Limited by a special resolution dated 14 February 2006. The registered office of Options is at 35 Great St. Helen's, London EC3A 6AP.

Options' authorised share capital as at the date of this Prospectus comprised 100 ordinary shares of £1 each. Options issued share capital as at the date of this Prospectus comprised 2 ordinary shares of £1 each (fully paid up).

All of Option's issued share capital is held by certain individuals under the terms of a trust established under English law pursuant to the terms of a declaration of trust (the "**Options Share Trust**") dated 14 February 2006 for exclusively charitable purposes.

### *Principal Activities*

The principal objects of Options, as set out in paragraph 3 of its Memorandum of Association, are, *inter alia*, to hold bonds, notes, obligations and securities issued or guaranteed by any company and any options or rights in respect of them.

Options is organised as a special purpose company. Since its incorporation, Options has not engaged in any material activities other than those activities incidental or relating to the entry by it into the Post-Enforcement Call Option Agreement.

Options has no subsidiaries or employees.

The current financial period of Options will end on 31 December 2007.

### *Directors and Secretary*

The directors of Options and their respective business address and principal activities are:

<i>Name</i>	<i>Business Address</i>	<i>Principal Activities</i>
Jocelyn Charles Coad	35 Great St. Helen's, London EC3A 6AP	Finance Director
Oliver Robert Julian Parr	Trafalgar House, 11 Waterloo Place, London SW19 4AU	Financial Adviser

The company secretary of Options is SFM Corporate Services Limited, whose business address is 35 Great St. Helen's, London EC3A 6AP.

## THE BORROWER

### *Introduction*

The Borrower was incorporated in England and Wales on 5 December 2005 under the name Holborn Propco B Limited (with registered number 5644624), as a private company with limited liability under the Companies Act 1985 (as amended). The name of the Borrower was changed to Sainsbury Propco B Limited by a written resolution dated 8 February 2006. The registered office of the Borrower is 33 Holborn, London EC1N 2HT.

The Borrower has been established as a special purpose vehicle and is wholly owned by Borrower Parent.

### *Principal Activities*

The principal objects of the Borrower are set out in Clause 3 of its Memorandum of Association and are, *inter alia*, to acquire, manage, lease and dispose of real property, to raise and borrow money and to grant security over its assets for such purposes and to lend money with or without security.

The Borrower has not engaged, since its incorporation, in any activities other than those incidental to: (i) its incorporation and registration as a private limited company under the Companies Act 1985 (as amended); (ii) the change of its name; (iii) the authorisation of the Facility Agreement and the other documents and matters referred to or contemplated in this Prospectus to which it is or will be a party, including but not limited to the borrowing of the Loan, and the giving of security for repayment of the Loan under, *inter alia*, the Borrower Debenture; (iv) the receipt and disbursement of certain payments pursuant to the Facility Agreement and other documents referred to or contemplated in this Prospectus to which it is or will be a party; and (v) other matters which are incidental or ancillary to the foregoing activities.

In its dealings with the Borrower, the Borrower Parent will act in accordance with applicable laws and regulations, its Memorandum and Articles of Association and the Memorandum and Articles of Association of the Borrower.

### *Directors and Secretary*

The directors of the Borrower and their respective business addresses and principal activities are:

<i>Name</i>	<i>Business Address</i>	<i>Principal Activities</i>
Peter Baguley	33 Holborn London EC1N 2HT	Property Director of J Sainsbury plc
Richard Learmont	33 Holborn London, EC1N 2HT	Group Treasurer of J Sainsbury plc
Darren Shapland	33 Holborn London, EC1N 2HT	Chief Financial Officer of J Sainsbury plc
Giles Willits	33 Holborn London, EC1N 2HT	Head of Financial Reporting of J Sainsbury plc

The company secretary of the Borrower is Hazel Jarvis, whose business address is 33 Holborn, London, EC1N 2HT.

The Memorandum and the Articles of Association of the Borrower are available for inspection during normal business hours at the registered office for the time being of the Issuer, being at the date hereof at 35 Great St. Helen's, London EC3A 6AP and at the Specified Office of the Irish Paying Agent, being at the date hereof at Guild House, Guild Street, International Financial Services Centre, Dublin 1, Ireland.

### *Capitalisation and Indebtedness*

On the Closing Date, in order to pay part of the purchase price for the Original Properties, the Borrower will (having first increased its authorised share capital by 309,940,000 ordinary shares of £1 each) allot to the Borrower Parent 309,940,000 ordinary shares of £1 each of a total consideration of £309,940,000 the "**Additional Equity Injection**"). The Borrower Parent will fund its subscription of these shares by allotting additional shares to Sainsbury's.

The following table shows the unaudited capitalisation and indebtedness of the Borrower as at the date of this Prospectus adjusted for the Initial Loans, the Subordinated Loan (assuming approximate closing expenses of £6,240,000) and the Additional Equity Injection:

#### **Share capital**

##### **Authorised**

As at the date of this Prospectus, 100 ordinary shares of £1 each .....	£100
Additional Equity Injection: 309,940,000 ordinary shares of £1 each .....	£309,940,000
Total: 309,940,100 ordinary shares of £1 each .....	£309,940,100

##### **Issued**

As at the date of this Prospectus, 1 ordinary share of £1 which is fully paid up .....	£1
Additional Equity Injection: 309,940,000 ordinary shares of £1 which are fully paid up .....	£309,940,000
Total: 309,940,001 ordinary shares of £1 which are fully paid up .....	£309,940,001

##### **Borrowings**

Initial Tranche A Loan .....	£542,500,000
Initial Tranche B Loan .....	£46,500,000
Initial Tranche C Loan .....	£279,000,000
Subordinated Loan .....	£378,000,000
Total Indebtedness .....	£1,246,000,000
<b>Total Capitalisation .....</b>	<b>£1,555,940,001</b>

Save as disclosed herein and in this Prospectus, as at the date of this Prospectus, the Borrower has no loan capital outstanding or created but unissued, no material borrowings and/or indebtedness and/or contingent liabilities or outstanding guarantees.

It is not intended that there be any further payment on the issued share capital.

The current financial period of the Borrower will end on 28 March 2007.

## **USE OF PROCEEDS**

The proceeds from the issue of the Class A Notes will be £542,500,000, the proceeds from the issue of the Class B Notes will be £46,500,000 and the proceeds from the issue of the Class C Notes will be £279,000,000.

The total gross proceeds of the issue of the Notes will be £868,000,000.

On the Closing Date, the Issuer will apply the aggregate gross proceeds from the issue of the Notes towards payment to the Original Lenders, pursuant to the terms of the Loan Novation Agreement, of the consideration for the Loan Assets.

The fees and expenses in connection with the issue of the Notes will be met by the Issuer using certain fees payable by the Borrower pursuant to the Facility Agreement. The total expenses related to the admission of the Notes to trading are estimated at €5,000.

## ESTIMATED WEIGHTED AVERAGE LIFE OF THE NOTES AND ASSUMPTIONS

*The estimated weighted average life figures set out below should not be assumed to be a prediction of future performance. Actual performance is subject to factors largely or in some cases (for example, general economic conditions), entirely outside the control of the Issuer. Consequently, no assurance can be given that the weighted average life estimates and the assumptions set out below will prove in any way to be correct or realistic, and they must therefore be viewed with considerable caution. See also "Risk Factors".*

### Sources of Funds for Payment on Notes

The principal sources of funds for the payment of interest and repayment of principal in respect of the Notes will be the Loan Assets, and in particular, the Issuer's rights to payment of interest and repayment of principal under the Facility Agreement.

### Assumptions Used in Estimating the Weighted Average Life of the Notes

Calculations of possible weighted average lives of the Notes can be made based on certain assumptions. For example, assumptions that:

- (a) the Initial Loans are not sold by the Issuer;
- (b) the Initial Loans do not default, are not prepaid (in whole or part), nor are they enforced and no loss arises; and
- (c) the Closing Date is 24 March 2006.

Assumptions (a) and (b) above relate to circumstances which are not predictable.

### Weighted Average Life of the Notes

The following table shows the estimated weighted average lives of the Notes on the basis of the assumptions described above:

Class of Notes	Estimated Weighted Average Life of the Notes (years)
Class A Notes	14.1
Class B Notes	24.6
Class C Notes	25.1

## SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Each class of Notes will initially be in the form of a Temporary Global Note without Coupons or Receipts which will be deposited on the Closing Date with a common depository for Euroclear and Clearstream, Luxembourg. Interests in each Temporary Global Note will be exchangeable in whole or in part for interests in a Permanent Global Note representing Notes of the same class, without Coupons or Receipts, on a date not earlier than 40 days after the Closing Date (the "**Exchange Date**") upon certification as to non-U.S. beneficial ownership. No payments of principal, interest or any other amounts payable in respect of the Notes will be made under the Temporary Global Notes unless exchange for interests in the relevant Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Each Permanent Global Note will become exchangeable in whole, but not in part, for Definitive Notes in minimum denominations of £50,000, with Coupons for payments of interest, Receipts for payments of principal and Talons for further Coupons and Receipts attached, each at the request of the bearer of the relevant Permanent Global Note against presentation and surrender of such Permanent Global Note to the Principal Paying Agent if either of the following events (each, an "**Exchange Event**") occurs:

- (a) Clearstream, Luxembourg or Euroclear is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no other clearing system acceptable to the Note Trustee is then in existence; or
- (b) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation or administration or such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will on the next Payment Date be required to make any deduction or withholding for or on account of tax from any payment in respect of such Notes which would not be required were such Notes in definitive form.

Whenever a Permanent Global Note is to be exchanged for Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons, Receipts and Talons attached, in an aggregate principal amount equal to the principal amount of the relevant Permanent Global Note in minimum denominations of £50,000, to the bearer of such Permanent Global Note against the surrender of such Permanent Global Note at the Specified Office of any Paying Agent within 30 days of the occurrence of the relevant Exchange Event.

In addition, the Temporary Global Notes and the Permanent Global Notes will contain provisions which modify the Conditions as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

*Payments:* All payments in respect of each Temporary Global Note and each Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the relevant Temporary Global Note or, as the case may be, the relevant Permanent Global Note at the Specified Office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes.

*Notices:* Notwithstanding Condition 17 (*Notices to Noteholders*), while (i) all the Notes are represented by Permanent Global Notes (or by Permanent Global Notes and/or Temporary Global Notes) and the Permanent Global Notes (or each Permanent Global Note and/or each Temporary Global Note) are deposited with a common depository for Euroclear and/or Clearstream, Luxembourg and (ii) so long as the Notes are listed on the Irish Stock Exchange and the rules of the Irish Stock Exchange so permit, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg, rather than by publication in accordance with Condition 17 (*Notices to Noteholders*). Such notices shall be deemed to have been given to the Noteholders in accordance with Condition 17 (*Notices to Noteholders*) on the date of delivery to Euroclear and Clearstream, Luxembourg.

*Meetings:* The holder of a Global Note will be deemed to be two persons for the purpose of forming a quorum at a meeting of Noteholders.

*Purchase and Cancellation:* For so long as any Notes are represented by a Global Note, such Notes will be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as appropriate.

## TERMS AND CONDITIONS OF THE NOTES

*The following are the Conditions of the Notes in the form (subject to completion and amendment) in which they will be set out in the Trust Deed. The Conditions set out below will apply to the Notes whether they are in definitive form or in global form.*

The £542,500,000 Class A Secured 4.791 per cent. Notes due 2036 (the "**Class A Notes**"), the £46,500,000 Class B Secured 4.774 per cent. Notes due 2036 (the "**Class B Notes**") and the £279,000,000 Class C Secured 4.896 per cent. Notes due 2036 (the "**Class C Notes**" and, together with the Class A Notes and the Class B Notes, the "**Notes**") in each case of Longstone Finance plc (the "**Issuer**") are constituted by a trust deed (the "**Trust Deed**", which expression includes such trust deed as from time to time modified or supplemented in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) dated on or about 24 March 2006 (or such later date as may be agreed between the Issuer, Morgan Stanley Bank International Limited and UBS Limited (the "**Joint Arrangers**")) (the "**Closing Date**") and made between the Issuer and The Bank of New York (in such capacity, the "**Note Trustee**", which expression includes its successors or any additional or other trustee appointed pursuant to the Trust Deed) as trustee for the Noteholders, the Couponholders, the Receiptholders and the other Issuer Secured Creditors.

Any reference to "**Notes**" in these terms and conditions (the "**Conditions**") shall include, in relation to the Notes, the Global Notes and the Definitive Notes. In addition, any reference in these Conditions to a class of Notes or of Noteholders shall be a reference to the Class A Notes, the Class B Notes or the Class C Notes, any Further Notes or New Notes (each as defined below) issued pursuant to Condition 19 (*Further Notes, New Notes and Replacement Notes*) (or any of them) or, as the case may be, the respective holders thereof.

The security for the Notes is created pursuant to, and on the terms set out in, a deed of charge (the "**Issuer Deed of Charge**", which expression includes such deed of charge as from time to time modified or supplemented in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) dated the Closing Date and made between, *inter alios*, the Issuer and the Note Trustee.

Pursuant to a paying agency agreement (the "**Paying Agency Agreement**", which expression includes such paying agency agreement as from time to time modified or supplemented in accordance with the provisions therein contained and any deed or other document expressed to be supplemental thereto, as from time to time so modified) dated the Closing Date and made between the Issuer, the Note Trustee, AIB/BNY Fund Management (Ireland) Limited as Irish paying agent (the "**Irish Paying Agent**", which expression includes its successors) and The Bank of New York as principal paying agent (the "**Principal Paying Agent**", which expression includes its successors and, together with the Irish Paying Agent and any additional or other paying agents, if any, appointed from time to time in respect of the Notes pursuant to the Paying Agency Agreement, the "**Paying Agents**"), provision is made for, *inter alia*, the payment of principal and interest in respect of the Notes of each class.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed, the Issuer Deed of Charge, the Paying Agency Agreement and the other Issuer Transaction Documents.

Copies of the Trust Deed, the Issuer Deed of Charge, the Securitisation Floating Charge Debenture, the Paying Agency Agreement, the Loan Novation Documents, the Post-Enforcement Call Option Agreement, the Subscription Agreement, the Issuer Account Bank Agreement, the Liquidity Facility Agreement, the Hedge Agreements, the Issuer Cash Management Agreement, the Issuer/Holdings Corporate Services Agreement, the Tax Deed of Covenant and the Master Definitions Schedule are obtainable during normal business hours at the Specified Office for the time being of the Irish Paying Agent, being at the date hereof at Guild House, PO Box 4965, Guild Street, International Financial Services Centre, Dublin 1, Ireland and at the registered office of the Issuer, being at the date hereof at 35 Great St. Helen's, London EC3A 6AP. The Noteholders, the Couponholders and the Receiptholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Issuer Deed of Charge, the Paying Agency Agreement and the other Issuer Transaction Documents.

The issue of the Notes was authorised by resolution of the board of directors of the Issuer passed on 20 March 2006.



## 1. Definitions

In these Conditions, the following defined terms have the meanings set out below:

**"Amortisation Amount"** has the meaning ascribed to such term in Condition 7(b) (*Redemption and Cancellation - Scheduled Redemption in Part upon Scheduled Repayment of the Loans*);

**"Ancillary Rights"** means in relation to an Interest, all ancillary rights, accretions and supplements to such Interest, including any guarantees or indemnities in respect of such Interest;

**"Authorised Investments"** means:

- (a) securities issued by the government of the United Kingdom; or
- (b) any Sterling denominated debt securities that are an obligation of a company, financial institution or a trust company which at the time of such purchase have: (i) a long-term unsecured, unguaranteed and unsubordinated rating of at least AAA by S&P and A1 by Moody's, respectively, and/or (ii) a short-term unsecured, unguaranteed and unsubordinated rating of at least A-1+ by S&P and P-1 by Moody's, respectively, which shall be replaced within 30 days after downgrade of such Sterling denominated debt obligations; or
- (c) any Sterling denominated bank account, deposit (including, for the avoidance of doubt, time deposits) or other debt instruments issued by, or fully and unconditionally guaranteed on an unsecured and unsubordinated basis by, or, if a bank account or deposit, held or made with any financial institution the short-term unsecured and unsubordinated debt obligations of which are rated at least A-1+ by S&P and P-1 by Moody's, respectively; or
- (d) Sterling denominated commercial paper or money market funds which are rated in the highest ranking category by each Rating Agency and permit daily liquidation of investments,

and which have a maturity before the next Payment Date;

**"Available Issuer Income"** means:

- (a) all monies to be paid to the Issuer under or in respect of the Facility Agreement;
- (b) in respect of a Payment Date, all amounts received by the Issuer from the Hedge Counterparties under the Hedge Agreements (other than amounts received or to be received from the relevant Hedge Counterparty under a Hedge Agreement Credit Support Document save where such amounts are to be applied by the Issuer towards meeting the relevant Hedge Counterparty's payment obligations under the relevant Hedge Agreement); and
- (c) in respect of a Payment Date, any interest accrued upon the Issuer Transaction Account and paid into the Issuer Transaction Account, together with any returns on any Authorised Investments made by or on behalf of the Issuer out of amounts standing to the credit of the Issuer Transaction Account and paid into the Issuer Transaction Account since the immediately preceding Payment Date as notified to the Issuer Cash Manager by the Issuer Account Bank;

**"Basic Terms Modification"** means any proposal:

- (a) to change any date fixed for payment of principal or interest in respect of the Notes of any class, to reduce the amount of principal or interest due on any date in respect of the Notes of any class or to alter the method of calculating the amount of any payment in respect of the Notes of any class on any Payment Date;
- (b) (except in accordance with Condition 7(d) (*Redemption and Cancellation - Substitution/Redemption in whole for Taxation and Other Reasons*) and Clause 19 (*Substitution*) of the Trust Deed) to effect the exchange, conversion or substitution of the Notes of any class for, or the conversion of such Notes into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed;

- (c) to change the currency in which amounts due in respect of the Notes (or any of them) are payable (other than pursuant to redenomination into euro);
- (d) to alter the priority of payment of interest or principal in respect of the Notes;
- (e) to change the quorum required at any Meeting or the majority required to pass an Extraordinary Resolution;
- (f) alter the date, or priority, of the redemption (in relation to principal or interest) of the Notes;
- (g) to amend this definition; or
- (h) to make any modification which would have the effect of changing the manner of determining the amounts to be redeemed in respect of the Notes;

**"Benefit"** in respect of any Interest held, assigned, conveyed, transferred, charged, secured, sold or disposed of by any person includes:

- (a) all right, title, interest and benefit, present and future, actual and contingent (and interests arising in respect thereof) of such person in, to, under and in respect of such Interest and all Ancillary Rights in respect of such Interest;
- (b) all monies and proceeds payable or to become payable under, in respect of, or pursuant to such Interest or its Ancillary Rights and the right to receive payment of such monies and proceeds and all payments made including, in respect of any bank account, all sums of money which may at any time be credited to such bank account together with all interest accruing from time to time on such money and the debts represented by such bank account;
- (c) the benefit of all covenants, undertakings, representations, warranties and indemnities in favour of such person contained in or relating to such Interest or its Ancillary Rights;
- (d) the benefit of all powers of and remedies for enforcing or protecting such person's right, title, interest and benefit in, to, under and in respect of such Interest or its Ancillary Rights, including the right to demand, sue for, recover, receive and give receipts for proceeds of and amounts due under or in respect of or relating to such Interest or its Ancillary Rights; and
- (e) all items expressed to be held on trust for such person under or comprised in any such Interest or its Ancillary Rights, all rights to deliver notices and/or take such steps as are required to cause payment to become due and payable in respect of such Interest and its Ancillary Rights, all rights of action in respect of any breach of or in connection with any such Interest and its Ancillary Rights and all rights to receive damages or obtain other relief in respect of such breach;

**"Borrower"** means Sainsbury Propco B Limited, a private limited company incorporated under the laws of England and Wales with registered number 5644624, having its registered office at 33 Holborn, London EC1N 2HT and telephone number +44(0) 207 695 6000;

**"Borrower Account Bank"** means The Bank of New York, a New York banking corporation acting through its London branch whose principal place of business is at One Canada Square, Canary Wharf, London E14 5AL in its capacity as Borrower Account Bank;

**"Borrower Account Bank Agreement"** means the account bank agreement dated the Closing Date made between the Borrower, the Borrower Cash Manager, the Borrower Account Bank and the Borrower Security Trustee on the Closing Date;

**"Borrower Cash Management Agreement"** means the cash management agreement dated the Closing Date between the Borrower, the Borrower Security Trustee and the Borrower Cash Manager;

**"Borrower Cash Manager"** means The Bank of New York, a New York banking corporation acting through its London branch whose principal place of business is at One Canada Square, Canary Wharf, London E14 5AL in its capacity as Borrower Cash Manager;

**"Borrower Debenture"** means the debenture so named dated the Closing Date between the Borrower, the Borrower Parent, the Borrower Security Trustee and the other Borrower Secured Creditors and includes, where the context so admits, any further or supplemental deed, charge or security created pursuant thereto;

**"Borrower Legal Charge"** means each legal charge entered or to be entered into by an Obligor in favour of the Borrower Security Trustee in the form set out in the Borrower Debenture;

**"Borrower Level Security"** means the security created over the assets of the Borrower and the Borrower Parent (excluding the Securitisation Floating Charge Debenture), held by the Borrower Security Trustee in favour of the Borrower Secured Creditors;

**"Borrower Parent"** means Sainsbury Holdco B Limited, a private limited company incorporated under the laws of England and Wales with registered number 5644633, having its registered office at 33 Holborn, London EC1N 2HT;

**"Borrower Secured Obligations"** means the aggregate of all obligations, monies and Liabilities (including the unpaid balance of every sum (of principal, interest or otherwise) and any Liability in respect of any Loan, whether present or future, actual or contingent) which from time to time are or may become due, owing or payable by the Borrower to the Borrower Security Trustee (whether for its own account or as trustee for the Borrower Secured Creditors) or any of the other Borrower Secured Creditors under any Finance Document (other than the Tax Deed of Covenant);

**"Borrower Security"** means the Security Interests created by the Borrower and Borrower Parent pursuant to the Borrower Security Documents;

**"Borrower Security Documents"** means each of:

- (a) the Borrower Debenture;
- (b) any Borrower Legal Charge;
- (c) the Securitisation Floating Charge Debenture;
- (d) the Security over Shares Deed;
- (e) any other document evidencing or creating security over any asset of an Obligor to secure any obligation of an Obligor to a Borrower Secured Creditor under the Borrower Transaction Documents; and
- (f) any other document designated as such by the Borrower Security Trustee and an Obligor;

**"Borrower Security Trustee"** means The Bank of New York, a New York banking corporation acting through its London branch whose principal place of business is at One Canada Square, Canary Wharf, London E14 5AL in its capacity as Borrower Security Trustee for the Borrower Secured Creditors, or such other entity or entities appointed as security trustee for the Borrower Secured Creditors from time to time, subject to and in accordance with the terms of the Borrower Debenture;

**"Business Day"** means a day other than a Saturday or Sunday on which banks are open for general business in London;

**"Calculation Date"** means in relation to a Payment Date the second Business Day prior to such Payment Date;

**"Charged Property"** means all the property of the Issuer which is subject to the Issuer Security;

**"Class A Definitive Notes"** means any Class A Notes issued in definitive bearer form;

**"Class A Noteholders"** means the holders of any Class A Notes;

**"Class A Permanent Global Note"** means any permanent global note representing any Class A Notes in, or substantially in, the form set out in Schedule 2 of the Trust Deed;

**"Class A Temporary Global Note"** means any temporary global note representing any Class A Notes in, or substantially in, the form set out in Schedule 1 of the Trust Deed;

"**Class B Definitive Notes**" means any Class B Notes issued in definitive bearer form;

"**Class B Noteholders**" means the holders of any Class B Notes;

"**Class B Permanent Global Note**" means any permanent global note representing any Class B Notes in, or substantially in, the form set out in Schedule 2 of the Trust Deed;

"**Class B Temporary Global Note**" means any temporary global note representing any Class B Notes in, or substantially in, the form set out in Schedule 1 of the Trust Deed;

"**Class C Definitive Notes**" means any Class C Notes issued in definitive bearer form;

"**Class C Noteholders**" means the holders of any Class C Notes;

"**Class C Permanent Global Note**" means any permanent global note representing any Class C Notes in, or substantially in, the form set out in Schedule 2 of the Trust Deed;

"**Class C Temporary Global Note**" means any temporary global note representing any Class C Notes in, or substantially in, the form set out in Schedule 1 of the Trust Deed;

"**Clearstream, Luxembourg**" means Clearstream Banking, *société anonyme*;

"**Common Depository**" has the meaning ascribed to such term in Condition 2(a) (*Form, Denomination and Title*);

"**Couponholders**" means the persons who for the time being are holders of the Coupons;

"**Coupons**" has the meaning given to it in Condition 2(c) (*Form, Denomination and Title*);

"**Definitive Notes**" means the Class A Definitive Notes, the Class B Definitive Notes and the Class C Definitive Notes;

"**Euroclear**" means Euroclear Bank S.A./N.V., as operator of the Euroclear System;

"**Euro Commencement Date**" means the date (if any) on which the United Kingdom becomes a Participating Member State;

"**Exchange Date**" has the meaning given to it in Condition 2(a) (*Form, Denomination and Title*);

"**Expected Maturity Date**" means in respect of the Class A Notes, the Payment Date falling in April 2030 and in respect of the Class B Notes and Class C Notes, the Payment Date falling in April 2031;

"**Extraordinary Resolution**" means a resolution passed at a Meeting duly convened and held in accordance with the Provisions for Meetings of Noteholders by a majority of not less than three quarters of the votes cast;

"**Facility Agreement**" means the facility agreement dated the Closing Date and made between, *inter alios*, the Original Lenders, the Borrower and the Borrower Security Trustee, which expression includes such facility agreement as from time to time modified or supplemented in accordance with the provisions contained therein;

"**Final Maturity Date**" has the meaning given to it in Condition 7(a) (*Redemption and Cancellation – Final Redemption*);

"**Finance Document**" means each of:

- (a) the Facility Agreement;
- (b) the Borrower Security Documents;
- (c) the Borrower Cash Management Agreement;
- (d) the Borrower Account Bank Agreement;
- (e) the Subordinated Loan Agreement;
- (f) the Property Management Agreement;
- (g) the Substitution Agreement;
- (h) the Tax Deed of Covenant;

- (i) each Transfer Certificate;
- (j) each utilisation request; and
- (k) any document designated as such by the Issuer, the Borrower Security Trustee and the Borrower.

**"Financial Statements"** means the published financial statements of the Issuer;

**"Further Notes"** has the meaning ascribed to such term in Condition 19 (*Further Notes, New Notes and Replacement Notes*);

**"Global Notes"** has the meaning given to it in Condition 2(a) (*Form, Denomination and Title*);

**"Hedge Agreement"** means the master agreement in the form of an International Swaps and Derivatives Association, Inc. 1992 Master Agreement (Multicurrency - Cross Border) (together with the schedule thereto and the Hedge Confirmations entered into pursuant thereto) to be entered into between the Issuer and a Hedge Counterparty, and **"Hedge Agreements"** shall mean all such agreements;

**"Hedge Agreement Credit Support Document"** means a 1995 ISDA Credit Support Annex (Bilateral Form - Transfer) to a Hedge Agreement entered into between each Hedge Counterparty and the Issuer on the Closing Date in support of the obligations of such Hedge Counterparty under the relevant Hedge Agreement;

**"Hedge Confirmation"** means any confirmation entered into between the Issuer and a Hedge Counterparty and **"Hedge Confirmations"** means all such confirmations;

**"Hedge Counterparties"** means Morgan Stanley & Co. International Limited and UBS AG, London Branch, (each, a **"Hedge Counterparty"**) which expression shall include any other hedge counterparty or hedge counterparties with which the Issuer enters into any Hedge Agreement;

**"Hedge Counterparty Downgrade"** means the debt obligations of the Hedge Counterparty or the credit support provider of the Hedge Counterparty (as the case may be) being rated below the Hedge Counterparty Requisite Rating;

**"Hedge Counterparty Requisite Rating"** means, on any day, in relation to any person, the short term unsecured, unsubordinated debt obligations of such person being rated at least A-1 by S&P and P-1 by Moody's at any time and such person's long term unsecured, unsubordinated debt obligations being rated at least A1 by Moody's;

**"Hedge Subordinated Amounts"** means

- (i) any amounts due to be paid by the Issuer to a Hedge Counterparty upon termination of a Hedge Agreement (other than any amount attributable to the return of collateral to the relevant Hedge Counterparty) due to either the occurrence of an event of default pursuant to such Hedge Agreement in respect of which event the relevant Hedge Counterparty is the defaulting party or the termination of a Hedge Agreement as a result of the occurrence of a Hedge Counterparty Downgrade; and
- (ii) any Hedge Termination Payments arising as a consequence of the existence of a Repurchase Option under the Loan Novation Agreement.

**"Hedge Termination Payments"** means amounts due to a Hedge Counterparty on termination of a Hedge Agreement or any Hedge Transaction entered into pursuant thereto;

**"Hedge Termination Receipts"** means any amounts paid to the Issuer by a Hedge Counterparty pursuant to the terms of a Hedge Agreement in connection with any termination of such Hedge Agreement or any Hedge Transaction documented thereunder;

**"Hedge Transaction"** means any transaction entered into between a Hedge Counterparty and the Issuer pursuant to a Hedge Agreement;

**"Holdings"** means Longstone Finance Holdings Limited, a private limited liability company incorporated under the laws of England and Wales with registered number 5663649, having its registered office at 35 Great St. Helen's, London EC3A 6AP;

**"Insolvency Event"** in respect of any person means any corporate action, legal proceedings or other procedure or step taken by any person in relation to:

- (a) the initiation of or consent to Insolvency Proceedings in respect of such person; or
- (b) the enforcement of any mortgage, charge, lien, pledge or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect, over any assets of or the undertaking of such person (but excluding, in relation to the Issuer, the appointment of a Receiver of the Issuer by the Note Trustee); or
- (c) any distress, execution, diligence, expropriation, sequestration, attachment or other process being levied or enforced or imposed upon or against any asset or assets of such person (but excluding, in relation to the Issuer, by the Note Trustee or by any Receiver of the Issuer appointed by the Note Trustee) and such order, appointment, possession or process (as the case may be) not being discharged or otherwise ceasing to apply within 21 days; or
- (d) an arrangement, composition, reorganisation or compromise (whether by way of voluntary arrangement, scheme of arrangement or otherwise) with any creditor of such person or a conveyance to or assignment with any creditor of such person or an application to or filing with a court of competent jurisdiction for protection from the creditors of such person or any analogous procedure or steps being taken in any jurisdiction; or
- (e) the appointment of any Insolvency Official in relation to such person or in relation to any part of the undertaking or assets of such person (but excluding, in relation to the Issuer, the appointment of a Receiver of the Issuer by the Note Trustee); or
- (f) otherwise than for the purposes of an amalgamation or reconstruction, such person ceasing to carry on business or any part of its business, stopping or suspending or threatening to stop or suspend payment of any of its debts, being unable to or admitting inability to pay its debts as they fall due, being deemed unable to pay its debts pursuant to or for the purposes of any applicable law or commencing negotiations with one or more of its creditors with a review to rescheduling any of its debts; or
- (g) in the case of the Issuer, the Issuer being unable to pay its debts within the meaning of sections 123(1)(b) or (e) or section 123(2) of the Insolvency Act 1986,

provided that any solvent winding up of the Issuer for the purpose of a merger, reorganisation or amalgamation, the terms of which have previously been approved either by the Note Trustee or by an Extraordinary Resolution of the holders of the Most Senior Class of Notes, shall not constitute an Insolvency Event;

**"Insolvency Official"** means, in respect of any person, a liquidator, provisional liquidator, administrator, administrative receiver, receiver or manager, receiver, nominee, manager, interim manager, supervisor, trustee, conservator, guardian or other similar official or officer in respect of such person or in respect of any of the person's assets or in respect of any arrangement, compromise or composition with creditors;

**"Insolvency Proceedings"** means, with respect to any person, the winding up (liquidation), sequestration, petition, appointment of an administrator (including, without limitation, the giving of notice of intention to appoint an administrator or the filing of an application for administration) or the making of an administration order or dissolution of such person or any equivalent or analogous proceedings under the laws of any jurisdiction;

**"Interest"** means any asset, agreement, bank account, property or right;

**"Interest Amount"** has the meaning given to it in Condition 6(d) (*Interest – Calculation of Interest Amount and Determination of Interest Rates in Respect of the Notes*);

**"Interest Period"** has the meaning given to it in Condition 6(b) (*Interest – Payment Dates and Interest Periods*);

**"Interest Rate"** has the meaning ascribed to such term in Condition 6(c) (*Interest - Interest Rates on the Notes*);

**"Interest Residual Amount"** has the meaning given to it in Condition 18 (*Subordination and Deferral of Interest*);

**"Irish Stock Exchange"** means the Irish Stock Exchange Limited;

**"Issuer Account Bank"** means The Bank of New York, a New York banking corporation acting through its London branch whose principal place of business is at One Canada Square, Canary Wharf, London E14 5AL, as account bank to the Issuer;

**"Issuer Account Bank Agreement"** means the account bank agreement dated the Closing Date and made between, *inter alios*, the Issuer Account Bank, the Note Trustee and the Issuer;

**"Issuer Cash Management Agreement"** means the cash management agreement dated the Closing Date and made between, *inter alios*, the Issuer, the Issuer Cash Manager and the Note Trustee;

**"Issuer Cash Manager"** means The Bank of New York, a New York banking corporation acting through its London branch whose principal place of business is at One Canada Square, Canary Wharf, London E14 5AL, or such other entity or entities appointed from time to time as Issuer cash manager subject to and in accordance with the terms of the Issuer Cash Management Agreement;

**"Issuer/Holdings Corporate Services Agreement"** means the corporate services agreement dated the Closing Date between, *inter alios*, the Issuer, Holdings, the Note Trustee and the Issuer/Holdings Corporate Services Provider;

**"Issuer/Holdings Corporate Services Provider"** means Structured Finance Management Limited, a private limited company registered in England and Wales with registered number 3853947, or such other entity or entities appointed from time to time as the corporate services provider to the Issuer and Holdings subject to and in accordance with the Issuer/Holdings Corporate Services Agreement;

**"Issuer Covenants"** means the covenants of the Issuer set out in Schedule 5 to the Trust Deed;

**"Issuer Deed of Charge"** means the deed of charge dated the Closing Date and made between, *inter alios*, the Issuer and the Note Trustee and includes any deed or other document expressed to be supplemental thereto or any amendments or modifications made thereto;

**"Issuer Payment Priorities"** means the Issuer Post-Enforcement Priority of Payments and the Issuer Pre-Enforcement Priority of Payments;

**"Issuer Post-Enforcement Priority of Payments"** means the provisions relating to the order of priority of payments set out in Condition 12 (*Enforcement*);

**"Issuer Pre-Enforcement Priority of Payments"** means the provisions relating to the order of priority of payments set out in Schedule 1 to the Issuer Cash Management Agreement;

**"Issuer Secured Creditors"** means:

- (a) the Note Trustee (for itself and for and on behalf of the Noteholders and the other Issuer Secured Creditors);
- (b) the Liquidity Facility Provider;
- (c) the Hedge Counterparties;
- (d) the Issuer Cash Manager;
- (e) the Issuer Account Bank;
- (f) the Paying Agents;
- (g) the Issuer/Holdings Corporate Services Provider;
- (h) the Borrower in relation to the Hedge Termination Receipts payable by the Issuer in accordance with the Facility Agreement;

- (i) any Receiver appointed under the Issuer Deed of Charge; and
- (j) such other creditor who may be a party to, or accede to, the Issuer Deed of Charge from time to time in accordance with the terms thereof and is designated an Issuer Secured Creditor;

**"Issuer Secured Liabilities"** means the aggregate of all monies and Liabilities which from time to time are or may become due, owing or payable by the Issuer to each of the Issuer Secured Creditors under the Notes or any of the Issuer Transaction Documents;

**"Issuer Security"** has the meaning given to it in Condition 4 (*Security*);

**"Issuer Transaction Account"** means the Issuer Transaction Account held in the name of the Issuer and maintained by the Issuer Account Bank pursuant to the terms of the Issuer Account Bank Agreement or such other account as may be opened, with the consent of the Note Trustee, at any branch of the Issuer Account Bank or at a bank having the Minimum Short-Term Rating in replacement of such account;

**"Issuer Transaction Documents"** means the Trust Deed, the Issuer Deed of Charge, the Securitisation Floating Charge Debenture, the Paying Agency Agreement, the Loan Novation Documents, the Facility Agreement, the Post-Enforcement Call Option Agreement, the Issuer Account Bank Agreement, the Liquidity Facility Agreement, the Issuer Cash Management Agreement, the Hedge Agreements, the Issuer/Holdings Corporate Services Agreements, the Tax Deed of Covenant and the Master Definitions Schedule;

**"Lender"** means initially, the Original Lenders and any other person which becomes a party, as a result of the Lender assigning or transferring its rights, benefits or obligations under the Facility Agreement to another person, bank, financial institution, trust, fund or other entity pursuant to the Facility Agreement including, after execution of the Loan Novation Agreement, the Issuer;

**"Liabilities"** means, in respect of any person, any losses, damages, costs, charges, awards, claims, demands, expenses, judgments, decrees, actions, proceedings, indemnities or other liabilities whatsoever incurred by that person (including legal fees but for the avoidance of doubt not including any Taxes or any amounts in respect of VAT);

**"Liquidity Drawing"** means a liquidity drawing made by the Issuer Cash Manager (on behalf of the Issuer) in accordance with the terms of the Liquidity Facility Agreement;

**"Liquidity Facility Agreement"** means the facility agreement dated the Closing Date and made between, *inter alios*, the Issuer, the Liquidity Facility Provider and the Note Trustee;

**"Liquidity Facility Commitment Fee"** means the commitment fee payable by the Issuer of 0.225 per cent. per annum on the then undrawn portion of the Liquidity Facility to the Liquidity Facility Provider;

**"Liquidity Facility Provider"** means Lloyds TSB Bank plc in its capacity as liquidity facility provider, acting through its office at Faryner's House, 25 Monument Street, London, EC3R 8BQ, or such other entity or entities appointed as liquidity facility provider from time to time, subject to and in accordance with the terms of the Liquidity Facility Agreement;

**"Liquidity Facility Subordinated Amounts"** means the amounts payable by the Issuer to the Liquidity Facility Provider pursuant to the terms of the Liquidity Facility Agreement which are the aggregate of (a) gross-up payments and increased costs (except under (b)) payable by the Issuer in respect of the Liquidity Facility Amount in excess of 0.125% of the total commitment; (b) increases in the commitment fee for capital adequacy reasons payable in excess of 0.25%; and (c) any other payments to the Liquidity Facility Provider except principal, interest, commitment fees, expenses and increased costs, increases in the commitment fee and gross-up payments within the limits in (a) and (b);

**"Liquidity Requisite Rating"** means, in respect of any person, such person's short-term, unsecured, unsubordinated and unguaranteed debt obligations being rated at least A-1+ by S&P and P-1 by Moody's;

**"Liquidity Standby Account"** means a designated account of the Issuer and maintained by the Liquidity Facility Provider for so long as the Liquidity Facility Provider maintains its Liquidity



Requisite Rating, otherwise, with the then Issuer Account Bank or any other bank with the Liquidity Requisite Rating in accordance with the Liquidity Facility Agreement;

"**Loan**" means a loan made under the Facility Agreement or the principal amount outstanding for the time being of such a loan and "**Loans**" means each such Loan;

"**Loan Assets**" means the Initial Loans together with the Original Lenders' right, title and interests in the Borrower Level Security and all of the Original Lenders' rights as Lender under the Finance Documents;

"**Loan Event of Default**" means an event of default under the Facility Agreement;

"**Loan Potential Event of Default**" means any Loan Event of Default or any event which could reasonably be expected to become (with the passage of time, the giving of notice, the making of any determination or any combination of any of the foregoing) a Loan Event of Default;

"**Loan Novation Agreement**" means the Loan Novation Agreement dated the Closing Date between the Original Lenders, the Note Trustee, the Borrower Security Trustee and the Issuer;

"**Loan Novation Documents**" means the Loan Novation Agreement together with the Transfer Certificate;

"**Loan to Value Ratio**" means the aggregate principal balance of the Initial Loans and any Loans which rank senior to, or *pari passu* with, the Initial Loans, expressed as a percentage of the total market value of the Borrower's interests in the Properties as shown in the most recent Valuations;

"**Master Definitions Schedule**" means the master definitions schedule dated the Closing Date between, amongst others, the Issuer, Holdings, Options, the Note Trustee, the Borrower Security Trustee, the Issuer Account Bank, the Liquidity Facility Provider, the Hedge Counterparties, the Paying Agents and the Issuer/Holdings Corporate Services Provider incorporating the definitions applicable to each of the Issuer Transaction Documents (where not otherwise defined therein);

"**Material Adverse Effect**" means a material adverse effect on:

- (i) the ability of an Obligor to perform or comply with its financial obligations under the Borrower Transaction Documents in a timely manner; or
- (ii) the validity or enforceability of the Borrower Transaction Documents or the rights or remedies of any Borrower Secured Creditor under the Borrower Transaction Documents;

"**Meeting**" means a meeting of Noteholders of any class or classes (whether originally convened or resumed following an adjournment);

"**Minimum Short-Term Rating**" means, in respect of any person, such person's short-term unsecured, unsubordinated, unguaranteed debt obligations being rated at least P-1 by Moody's and A-1+ by S&P;

"**Moody's**" means Moody's Investors Service Limited;

"**Most Senior Class of Notes**" means the Class A Notes for so long as there are any Class A Notes outstanding, thereafter the Class B Notes for so long as there are any Class B Notes outstanding and thereafter the Class C Notes for so long as there are any Class C Notes outstanding save that, if and to the extent that any class of New Notes is issued and remains outstanding, the expression shall mean the class or classes of Notes then outstanding which rank senior to each and every other class of Notes then outstanding;

"**New Notes**" has the meaning ascribed to such term in Condition 19 (*Further Notes, New Notes and Replacement Notes*);

"**Note Enforcement Notice**" means a notice delivered by the Note Trustee to the Issuer in accordance with Condition 11 (*Note Events of Default*) which declares the Notes to be immediately due and payable;

"**Note Event of Default**" has the meaning given to it in Condition 11 (*Note Events of Default*);

**"Note Principal Payment"** has the meaning given to it in Condition 7(g) (*Redemption and Cancellation – Note Principal Payment*);

**"Noteholders"** means the Class A Noteholders, the Class B Noteholders and the Class C Noteholders and, if and to the extent that any Further Notes, New Notes or Replacement Notes are issued, including the holders of any Further Notes, New Notes or Replacement Notes and, in relation to any Definitive Notes, the bearer of those Definitive Notes;

**"Notice Details"** means the notice details set out in the Trust Deed;

**"Obligors"** means the Borrower and the Borrower Parent and **"Obligor"** shall mean each of them;

**"Options"** means Hartland Options Limited, a private limited liability company incorporated under the laws of England and Wales on 29 December 2005, with registered number 5663690, having its registered office at 35 Great St. Helen's, London EC3A 6AP;

**"Original Lenders"** means Morgan Stanley Bank International Limited and UBS AG, London Branch;

**"Original Property"** means each Property listed in the Facility Agreement as at the Closing Date;

**"outstanding"** means, in relation to the Notes, all of the Notes issued other than:

- (a) those Notes which have been redeemed in full and cancelled, in accordance with Condition 7 (*Redemption and Cancellation*) or otherwise under the Trust Deed;
- (b) those Notes in respect of which the date for redemption in full in accordance with the Conditions has occurred and the redemption monies for which (including all interest payable thereon) have been duly paid to the Note Trustee or to the Principal Paying Agent in the manner provided in the Paying Agency Agreement (and, where appropriate, notice to that effect has been provided or published in accordance with Condition 17 (*Notices to Noteholders*)) and remain available for payment against presentation of the relevant Notes, Coupons and Receipts;
- (c) those Notes which have become void under Condition 10 (*Prescription*);
- (d) those mutilated or defaced Notes which have been surrendered and cancelled and in respect of which replacements have been issued pursuant to Condition 16 (*Replacement of Notes, Coupons, Receipts and Talons*);
- (e) for the purpose only of ascertaining the Principal Amount Outstanding of the Notes and without prejudice to the status, for any other purpose, of the relevant Notes, those Notes which are alleged to have been lost, stolen or destroyed and in respect of which replacements have been issued pursuant to Condition 16 (*Replacement of Notes, Coupons, Receipts and Talons*);
- (f) the Temporary Global Notes to the extent that they have been exchanged for Permanent Global Notes pursuant to the provisions contained therein and in the Trust Deed;
- (g) the Permanent Global Notes that remain in escrow pending exchange of the Temporary Global Notes therefor, pursuant to the provisions contained therein and in the Trust Deed; and
- (h) the Permanent Global Notes to the extent that they have been exchanged for Definitive Notes, pursuant to the provisions contained therein and in the Trust Deed,

provided that for each of the following purposes, namely:

- (i) the right to attend and vote at any meeting of the Noteholders;
- (ii) the determination of how many and which Notes are for the time being outstanding for the purposes of Clause 16 (*Waiver*), Clause 17 (*Modification*), Clause 20 (*Proceedings and Actions by the Note Trustee*), Clause 31 (*Appointment of Note Trustees*) and Clause 32 (*Notice of New Note Trustee*) of the Trust Deed and Condition 11 (*Note*

*Events of Default*), Condition 12 (*Enforcement*) and the Provisions for Meetings of Noteholders set out in the Trust Deed;

- (iii) any discretion, power or authority contained in the Trust Deed which the Note Trustee is required, expressly or impliedly, to exercise in or by reference to the interests of any of the Noteholders; and
- (iv) the determination by the Note Trustee whether any of the events specified in Condition 11(a)(ii) (*Note Events of Default*) is materially prejudicial to the interest of the Noteholders,

those Notes (if any) which are for the time being held by the Borrower, the Borrower Parent, the Subordinated Loan Provider or by any person for the benefit of the Issuer shall (unless and until ceasing to be so held) be deemed not to remain outstanding;

**"Participating Member State"** means at any time any member state of the European Union that has adopted the euro as its lawful currency in accordance with the Treaty;

**"Payment Date"** has the meaning given to it in Condition 6(b) (*Interest – Payment Dates and Interest Periods*);

**"Permanent Global Notes"** means each Class A Permanent Global Note, each Class B Permanent Global Note and each Class C Permanent Global Note;

**"Post-Enforcement Call Option Agreement"** means the call option agreement dated the Closing Date and made between the Note Trustee and Options;

**"Principal Amount Outstanding"** of a Note on any date shall be its original principal amount less the aggregate amount of all Note Principal Payments in respect of such Note which have become due and payable and have been paid;

**"Property"** means an Original Property or a Replacement Property;

**"Property Management Agreement"** means the property management agreement dated the Closing Date made between the Borrower, the Borrower Security Trustee and J Sainsbury plc;

**"Provisions for Meetings of Noteholders"** means those provisions contained in Schedule 5 to the Trust Deed;

**"Quarterly Investor Report"** means the duly completed quarterly investor report to be prepared by the Issuer Cash Manager setting out details of, amongst other things, payments of interest and repayments (or prepayments) on the Initial Loans and the Notes and incorporating the most recent Quarterly Management Report;

**"Quarterly Management Report"** means the duly completed quarterly management report prepared in respect of the Properties by the managing agent on behalf of the Borrower setting out certain information in respect of the Properties;

**"Rating Agencies"** means Moody's and S&P and **"Rating Agency"** means any of them;

**"Ratings Test"** means confirmation from the Rating Agencies (or where specified, one of them) that, in respect of any event or matter where such confirmation is required, the then current ratings of the Notes will not be materially adversely affected to the extent of being downgraded, qualified or withdrawn by the relevant event or matter;

**"Receipts"** has the meaning given to it in Condition 2(c) (*Form, Denomination and Title*);

**"Receiptholders"** means the persons who for the time being are holders of the Receipts;

**"Receiver"** means any receiver, manager, receiver and manager or administrative receiver who (in the case of an administrative receiver) is a qualified person in accordance with the Insolvency Act 1986 or any equivalent person in England and Wales and who is appointed by the Borrower Security Trustee in respect of the whole or any part of the assets subject to the Borrower Level Security or, as the case may be, by the Note Trustee under Clause 16 (*Appointment and Removal of Administrator and Receiver*) of the Issuer Deed of Charge in respect of the whole or any part of the Charged Property;

**"Redenomination Date"** means the Payment Date falling on or after the Euro Commencement Date on which the Issuer intends to redenominate the currency of any of the Notes into euro (if any);

**"Replacement Notes"** has the meaning ascribed to such term in Condition 19 (*Further Notes, New Notes and Replacement Notes*);

**"Replacement Property"** has the meaning given to it in the Substitution Agreement;

**"Repurchase Option"** has the meaning ascribed to such term in Clause 6.6.1 of the Loan Novation Agreement;

**"S&P"** means Standard and Poor's Rating Services, a division of The McGraw-Hill Companies Inc. or any successor to its rating business;

**"Securitisation Floating Charge Debenture"** means the debenture dated the Closing Date between, *inter alios*, the Borrower Parent, the Borrower, the Borrower Security Trustee and the Issuer;

**"Security Interest"** means any mortgage, standard security, pledge, lien, charge, right of set-off, assignment, assignation in security, retention of title, hypothecation or security interest or any other agreement or arrangement having the effect of conferring security;

**"Security over Shares Deed"** means the deed so named dated the Closing Date between, *inter alios*, J Sainsbury plc, the Borrower Parent, the Borrower and the Borrower Security Trustee;

**"Specified Office"** means, in relation to any Paying Agent:

- (a) the office specified against its name in the Notice Details; or
- (b) such other office as such Paying Agent may specify in accordance with the Paying Agency Agreement;

**"Subordinated Loan Agreement"** means the subordinated loan agreement dated the Closing Date and entered into between, *inter alios*, the Borrower and the Subordinated Loan Provider;

**"Subordinated Loan Provider"** means Sainsbury's Supermarkets Ltd, acting through its office at 33 Holborn, London EC1N 2HT, or such other entity or entities appointed as subordinated loan provider from time to time, subject to and in accordance with the terms of the Subordinated Loan Agreement;

**"Subscription Agreement"** means the subscription agreement in relation to the Notes dated the date of this Prospectus and made between the Issuer, the Borrower, J Sainsbury plc, Sainsbury's Supermarkets Ltd and the Joint Lead Managers;

**"Substitution Agreement"** means an agreement entered into on the Closing Date by each of Sainsbury's Supermarkets Ltd, J Sainsbury plc, the Borrower and the Borrower Security Trustee;

**"Swap Collateral Accounts"** means separate accounts opened with a bank whose short-term unsecured, unsubordinated, unguaranteed debt obligations satisfy the Minimum Short-Term Rating in relation to any collateral received from a Hedge Counterparty pursuant to a Hedge Agreement Credit Support Document;

**"Talon"** has the meaning given to it in Condition 2(c) (*Form, Denomination and Title*);

**"Tax"** means any present or future tax, levy, impost, duty or other charge or withholding of any nature whatsoever (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same) imposed or levied by or on behalf of a Tax Authority and **"Taxes"**, **"taxation"**, **"taxable"** and comparable expressions shall be construed accordingly;

**"Tax Authority"** means any government, state, municipal, local, federal or other fiscal, revenue, customs or excise authority, body or official anywhere in the world including the HM Revenue & Customs (and any successor thereto);

**"Tax Deed of Covenant"** means the tax deed of covenant entered into on the Closing Date between, *inter alios*, J Sainsbury plc, the Borrower, the Borrower Security Trustee and certain other members of the Sainsbury's Group;

**"Temporary Global Note"** means each Class A Temporary Global Note, each Class B Temporary Global Note and each Class C Temporary Global Note;

**"Transfer Certificate"** means the certificate of transfer pursuant to the Facility Agreement dated the Closing Date between the Original Lenders and the Issuer;

**"Treaty"** means the Treaty establishing the European Union, as amended by the Treaty on European Union and the Treaty of Amsterdam;

**"Trust Documents"** means the Trust Deed and the Issuer Deed of Charge (each as from time to time modified in accordance therewith);

**"Valuation"** means a valuation in form and substance satisfactory to the Borrower Security Trustee, prepared by and issued by a chartered surveyor who is a fellow of the RICS with at least 10 years' experience of retail property in the United Kingdom and addressed to the Borrower Secured Creditors valuing the Obligors' interests in each Property and which is carried out on a market value basis as defined in the then current Royal Institution of Chartered Surveyors' Appraisal and Valuation Standards (in association with the Institute of Revenues Rating and Valuation) or its successors; and

**"Written Resolution"** means, in relation to all or, as the case may be, any class of Notes, a resolution in writing signed by or on behalf of all holders of Notes or, as the case may be, of such class who, in either case, for the time being are entitled to receive notice of a meeting in accordance with the provisions of the Trust Deed whether contained in one document or several documents in like form, each signed by or on behalf of one or more such Noteholders.

## 2. **Form, Denomination and Title**

(a) Each class of the Notes is initially represented by a Temporary Global Note in bearer form, without Coupons or Receipts, in the initial principal amount of £542,500,000 for the Class A Notes, £46,500,000 for the Class B Notes and £279,000,000 for the Class C Notes. Each Temporary Global Note will be deposited on behalf of the subscribers of each class of the Notes with a common depositary (the "**Common Depositary**") for Clearstream, Luxembourg and Euroclear on the Closing Date. Upon deposit of the Temporary Global Notes, Clearstream, Luxembourg or Euroclear (as the case may be) will credit each subscriber of the Notes with the principal amount of Notes of the relevant class equal to the aggregate principal amount thereof for which it had subscribed and paid. Interests in each Temporary Global Note are exchangeable 40 days after the Closing Date (the "**Exchange Date**"), provided certification of non-U.S. beneficial ownership by the relevant Noteholders has been received, for interests in a Permanent Global Note in bearer form (which will also be deposited with the Common Depositary) representing the same class of Notes, without Coupons or Receipts. The expressions "**Global Notes**" and "**Global Note**" mean, respectively (i) all the Temporary Global Notes and the Permanent Global Notes or the Temporary Global Note and the Permanent Global Note of a particular class or (ii) any Temporary Global Notes or Permanent Global Notes, as the context may require. On the exchange of the Temporary Global Note for the Permanent Global Note of the relevant class, the Permanent Global Notes will remain deposited with the Common Depositary. Title to the Global Notes will pass by delivery. The Permanent Global Notes will only be exchangeable for Definitive Notes in certain limited circumstances described below.

For so long as any Notes are represented by a Global Note, (i) interests in such Notes will be transferable in accordance with the rules and procedures for the time being of Clearstream, Luxembourg or Euroclear, as appropriate; and (ii) the Notes shall be tradable only in principal amounts of at least £50,000 and integral multiples of £5,000 in excess thereof.

(b) If, while any of the Notes are represented by a Permanent Global Note, (i) Clearstream, Luxembourg or Euroclear is closed for business for a continuous period

of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no other clearing system acceptable to the Note Trustee is then in existence, or (ii) as a result of any amendment to, or change in, the laws or regulations of the United Kingdom (or of any political sub-division thereof) or of any authority therein or thereof having power to tax or in the interpretation or administration of such laws or regulations which becomes effective on or after the Closing Date, the Issuer or any Paying Agent is or will on the next Payment Date be required to make any deduction or withholding for or on account of tax from any payment in respect of such Notes which would not be required were such Notes in definitive form, then the Issuer will issue Definitive Notes in respect of the Notes in exchange for the whole outstanding interest in the Permanent Global Note of each class on the later of the Exchange Date and the day falling 30 days after the occurrence of the relevant event.

- (c) Definitive Notes of each class of Notes (which, if issued, will be issued in minimum denominations of £50,000) will be serially numbered and will be issued in bearer form with (at the date of issue) interest coupons ("**Coupons**"), receipts for payments of principal ("**Receipts**") and talons for further Coupons and Receipts (each, a "**Talon**") attached at the time of issue. Title to the Definitive Notes, Coupons and Receipts shall pass by delivery.
- (d) The holder of any Note, of any Coupon and of any Receipt shall (to the fullest extent permitted by applicable laws) be deemed and treated at all times, by all persons and for all purposes (including the making of any payments), as the absolute owner of such Note, Coupon or Receipt, as the case may be, regardless of any notice of ownership, theft or loss, of any trust or other interest therein or of any writing thereon.
- (e) References to "**Notes**" include the Global Notes and the Definitive Notes.

### 3. **Status and Ranking of the Notes**

#### (a) *Status and Ranking of the Class A Notes*

The Class A Notes, the Coupons and the Receipts relating thereto constitute direct, secured, unconditional and unsubordinated obligations of the Issuer and are secured by the Issuer Security. The Class A Notes rank *pari passu* without preference or priority amongst themselves and in priority to, *inter alia*, the Class B Notes and the Class C Notes.

#### (b) *Status and Ranking of the Class B Notes*

The Class B Notes, the Coupons and the Receipts relating thereto constitute direct, secured and unconditional obligations of the Issuer and are secured by the Issuer Security. The Class B Notes rank *pari passu* without preference or priority amongst themselves but the Class A Notes rank in priority to the Class B Notes. The Class B Notes rank ahead of the Class C Notes. Payments of interest on the Class B Notes are subordinated to, *inter alia*, payments of interest on the Class A Notes and payments of principal on the Class B Notes are subordinated to, *inter alia*, payments of principal on the Class A Notes, as provided herein, in the Issuer Deed of Charge and in the Issuer Cash Management Agreement.

#### (c) *Status and Ranking of the Class C Notes*

The Class C Notes, the Coupons and the Receipts relating thereto constitute direct, secured and unconditional obligations of the Issuer and are secured by the Issuer Security. The Class C Notes rank *pari passu* without preference or priority amongst themselves but the Class A Notes and the Class B Notes rank in priority to the Class C Notes. Payments of interest on the Class C Notes are subordinated to, *inter alia*, payments of interest on the Class A Notes and the Class B Notes and payments of principal on the Class C Notes are subordinated to, *inter alia*, payments of principal on the Class A Notes and the Class B Notes, as provided herein, in the Issuer Deed of Charge and in the Issuer Cash Management Agreement.

#### (d) *Issuer Payment Priorities*

Prior to the delivery of a Note Enforcement Notice, the Issuer is required to apply amounts standing to the credit of the Issuer Transaction Account in accordance with the Issuer Pre-Enforcement

Priority of Payments and Condition 7 (*Redemption and Cancellation*) and, following the delivery of a Note Enforcement Notice, in accordance with the Issuer Post-Enforcement Priority of Payments.

(e) *Status and Relationship between the Classes of Notes and the Issuer Secured Creditors*

The Trust Deed contains provisions requiring the Note Trustee to have regard to the interests of the Noteholders equally as a single class as regards all rights, powers, trusts, authorities, duties and discretions of the Note Trustee (except where expressly provided otherwise), but requiring the Note Trustee in any such case to have regard only to the interests of the holders of the Most Senior Class of Notes then outstanding if, in the Note Trustee's opinion, there is a conflict between the interests of the holders of such class and any other class of Notes then outstanding.

So long as any of the Notes remain outstanding, in the exercise of its rights, authorities and discretions under the Trust Documents, the Note Trustee is not required to have regard to the interests of the other Issuer Secured Creditors.

The Trust Deed contains provisions limiting the powers of the holders of the lower-ranking classes of Notes, *inter alia*, to request or direct the Note Trustee to take any action or to pass an effective Extraordinary Resolution according to the effect thereof on the interests of the holders of the Most Senior Class of Notes. Except in certain circumstances, the Trust Documents contain no such limitation on the powers of the holders of the Most Senior Class of Notes by reference to the effect thereof on the interests of the holders of the other classes of Notes outstanding, the exercise of which will be binding on all such holders, irrespective of the effect thereof on their interests.

In determining whether the exercise of any right, power, trust, authority, duty or discretion by it under or in relation to these Conditions and/or any of the Issuer Transaction Documents is materially prejudicial to the interests of the Noteholders (or any class thereof), the Note Trustee may take into account, if available, amongst any other things it may consider necessary and/or appropriate in its absolute discretion, confirmation from the Rating Agencies that the Ratings Test will be satisfied. For the avoidance of doubt, such confirmation or the absence of such confirmation shall, however, not of itself be construed to mean that any such exercise (or contemplated exercise) by the Note Trustee of any right, power, trust, authority, duty or discretion under or in relation to the Conditions or any of the Issuer Transaction Documents is not materially prejudicial to the interest of holders of that class of Notes.

#### 4. **Security**

As far as permitted by and subject to compliance with any applicable law and as continuing security for the payment or discharge of the Issuer Secured Liabilities (including all monies payable in respect of the Notes, Coupons and Receipts and otherwise under the Trust Documents (including the remuneration, expenses and other claims of the Note Trustee and any Receiver appointed thereunder)), the Issuer has entered into the Issuer Deed of Charge to create the following security (the "**Issuer Security**") in favour of the Note Trustee for itself and on trust for the other Issuer Secured Creditors:

- (i) an assignment by way of first fixed security of the Benefit of the Issuer under the Borrower Transaction Documents;
- (ii) an assignment by way of first fixed security of the Benefit of the Issuer under each Issuer Transaction Document (other than the Trust Documents);
- (iii) a first fixed charge of the Benefit of the Issuer Transaction Account and any bank or other accounts in which the Issuer may at any time have or acquire any Benefit;
- (iv) a first fixed charge of the Benefit of each Authorised Investment of the Issuer; and
- (v) a floating charge over the whole of the Issuer's undertaking, assets, property and rights whatsoever and wheresoever situated, present and future, including the Issuer's uncalled capital.

Each class of Noteholders will share the Benefit of the Issuer Security under the Issuer Deed of Charge, upon and subject to the terms thereof.

## 5. Issuer Covenants

### (a) Issuer Covenants

Save as permitted by the Issuer Transaction Documents, the Issuer Covenants contain certain covenants of the Issuer in favour of the Note Trustee which, *inter alia*, restrict the ability of the Issuer to create or incur any indebtedness, dispose of assets or change the nature of its business. So long as any Note remains outstanding, the Issuer shall comply with the Issuer Covenants.

### (b) Financial Statements and Quarterly Investor Reports

The Issuer undertakes:

- (i) to provide to the Note Trustee, the Rating Agencies and the Paying Agents or to procure that the Note Trustee, the Rating Agencies and the Paying Agents are provided with:
  - (A) the Financial Statements; and
  - (B) the Quarterly Investor Reports; and
- (ii) to publish or procure the publication of the Quarterly Investor Reports on Bloomberg (or another similar financial news, media or web site),

except to the extent that disclosure of such financial information would at that time breach any law, regulation, Irish Stock Exchange requirement or rules of any applicable regulatory body to which the Issuer is subject.

The Financial Statements and the Quarterly Investor Reports will be available for inspection by the Noteholders during normal business hours on any Business Day at the Specified Office for the time being of each of the Paying Agents. Upon receipt of such information, the Principal Paying Agent will, upon written request by a Noteholder to the Principal Paying Agent and confirmation satisfactory to the Principal Paying Agent of its current holding of the Notes, post to it the most recent Quarterly Investor Report held by the Principal Paying Agent.

### (c) Issuer Cash Manager

So long as any of the Notes remains outstanding, the Issuer will procure that there will at all times be an issuer cash manager in respect of the monies from time to time standing to the credit of the Issuer Transaction Account and such other account of the Issuer from time to time. Any appointment of a substitute issuer cash manager by the Issuer is subject to, *inter alia*, such substitute issuer cash manager entering into an agreement in the form of (and on substantially the same terms as) the Issuer Cash Management Agreement. Any resignation by the Issuer Cash Manager or a termination of its appointment will not take effect until a substitute issuer cash manager, previously approved in writing by the Note Trustee, has been duly appointed. The appointment of the Issuer Cash Manager may be revoked by the Issuer (with the prior written consent of the Note Trustee) or the Note Trustee by not less than 30 days notice provided that such revocation shall not take effect until a substitute issuer cash manager, approved by the Note Trustee, has been duly appointed.

The appointment of the Issuer Cash Manager shall terminate forthwith if the Issuer Cash Manager becomes incapable of acting or becomes insolvent or defaults in the performance of any of its obligations under the Issuer Cash Management Agreement and such default is not cured or waived within three Business Days of it occurring. In such a case, the Issuer shall forthwith appoint a substitute issuer cash manager.

## 6. Interest

### (a) Period of Accrual

Each Note bears interest on its Principal Amount Outstanding (and where relevant, unpaid premium) from (and including) the Closing Date. Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) shall cease to bear interest from its due date for redemption, unless, upon due presentation, payment of the relevant amount of principal or any part thereof is improperly withheld or refused. In such event, interest will continue to accrue thereon (before and after any decree or judgment) at the rate applicable to such Note up to (but excluding) the date on which, on presentation of such Note, payment in full of the relevant amount of principal is made or (if earlier) the day after notice is duly given by the Principal Paying Agent to the holder



thereof (in accordance with Condition 17 (*Notices to Noteholders*)) that upon presentation thereof, such payment will be made, provided that upon such presentation, such payment is in fact made.

*(b) Payment Dates and Interest Periods*

Interest on the Notes is payable quarterly in arrear on 19<sup>th</sup> January, 19<sup>th</sup> April, 19<sup>th</sup> July and 19<sup>th</sup> October in each year (or, if such day is not a Business Day, the next succeeding Business Day) (each, a "**Payment Date**") in respect of the Interest Period ending immediately prior thereto, except that the first such payment is due on the Payment Date falling in July 2006 in respect of the period from (and including) the Closing Date to (but excluding) the Payment Date falling in July 2006.

A "**Interest Period**" means the period from (and including) the Closing Date to (but excluding) the Payment Date falling in July 2006 and thereafter each successive Interest Period will commence on (and include) a Payment Date and end on (but exclude) the next succeeding Payment Date.

*(c) Interest Rates on the Notes*

- (i) Each Class A Note bears interest on its Principal Amount Outstanding at the rate of 4.791 per cent. per annum;
- (ii) each Class B Note bears interest on its Principal Amount Outstanding at the rate of 4.774 per cent. per annum; and
- (iii) each Class C Note bears interest on its Principal Amount Outstanding at the rate of 4.896 per cent. per annum,

in each case, payable in respect of each Interest Period in arrear on the next succeeding Payment Date.

*(d) Calculation of Interest Amount in Respect of the Notes*

The Principal Paying Agent will, as soon as practicable after each Payment Date, determine and notify the Issuer, the Note Trustee and the Paying Agents and will cause notice thereof to be given to the relevant Noteholders in accordance with Condition 17 (*Notices to Noteholders*) of the amount of interest (the "**Interest Amount**") payable in respect of each Note for such Interest Period. The Interest Amounts will be calculated by applying the relevant Interest Rate for such Interest Period to the then Principal Amount Outstanding of such Note and multiplying the product by the actual number of days in such Interest Period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 (twelve) 30-day months) and rounding the resulting figure to the nearest £0.01 (half of £0.01 being rounded upwards).

*(e) Failure of Principal Paying Agent to calculate Interest Amount*

If the Principal Paying Agent fails at any time to calculate an Interest Amount, the Note Trustee, or its appointed agent, in each case without accepting any liability therefor, may calculate such Interest Amount, and each such calculation shall be deemed to have been made by the Principal Paying Agent.

In doing so, the Note Trustee shall apply all of these Conditions with any necessary consequential amendments to the extent that, in its sole opinion and with absolute discretion, it can do so and in all other respects it shall do so in such manner as it shall deem fair and reasonable in all circumstances and will not be liable for any Liability which may arise as a result thereof, and any such calculation made by the Note Trustee shall, save in the case of manifest error, be final and binding on the Issuer, the Noteholders, the Couponholders, the Receiptholders and the other Issuer Secured Creditors.

*(f) Publication of Interest Amounts and other Notices*

As soon as practicable after receiving notification thereof, the Issuer will cause each Interest Amount applicable to each class of Notes for the relevant Interest Period and the immediately succeeding Payment Date to be notified to the Irish Stock Exchange (for so long as the Notes are admitted to listing on the Irish Stock Exchange and the rules of the Irish Stock Exchange so require) and will cause notice thereof to be given to the relevant class of Noteholders in accordance with Condition 17 (*Notices to Noteholders*). The Interest Amounts and the Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of any extension or shortening of the Interest Period.

(g) *Notification to be Final*

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 6, whether by, the Principal Paying Agent or the Note Trustee shall (in the absence of wilful default, bad faith or manifest error) be binding on the Issuer and all Noteholders, Couponholders and Receiptholders, the Principal Paying Agent, the Note Trustee and (in the absence of wilful default, bad faith or manifest error) no liability to the Note Trustee, the Noteholders, the Couponholders or the Receiptholders shall attach to the Issuer, the Principal Paying Agent or the Note Trustee in connection with the exercise or non-exercise by them or any of them of their powers, duties and discretions under this Condition 6.

7. **Redemption and Cancellation**

(a) *Final Redemption*

Unless previously redeemed in full as provided in this Condition 7, the Issuer shall redeem the Notes at their Principal Amount Outstanding (plus accrued but unpaid interest) on the Payment Date falling in April 2036 (the "**Final Maturity Date**"), subject as provided in Condition 8 (*Payments*).

The Issuer may not redeem the Notes in whole or in part prior to the Final Maturity Date except as provided below in Condition 7(b) (*Redemption and Cancellation – Scheduled Redemption in Part upon Scheduled Repayment of the Loans*), Condition 7(c) (*Redemption and Cancellation – Early Mandatory Redemption in Whole or in Part upon Prepayment of the Loans*), Condition 7(d) (*Redemption and Cancellation – Substitution/Redemption in Whole for Taxation and Other Reasons*) or Condition 7(e) (*Redemption and Cancellation – Redemption in Whole or in Part upon Novation of the Loans by the Issuer to the Original Lenders or Indemnity by the Original Lenders to the Issuer under the Loan Novation Agreement*), but without prejudice to Condition 11 (*Note Events of Default*).

(b) *Scheduled Redemption in Part upon Scheduled Repayment of the Loans*

On certain Payment Dates prior to the relevant Expected Maturity Date, the Issuer (prior to the delivery of a Note Enforcement Notice by the Note Trustee) shall redeem each class of the Notes in the amortisation amount set out opposite the relevant Payment Date below (each an "**Amortisation Amount**"). If any partial redemption of any class of Notes is made at any time, otherwise than in accordance with this Condition 7(b) (*Redemption and Cancellation – Scheduled Redemption in Part upon Scheduled Repayment of the Loans*), then each Amortisation Amount pertaining to such class of Notes which falls to be paid after the date of the partial redemption so made shall be reduced by a proportion of such Amortisation Amount which is the same proportion as the partial redemption so made bore to the Principal Amount Outstanding of such class of Notes immediately prior to such partial redemption being made but after deducting any redemption made in accordance with this Condition 7(b) (*Redemption and Cancellation – Scheduled Redemption in Part upon Scheduled Repayment of the Loans*) on the date such partial redemption is made.

**Amortisation Schedule**

<b>Payment Date falling in</b>	<b>Class A Notes Amortisation Amount (£) (per £50,000)</b>	<b>Class B Notes Amortisation Amount (£) (per £50,000)</b>	<b>Class C Notes Amortisation Amount (£) (per £50,000)</b>
Jul-06	193.50	0.00	0.00
Oct-06	311.70	0.00	0.00
Jan-07	315.10	0.00	0.00
Apr-07	318.40	0.00	0.00
Jul-07	321.80	0.00	0.00
Oct-07	325.20	0.00	0.00
Jan-08	328.60	0.00	0.00
Apr-08	332.10	0.00	0.00
Jul-08	335.60	0.00	0.00
Oct-08	339.20	0.00	0.00
Jan-09	342.80	0.00	0.00
Apr-09	346.40	0.00	0.00
Jul-09	350.10	0.00	0.00
Oct-09	353.80	0.00	0.00
Jan-10	357.50	0.00	0.00
Apr-10	361.30	0.00	0.00
Jul-10	365.10	0.00	0.00

<b>Payment Date falling in</b>	<b>Class A Notes Amortisation Amount (£) (per £50,000)</b>	<b>Class B Notes Amortisation Amount (£) (per £50,000)</b>	<b>Class C Notes Amortisation Amount (£) (per £50,000)</b>
Oct-10	369.00	0.00	0.00
Jan-11	372.90	0.00	0.00
Apr-11	376.80	0.00	0.00
Jul-11	380.80	0.00	0.00
Oct-11	384.90	0.00	0.00
Jan-12	388.90	0.00	0.00
Apr-12	393.10	0.00	0.00
Jul-12	397.20	0.00	0.00
Oct-12	401.40	0.00	0.00
Jan-13	405.70	0.00	0.00
Apr-13	410.00	0.00	0.00
Jul-13	414.30	0.00	0.00
Oct-13	418.70	0.00	0.00
Jan-14	423.10	0.00	0.00
Apr-14	427.60	0.00	0.00
Jul-14	432.20	0.00	0.00
Oct-14	436.70	0.00	0.00
Jan-15	441.40	0.00	0.00
Apr-15	446.00	0.00	0.00
Jul-15	450.80	0.00	0.00
Oct-15	455.50	0.00	0.00
Jan-16	460.40	0.00	0.00
Apr-16	465.20	0.00	0.00
Jul-16	470.20	0.00	0.00
Oct-16	475.10	0.00	0.00
Jan-17	480.20	0.00	0.00
Apr-17	485.30	0.00	0.00
Jul-17	490.40	0.00	0.00
Oct-17	495.60	0.00	0.00
Jan-18	500.80	0.00	0.00
Apr-18	506.10	0.00	0.00
Jul-18	511.50	0.00	0.00
Oct-18	516.90	0.00	0.00
Jan-19	522.40	0.00	0.00
Apr-19	527.90	0.00	0.00
Jul-19	533.50	0.00	0.00
Oct-19	539.20	0.00	0.00
Jan-20	544.90	0.00	0.00
Apr-20	550.60	0.00	0.00
Jul-20	556.50	0.00	0.00
Oct-20	562.40	0.00	0.00
Jan-21	568.30	0.00	0.00
Apr-21	574.30	0.00	0.00
Jul-21	580.40	0.00	0.00
Oct-21	586.60	0.00	0.00
Jan-22	592.80	0.00	0.00
Apr-22	599.10	0.00	0.00
Jul-22	605.40	0.00	0.00
Oct-22	611.80	0.00	0.00
Jan-23	618.30	0.00	0.00
Apr-23	624.80	0.00	0.00
Jul-23	631.50	0.00	0.00
Oct-23	638.10	0.00	0.00
Jan-24	644.90	0.00	0.00
Apr-24	651.70	0.00	0.00
Jul-24	658.60	0.00	0.00
Oct-24	665.60	0.00	0.00
Jan-25	672.70	0.00	0.00
Apr-25	679.80	0.00	0.00
Jul-25	687.00	0.00	0.00
Oct-25	694.30	0.00	0.00
Jan-26	701.60	0.00	0.00

Payment Date falling in	Class A Notes Amortisation Amount (£) (per £50,000)	Class B Notes Amortisation Amount (£) (per £50,000)	Class C Notes Amortisation Amount (£) (per £50,000)
Apr-26	709.00	0.00	0.00
Jul-26	716.60	0.00	0.00
Oct-26	724.10	0.00	0.00
Jan-27	731.80	0.00	0.00
Apr-27	739.60	0.00	0.00
Jul-27	747.40	0.00	0.00
Oct-27	755.30	0.00	0.00
Jan-28	763.30	0.00	0.00
Apr-28	771.40	0.00	0.00
Jul-28	779.60	0.00	0.00
Oct-28	787.80	0.00	0.00
Jan-29	796.20	0.00	0.00
Apr-29	804.60	0.00	0.00
Jul-29	813.10	0.00	0.00
Oct-29	821.70	0.00	0.00
Jan-30	830.40	0.30	0.00
Apr-30	0.20	9,788.20	0.00
Jul-30	0.00	9,894.70	0.00
Oct-30	0.00	9,999.50	0.00
Jan-31	0.00	10,105.40	0.00
Apr-31	0.00	10,212.20	50,000.00

(c) *Early Mandatory Redemption in Whole or Part upon Prepayment of the Loans*

- (i) On the receipt by the Issuer of a notice of prepayment from the Borrower under the Facility Agreement of its intention to make prepayment in whole or in part of any of the Loans in accordance with Clause 7.1 (*Prepayment and Cancellation - Illegality*), Clause 7.2 (*Prepayment and Cancellation - Voluntary Prepayment of Loans*), Clause 7.4 (*Prepayment and Cancellation - Mandatory Prepayment Property Disposal*), Clause 7.5 (*Prepayment and Cancellation - Mandatory Prepayment - Compulsory Purchase*) or Clause 7.6 (*Prepayment and Cancellation - Mandatory Prepayment - Insurance Proceeds*) of the Facility Agreement, the Issuer shall give not less than 20 days' and not more than 60 days prior written notice to the Noteholders, the Note Trustee, and the Paying Agents that it will, to the extent it receives such prepayment monies, apply such amounts towards redeeming the Notes. In such circumstances the Issuer shall redeem the relevant Notes at the relevant Redemption Amount or (in the case of Conditions 7(c)(ii)) their Principal Amount Outstanding together with accrued but unpaid interest on their Principal Amount Outstanding up to but excluding the Payment Date fixed for such redemption;

"**Redemption Amount**" means, in respect of any redemption made in accordance with the provisions of this Condition 7(c)(i), in the case of any class of Notes, whichever is the higher of (i) the Principal Amount Outstanding of the relevant Note (or relevant part thereof); and (ii) an amount calculated by multiplying the Principal Amount Outstanding of such Notes (or relevant part thereof) by that price (as reported in writing to the Issuer and the Note Trustee by a financial adviser approved in writing by the Note Trustee) expressed as a percentage (and rounded, if necessary, to the third decimal place (0.0005 being rounded upwards)) at which the Gross Redemption Yield on the relevant class of Notes (or relevant part thereof) on the Relevant Date is equal to the Redemption Rate (as defined below) plus, in either case, accrued but unpaid interest on the Principal Amount Outstanding of the relevant Notes (or relevant part thereof) to (but excluding) the date fixed for redemption.

"**Redemption Rate**" means the Relevant Swap Mid Curve Rate or, if the Relevant Swap Mid Curve Rate is not able to be determined, such rate as may be approved by the Note Trustee;

"**Relevant Date**" means the date which is the second dealing day in the London gilt-edged market prior to the date of despatch of the notice of redemption referred to in this Condition 7(c)(i);

**"Relevant Swap Mid Curve Rate"** means the mid-point of the bid-side and offer-side rates for the fixed leg of a hypothetical interest rate swap with a notional profile equal to the semi-annual interest that would be payable on the relevant class of Notes to be redeemed, with the same payment dates as the relevant Notes, against a floating leg of Three Month Sterling LIBOR with no spread, where such hypothetical interest rate swap is between two highly-rated (AA- or equivalent or higher) and fully collateralised market counterparties (the Relevant Swap Mid-Curve Rate shall be determined by a financial adviser (nominated by the Issuer and approved by the Note Trustee) using its standard valuation methodology as at the date of calculation) as at or about 11.00 a.m. (London time) on such Relevant Date;

**"Three Month Sterling LIBOR"** means the rate of interest for three month Sterling deposits as determined as at or about 11.00 a.m. (London time) on the Relevant Date by reference to the display designated as the British Bankers Association LIBOR Rates as quoted on the Telerate Monitor as Telerate Screen No. 3750 or such other page as may replace Telerate Screen No. 3750 on that service for the purposes of displaying such information; or if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one previously approved in writing by the Note Trustee) as may replace the Telerate Monitor); and

**"Gross Redemption Yield"** means a yield calculated on the basis indicated by the Joint Index and Classification Committee of the Institute and Faculty of Actuaries, as reported in the Journal of Actuaries, Volume 105, Part 1, 1978, page 18 or such other basis as the Note Trustee may approve.

In the case of any redemption pursuant to this Condition 7(c), the Issuer shall redeem the Notes in the following order: (a) *first, pro rata and pari passu* in or towards redemption of the Class A Notes; and (b) *secondly, pro rata and pari passu* in or towards redemption of the Class B Notes; and (c) *thirdly, pro rata and pari passu* in or towards redemption of the Class C Notes.

- (ii) In the event that the Issuer receives a notice of prepayment from the Borrower under the Facility Agreement of its intention to make prepayment of the Loans in accordance with Clause 7.1 (*Prepayment and Cancellation - Illegality*) of the Facility Agreement, the Issuer shall give not less than 20 days' and not more than 60 days' prior written notice to the Noteholders, the Note Trustee and the Paying Agents that it will, to the extent it receives such prepayment proceeds apply the same in redemption of all (but not some only) of the Notes, at their Principal Amount Outstanding together with accrued but unpaid interest on the Principal Amount Outstanding of the relevant Notes up to (but excluding) the date fixed for redemption.

(d) *Substitution/Redemption in Whole for Taxation and Other Reasons*

If the Issuer at any time satisfies the Note Trustee that, by reason of a change in law (or the application or official interpretation thereof), which change becomes effective on or after the Closing Date:

- (i) it would be required to deduct or withhold from any payment of principal or interest on the Notes (although the Issuer will not have any obligation to pay additional amounts in respect of such withholding or deduction) any amount for or on account of any Taxes imposed, levied, collected, withheld or assessed by the United Kingdom or any political sub-division thereof or authority thereof or therein having the power to tax (other than by reason of the relevant holder having some connection with the United Kingdom, as the case may be, other than the holding of the Notes or related Coupons and Receipts); or
- (ii) the Issuer or a Hedge Counterparty (or any other hedge counterparty with which the Issuer may enter into a hedge agreement) would be required to deduct or withhold from any payments in respect of the Hedge Agreements or such other hedge agreement (whether or not the Issuer or the relevant hedge counterparty has an obligation to pay additional amounts in respect of such withholding or deduction) any amount for or on account of any Taxes imposed, levied, collected, withheld or assessed by any Tax authority; or

- (iii) it has or will become unlawful for the Issuer to perform any of its obligations under the Facility Agreement or to fund or to maintain its participation in the Loans,

then the Issuer shall be obliged to use its reasonable endeavours to mitigate the effects of the occurrence of such event described in Condition 7(d)(i), Condition 7(d)(ii) or Condition 7(d)(iii) above, including in the case of the events described in Condition 7(d)(i) and Condition 7(d)(ii) above, without limitation, by way of arranging the substitution of another company incorporated in an alternative jurisdiction (approved in writing by the Note Trustee) as principal debtor under the Notes, as lender under the Facility Agreement and/or as a counterparty under the Hedge Agreements. The Note Trustee may agree to the substitution of another company in place of the Issuer in accordance with and subject to the terms of the Trust Deed subject to, *inter alia*, the satisfaction of the Ratings Test. No Noteholder shall, in connection with any such substitution, be entitled to claim from the Issuer and the Note Trustee any indemnification or payment in respect of any tax consequence of any such substitution upon individual Noteholders.

If the Issuer is unable to mitigate effectively or arrange a substitution as described above or if to do so would not avoid any one or more of the events described in Condition 7(d)(i), Condition 7(d)(ii) or Condition 7(d)(iii) above and, as a result, the Issuer satisfies the Note Trustee immediately before giving the notice referred to below that the event described above is continuing, then on any Payment Date, and if in relation to the events described in Condition 7(d)(iii) above, the Issuer has notified the Borrower of such unlawfulness in accordance with the Facility Agreement and that the commitment of the Issuer under the Facility Agreement is cancelled, thus obliging the Borrower to repay the Loans, the Issuer shall redeem (without premium or penalty) all (but not some only) of the Notes (in each case) at their Principal Amount Outstanding together with accrued but unpaid interest on the Principal Amount Outstanding of the relevant classes of Notes up to (but excluding) the Payment Date on which such redemption occurs, subject to the following:

- (A) that the Issuer has given not less than 10 days or, in the case of such a redemption following the occurrence of the events described in Condition 7(d)(ii) above, 5 days prior notice to the Note Trustee, the Paying Agents and the Noteholders in accordance with Condition 17 (*Notices to Noteholders*); and
- (B) that the Issuer has provided to the Note Trustee:
  - (1) a legal opinion in form and substance satisfactory to the Note Trustee from a firm of lawyers in the Issuer's jurisdiction (approved in writing by the Note Trustee), opining on the relevant change in tax law;
  - (2) a certificate from two directors of the Issuer to the effect that the obligation to make the relevant withholding or deduction cannot be avoided by the Issuer taking reasonable measures; and
  - (3) a certificate from two directors of the Issuer to the effect that the Issuer will have the funds on the relevant redemption date, not subject to the interest of any other person, required to redeem the Notes pursuant to this Condition 7(d) and meet its payment obligations of a higher priority under the Issuer Pre-Enforcement Priority of Payments.

Any certificate and legal opinion given by or on behalf of the Issuer may be relied on by the Note Trustee without further investigation and shall be conclusive and binding on the Noteholders, the Couponholders, the Receiptholders and the other Issuer Secured Creditors.

*(e) Mandatory Redemption following Loan Enforcement Notice*

If there are monies received by the Issuer from any Obligor following the service of a Loan Enforcement Notice, such monies shall be applied by the Issuer, on the next Payment Date, in accordance with the Issuer Pre-Enforcement Priority of Payments or (as applicable) the Issuer Post-Enforcement Priority of Payments, including all amounts then due to be paid in redemption of the Notes pursuant to this Condition 7 on such Payment Date.

*(f) Redemption in Whole or in Part upon Novation of the Loans by the Issuer to the Original Lenders or Indemnity by the Original Lenders to the Issuer under the Loan Novation Agreement*

If the Original Lenders exercise the option to receive novation of any interest in the Loans and/or pay any amounts to the Issuer by way of indemnity pursuant to the terms of the Loan Novation

Agreement, the Issuer (prior to the delivery of a Note Enforcement Notice by the Note Trustee) will be obliged to redeem the Notes at their Principal Amount Outstanding (upon giving not less than 15 days prior notice to the Note Trustee, the Paying Agents and the Noteholders in accordance with Condition 17 (*Notices to Noteholders*)), on the Payment Date corresponding with or immediately falling after the date of such novation or (as the case may be) such indemnity payment in an amount equal to the consideration or (as the case may be) such indemnity payment received by the Issuer from the Original Lenders (other than amounts received in respect of accrued and unpaid interest) .

(g) *Note Principal Payment*

Where any principal amount is received by the Issuer pursuant to (as the case may be) Condition 7(a) (*Redemption and Cancellation - Final Redemption*), Condition 7(b) (*Redemption and Cancellation - Scheduled Redemption in Part upon Scheduled Repayment of the Loans*), Condition 7(c) (*Redemption and Cancellation - Early Redemption in Whole or in Part upon Prepayment of the Loans*), Condition 7(d) (*Redemption and Cancellation - Substitution/Redemption in Whole for Taxation and Other Reasons*), Condition 7(e) (*Redemption and Cancellation - Mandatory Redemption following Loan Enforcement Notice*) or Condition 7(f) (*Redemption and Cancellation - Redemption in Whole or in Part upon Novation of the Loans by the Issuer to the Original Lenders or Indemnity by the Original Lenders to the Issuer under the Loan Novation Agreement*) (disregarding, in a case falling within Condition 7(c)(i), any premium receivable by the Issuer in connection therewith) and a corresponding amount (likewise disregarding, in a case falling within Condition 7(c)(i), any related premium) is to be applied by the Issuer in redemption of a class or classes of Notes, in whole or in part, such corresponding amount shall be applied by the Issuer to redeem the aggregate Principal Amount Outstanding of the Notes (the "**Note Principal Payment**") (rounded down to the nearest penny) in the following order of priority:

- (i) *first*, to redeem the Class A Notes, *pro rata* and *pari passu* without preference amongst themselves, until the Class A Notes have been redeemed in full;
- (ii) *second*, to redeem the Class B Notes, *pro rata* and *pari passu* without preference amongst themselves, until the Class B Notes have been redeemed in full; and
- (iii) *third*, to redeem the Class C Notes, *pro rata* and *pari passu* without preference amongst themselves, until the Class C Notes have been redeemed in full.

(h) *Calculation of Note Principal Payments and Principal Amount Outstanding*

On each Calculation Date, the Issuer shall determine or shall cause to be determined:

- (i) if there is to be a partial or whole redemption of the Notes or any class thereof pursuant to Condition 7(b) (*Redemption and Cancellation - Scheduled Redemption in Part upon Scheduled Repayment of the Loans*), Condition 7(c) (*Redemption and Cancellation - Early Redemption in Whole or in Part upon Prepayment of the Loans*), Condition 7(d) (*Redemption and Cancellation -- Substitution/Redemption in Whole for Taxation and Other Reasons*), Condition 7(e) (*Redemption and Cancellation - Mandatory Redemption following Loan Enforcement Notice*) or Condition 7(f) (*Redemption and Cancellation - Redemption in Whole or in Part upon Novation of the Loans by the Issuer to the Original Lenders or Indemnity by the Original Lenders to the Issuer under the Loan Novation Agreement*), the amount of any Note Principal Payment due on such Payment Date; and
- (ii) the Principal Amount Outstanding of each Note on such Payment Date (after deducting any Note Principal Payment to be paid on that Payment Date).

Each determination by or on behalf of the Issuer (or the Issuer Cash Manager on its behalf) of any Note Principal Payment and the Principal Amount Outstanding of a Note shall in each case (in the absence of wilful default, bad faith or manifest error) be final and binding on all persons.

Within five Business Days after each Payment Date, the Issuer (or the Principal Paying Agent on its behalf) will notify the Irish Stock Exchange of the aggregate Principal Amount Outstanding of each class of Notes.

(i) *Notice of Redemption*

Any such notice as is referred to in Conditions 7(c) (*Redemption and Cancellation – Early Redemption in Whole or in Part upon Prepayment of the Loans*), 7(d) (*Redemption and Cancellation – Substitution/Redemption in Whole for Taxation and Other Reasons*) or Condition 7(e) (*Redemption and Cancellation - Redemption in Whole or in Part upon Novation of the Loans by the Issuer to the Original Lenders or Indemnity by the Original Lenders to the Issuer under the Loan Novation Agreement*) above shall be irrevocable and, upon the expiration of such notice, the Issuer shall be bound to redeem the relevant Notes at the applicable amounts specified in these Conditions.

(j) *Purchase by Issuer*

The Issuer may not at any time purchase any of the Notes. The Obligors may purchase the Notes but only to the extent that the relevant Obligor is permitted to do so by the Facility Agreement.

(k) *Cancellation*

All Notes redeemed in full together with payment of all accrued but unpaid interest or surrendered pursuant to Condition 16 (*Replacement of Notes, Coupons, Receipts and Talons*) will be cancelled upon redemption or surrender, together with any unmatured Coupons, Receipts and Talons (if any) appertaining thereto and attached thereto or surrendered therewith, and may not be resold or re-issued.

## 8. **Payments**

(a) *Payments of Interest and Principal*

Payments of interest in respect of the Definitive Notes will (subject as provided in Conditions 8(c) (*Payments – Deductions for Unmatured Coupons for Notes Void*) and 8(e) (*Payments – Payments of Interest on Improperly Withheld or Refused Notes*) below) be made only against presentation and surrender of the relevant Coupons at the Specified Office of any Paying Agent and otherwise in accordance with the provisions of this paragraph. Payments of principal and premium (if any) in respect of the Definitive Notes will be made against presentation and surrender of the relevant Receipts (except where, after such presentation and surrender, the unpaid principal amount of a Definitive Note would be reduced to zero (including as a result of any other payment of principal due in respect of such Definitive Note) in which case each payment of principal will be made against presentation and surrender of such Definitive Note) at the Specified Office of any Paying Agent. Each such payment will be made in respect of the Notes, in Sterling at the Specified Office of any Paying Agent by Sterling cheque drawn on or, at the option of the holder, by transfer to a Sterling account maintained by the payee with, a bank in London.

(b) *Payments Subject to Fiscal Laws*

Payment of principal and interest in respect of the Notes are subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment and to the provisions of the Paying Agency Agreement and the Issuer Deed of Charge.

(c) *Deductions for Unmatured Coupons*

If a Note is presented without all unmatured Coupons relating thereto, then:

- (1) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment, provided however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment; and
- (2) if the aggregate amount of the missing Coupons is greater than the amount of the principal due for payment:
  - (i) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of



principal due for payment, provided however, that where this sub-paragraph would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

- (ii) a sum equal to the aggregate amount of the Relevant Coupons (or, if greater, the amount of principal due for payment) will be deducted from the amount of principal due for payment, provided however, that if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in Condition 8(a) (*Payments - Payments of Interest and Principal*) above against presentation and surrender of the relevant missing Coupons.

(d) *Presentation on Non-Business Days*

If the due date for payment in any amount in respect of any Note, Coupon or Receipt is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(e) *Payments of Interest on Improperly Withheld or Refused Notes*

If any amount of principal or premium (if any) is improperly withheld or refused on or in respect of any Note or part thereof, the interest which continues to accrue in respect of such Note in accordance with Condition 6 (*Interest*) will be paid against presentation of such Note at the Specified Office of any Paying Agent.

(f) *Other Interest*

Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agents outside the United States.

(g) *Partial Payments*

If a Paying Agent makes a partial payment in respect of any Note, Coupon or Receipt presented to it for payment, such Paying Agent will endorse on such Note, Coupon or Receipt a statement indicating the amount and date of such payment.

(h) *Exchange of Talons*

On or after the relevant Payment Date on which the final Coupon or Receipt forming part of a Coupon or Receipt sheet is surrendered, each Talon forming part of such Coupon or Receipt sheet may be surrendered at the Specified Office of any Paying Agent for a further Coupon or Receipt sheet (including a further Talon) but excluding any Coupons or Receipts in respect of which claims have already become void pursuant to Condition 10 (*Prescription*). Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon or Receipt will be delivered in respect of such Talon.

**9. Taxation**

(a) *Payments Free of Tax*

All payments of principal and interest in respect of the Notes, Coupons or Receipts shall be made free and clear of, and without withholding or deduction for or on account of any present or future Taxes unless the Issuer, the Note Trustee or any Paying Agent is required by applicable law to make any payment in respect of the Notes, Coupons or Receipts subject to any such withholding or deduction. In that event, the Issuer, the Note Trustee or such Paying Agent (as the case may be) shall make such payment after such withholding or deduction has been made and shall account to the relevant authorities for the amount so required to be withheld or deducted.

(b) *No Payment of Additional Amounts*

None of the Issuer, the Note Trustee or any Paying Agent will be obliged to make any additional payments to holders of Notes, Coupons or Receipts in respect of such withholding or deduction as is referred to in Condition 9(a) (*Taxation – Payments Free of Tax*) above.

(c) *Taxing Jurisdiction*

If the Issuer becomes subject at any time to any taxing jurisdiction other than the Issuer's jurisdiction of incorporation, references in these Conditions to the Issuer's jurisdiction shall be construed as references to the Issuer's jurisdiction of incorporation and/or such other jurisdiction.

(d) *Tax Deduction Not Note Event of Default*

If the Issuer, the Note Trustee or any Paying Agent is required to make a withholding or deduction as is referred to in Condition 9(a) (*Taxation – Payments Free of Tax*) above, the corresponding reduction in principal and/or interest paid to Noteholders shall not constitute a Note Event of Default.

10. **Prescription**

(a) *Principal*

Notes and Receipts (which expression shall not in this Condition 10 include Talons) shall become void unless presented for payment within a period of 10 years from the relevant date in respect thereof.

(b) *Interest*

Coupons shall become void unless presented for payment within a period of five years from the relevant date in respect thereof.

(c) *Note, Coupon or Receipt*

After the date on which a Note, Coupon or a Receipt becomes void, no claim may be made in respect thereof.

(d) *Relevant Date*

For the purpose of this Condition, the "**relevant date**" in respect of a Note, Coupon or Receipt is the date on which a payment in respect thereof first becomes due or (if the full amount of the monies payable in respect of all the Notes, Coupons or Receipts due on or before the date has not been duly received by the Paying Agents or the Note Trustee on or prior to such date) the date on which notice that the full amount of such monies has not been received is duly given to the Noteholders in accordance with Condition 17 (*Notices to Noteholders*).

11. **Note Events of Default**

(a) *Note Events of Default*

Each and any of the following events shall be treated as a "**Note Event of Default**":

- (i) *Non-payment*: default is made for a period of 3 Business Days in the payment of principal in respect of the Most Senior Class of Notes when due in accordance with these Conditions, or default is made for a period of 3 Business Days in the payment of interest on the Most Senior Class of Notes when due in accordance with these Conditions;
- (ii) *Breach of other obligations*: default is made by the Issuer in the performance or observance of any other obligation, condition, provision, representation or warranty binding upon or made by it under the Notes or the Issuer Transaction Documents (other than any obligation whose breach would give rise to the Note Event of Default provided for in Condition 11(a)(i)), and, except where in the opinion of the Note Trustee such default is not capable of remedy, such default continues for a period of 30 Business Days (or such longer period as the Note Trustee may permit) after written notice by the Note Trustee to the Issuer requiring the same to be remedied;
- (iii) *Insolvency Event*: an Insolvency Event occurs in relation to the Issuer; or

- (iv) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Trust Documents.

(b) *Delivery of Note Enforcement Notice*

If a Note Event of Default occurs and is continuing, the Note Trustee may at its discretion and shall:

- (i) if so requested in writing by the holders of at least 25 per cent. of the Principal Amount Outstanding of the Most Senior Class of Notes then outstanding; or
- (ii) if so directed by an Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding,

deliver a Note Enforcement Notice to the Issuer.

(c) *Conditions to Delivery of Note Enforcement Notice*

Notwithstanding Condition 11(b) (*Note Events of Default - Delivery of Note Enforcement Notice*), the Note Trustee:

- (i) shall not deliver a Note Enforcement Notice unless, in the case of the occurrence of any of the events mentioned in Condition 11(a)(ii) (*Note Events of Default - Breach of other obligations*), the Note Trustee shall have certified in writing that the happening of such event is in its opinion materially prejudicial to the interests of the Most Senior Class of Noteholders; and
- (ii) shall not be obliged to deliver a Note Enforcement Notice pursuant to this Condition 11(*Note Events of Default*), unless it shall have been indemnified and/or secured to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.

(d) *Consequences of Notes becoming Due and Payable and Delivery of Note Enforcement Notice*

Upon the delivery of a Note Enforcement Notice, all Notes shall immediately become due and repayable at their Principal Amount Outstanding together with accrued interest as provided in the Trust Deed and the Issuer Security shall become enforceable by the Note Trustee in accordance with the Issuer Deed of Charge.

## 12. **Enforcement**

(a) *Proceedings*

The Note Trustee may, at any time after the delivery of a Note Enforcement Notice, at its discretion and without notice, institute such proceedings as it thinks fit to enforce its rights under the Notes or the Trust Documents and the other Issuer Transaction Documents. The Note Trustee shall not, however, be bound to take any such proceedings or steps to enforce the Issuer Security unless:

- (i) so requested in writing by the holders of at least 25 per cent. of the Principal Amount Outstanding of the Most Senior Class of Notes then outstanding; or
- (ii) so directed by an Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding;

and in any such case, only if it shall have been indemnified and/or secured to its satisfaction against all Liabilities to which it may thereby become liable or which it may incur by so doing.

(b) *Restrictions on Proceedings by Noteholders*

No Noteholder, Couponholder or Receiptholder shall be entitled to proceed directly against the Issuer or any of its assets.

(c) *Issuer Post-Enforcement Priority of Payments*

All monies received by the Issuer or the Note Trustee following the delivery of a Note Enforcement Notice (other than amounts standing to the credit of the Liquidity Standby Account (which are to be paid directly and only to the Liquidity Facility Provider) and amounts standing to the credit of the Swap Collateral Accounts (which are to be paid to each Hedge Counterparty in accordance with the provisions of the relevant Hedge Agreement Credit Support Document)) and all monies standing to the

credit of the Issuer Transaction Account, will be applied in accordance with the following Issuer Post-Enforcement Priority of Payments:

- (a) *first*, in or towards satisfaction, *pro rata* and *pari passu*, of the amounts due in respect of the fees, costs and expenses and other remuneration and indemnity payments (if any) payable to the Note Trustee and any Receiver and other appointees (if any) appointed by the Note Trustee under the Trust Documents and any Liabilities incurred by the Note Trustee and any Receiver and other appointees (if any) (as the case may be) under the provisions of the Trust Documents and any other amounts payable to the Note Trustee, any Receiver and such other appointees under the Trust Documents, together with interest thereon as provided for therein;
- (b) *second*, in or towards satisfaction, *pro rata* and *pari passu*, according to the respective amounts due and owing by the Issuer in respect of:
  - (1) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Paying Agents incurred under the Paying Agency Agreement;
  - (2) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Liquidity Facility Provider under the Liquidity Facility Agreement (other than in respect of any Liquidity Facility Subordinated Amounts);
  - (3) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Issuer Account Bank under the Issuer Account Bank Agreement;
  - (4) the fees, other remuneration, indemnity payments, costs, charges, and expenses of the Issuer Cash Manager under the Issuer Cash Management Agreement; and
  - (5) the fees, other remuneration, indemnity payments, costs, charges and expenses of the Issuer/Holdings Corporate Services Provider under the Issuer/Holdings Corporate Services Agreement;
- (c) *third*, in or towards satisfaction of payment of all amounts of principal, interest and other amounts due and payable to the Liquidity Facility Provider under the Liquidity Facility Agreement (other than amounts referred to in paragraph (b) above and any Liquidity Facility Subordinated Amounts);
- (d) *fourth*, in or towards satisfaction *pro rata* and *pari passu*, according to the respective amounts due and owing by the Issuer:
  - (1) all amounts due but unpaid to the Hedge Counterparties under the Hedge Agreements, such amounts to include any Hedge Termination Payments (other than any Hedge Subordinated Amounts); and
  - (2) in or towards satisfaction, *pro rata* and *pari passu*, of any amounts of interest and principal and all other amounts under the Class A Notes until such amounts have been paid in full;
- (e) *fifth*, in or towards satisfaction, *pro rata* and *pari passu*, of any amounts of interest and principal and all other amounts under the Class B Notes until such amounts have been paid in full;
- (f) *sixth*, in or towards satisfaction, *pro rata* and *pari passu*, of any amounts of interest and principal and all other amounts under the Class C Notes until such amounts have been paid in full;
- (g) *seventh*, in or towards satisfaction, *pro rata* and *pari passu* according to the respective amounts in respect of (i) any Liquidity Facility Subordinated Amounts payable to the Liquidity Facility Provider and (ii) any Hedge Subordinated Amounts;
- (h) *eighth*, any amount owed to the Borrower under the Facility Agreement and representing an amount equal to any Hedge Termination Receipts received from the Hedge Counterparties; and
- (i) *ninth*, any surplus to the Issuer.

### 13. Meetings of Noteholders

#### (a) Convening

The Trust Deed contains provisions for convening separate or combined meetings of the Noteholders of any class to consider any matters relating to the Notes, including the sanctioning by Extraordinary Resolution of each relevant class of Noteholders of a modification of the provisions of the Trust Deed, the Notes or these Conditions or the provisions of any of the other Issuer Transaction Documents.

#### (b) Request from Noteholders

A meeting of Noteholders (or any class thereof) may be convened by the Note Trustee or the Issuer at any time and must be convened by the Note Trustee (subject to its being indemnified and/or secured to its satisfaction) upon the request in writing of Noteholders of a particular class holding not less than 10 per cent. of the aggregate Principal Amount Outstanding of the outstanding Notes of that class.

#### (c) Quorum

The Trust Deed provides that the quorum at any meeting convened to vote on:

- (i) a resolution, other than an Extraordinary Resolution at any Noteholder meeting, will be two or more persons present holding voting certificates or being proxies and holding or representing, in the aggregate, not less than one-tenth of the aggregate Principal Amount Outstanding of the Notes and shall form a quorum for the transaction of business and no business (other than choosing a Chairman) shall be transacted at any meeting unless the requisite quorum be present at the commencement of the meeting;
- (ii) an Extraordinary Resolution, other than regarding a Basic Terms Modification, will be two or more persons present holding voting certificates or being proxies and holding or representing not less than one-half of the aggregate Principal Amount Outstanding of the Notes then outstanding or, at any adjourned meeting, two or more persons being or representing the Noteholders, whatever the aggregate Principal Amount Outstanding of the Notes (or any class thereof) then outstanding so held or represented; and
- (iii) an Extraordinary Resolution relating to a Basic Terms Modification (which must be proposed separately to each class of Noteholders) will be two or more persons present holding voting certificates, or being proxies, and holding or representing, in the aggregate, not less than three-quarters of the aggregate Principal Amount Outstanding of the Notes of such class then outstanding or, at any adjourned meeting, one or more persons holding or representing in the aggregate not less than one-third of the Principal Amount Outstanding of the Notes of such class then outstanding.

#### (d) Relationship Between Classes

- (i) No Extraordinary Resolution involving a Basic Terms Modification that is passed by the holders of one class of Notes shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of each of the other classes of Notes at separate class meetings convened for that purpose (to the extent that there are Notes outstanding in each such other classes);
- (ii) No Extraordinary Resolution to approve any matter other than a Basic Terms Modification that is passed by the holders of any class of Notes shall be effective unless it is sanctioned by an Extraordinary Resolution of the holders of each of the classes of Notes ranking senior to such class (to the extent that there are any) unless the Note Trustee considers that the interests of the holders of each such senior ranking class of Notes would not be materially prejudiced by the implementation of such Extraordinary Resolution;
- (iii) Any resolution passed at a meeting of the Noteholders (or any class thereof) duly convened and held in accordance with the Trust Deed shall be binding upon all Noteholders (or, as the case may be, all Noteholders of such class), whether or not

present at such meeting and whether or not voting and upon all Couponholders and Receiptholders (or, as the case may be, all Couponholders and Receiptholders of such class); and

- (iv) Subject to paragraphs (i) and (ii) above, any resolution passed at a meeting of the holders of the Most Senior Class of Notes then outstanding only which is duly convened and held as aforesaid shall also be binding upon the holders of all the other classes of Notes and the holders of the Coupons and Receipts relating thereto irrespective of the effect thereof on their interests.

(e) *Resolutions in Writing*

A Written Resolution shall take effect as if it were an Extraordinary Resolution.

**14. Modification, Waiver and Substitution**

(a) *Modification*

The Note Trustee may agree, without the consent or sanction of the Noteholders, the Couponholders, the Receiptholders or any other Issuer Secured Creditors, with the Issuer and any other Issuer Secured Creditors which are party to any relevant Issuer Transaction Document which is the subject of any such proposed modification to make any modification to these Conditions, the Trust Documents (other than in the case of (i), (ii) and (iv) below, in respect of a Basic Terms Modification), the Notes or the other Issuer Transaction Documents to which it is a party or over which it has security, or may give its consent to any event, matter or thing, if:

- (i) in its opinion, the interests of the Noteholders would not be materially prejudiced thereby;
- (ii) in relation to any modification, it is required or permitted, subject to the satisfaction of specified conditions under the terms of these Conditions or the Issuer Transaction Documents provided such conditions are satisfied;
- (iii) in relation to any modification, if in its opinion, it is required to correct a manifest error or an error in respect of which an English Court could reasonably be expected to make a rectification order or is of a formal, minor, administrative or technical nature or is necessary or desirable for the purposes of clarification; or
- (iv) in relation to any modification in relation to which the relevant provision of the applicable Issuer Transaction Document permits the Note Trustee to give its consent subject to the satisfaction of the Ratings Test, the Ratings Test is satisfied.

(b) *Waiver*

In addition, subject to this Condition 14, the Note Trustee may, without the consent or sanction of the Noteholders, the Couponholders, the Receiptholders or any other Issuer Secured Creditor authorise or waive any proposed breach or breach of the covenants or provisions contained in the Trust Documents, the Notes or any of the other Issuer Transaction Documents (including a Note Event of Default) or determine that any such default shall not be treated as such if the conditions in Condition 14(a)(i) to (iv) (*Modification, Waiver and Substitution – Modification*) are satisfied.

In connection with any substitution of the principal debtor as is referred to in Condition 7(d) (*Redemption and Cancellation - Substitution /Redemption in Whole for Taxation and Other Reasons*), the Note Trustee may also agree, without the consent of the Noteholders, the Couponholders or the Receiptholders or any other Issuer Secured Creditor, to a change of the laws governing the Notes and/or the Issuer Transaction Documents, provided that such change would not, in the opinion of the Note Trustee, be materially prejudicial to the interests of the holders of the Most Senior Class of Notes then outstanding.

(c) *Restriction on Power to Modify or Waive*

The Note Trustee shall not exercise any powers conferred upon it by Condition 14(a) (*Modification, Waiver and Substitution - Modification*) or Condition 14(b) (*Modification, Waiver and Substitution - Waiver*) in contravention of any express direction by an Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding or of a request or direction in writing made

by the holders of not less than 25 per cent. in aggregate Principal Amount Outstanding of the Most Senior Class of Notes then outstanding but provided that no such direction or request shall:

- (i) affect any authorisation, waiver or determination previously given or made; or
- (ii) authorise or waive any such proposed breach or breach relating to a Basic Terms Modification unless the holders of each class of Notes have authorised or waived such proposed breach or breach pursuant to an Extraordinary Resolution of the holders of such other class of Notes then outstanding.

(d) *Notification*

Unless the Note Trustee otherwise agrees, the Issuer shall cause any such authorisation, waiver, modification or determination to be notified to the Noteholders and the other Issuer Secured Creditors in accordance with Condition 17 (*Notices to Noteholders*) and the Issuer Transaction Documents, as soon as practicable after it has been made.

(e) *Binding Nature*

Any authorisation, waiver, determination or modification referred to in Condition 14(a) (*Modification, Waiver and Substitution – Modification*) or Condition 14(b) (*Modification, Waiver and Substitution – Waiver*) shall be binding on the Noteholders, the Couponholders, the Receiptholders and the other Issuer Secured Creditors.

(f) *Substitution of Principal Debtor*

If any of the events listed in Condition 7(d)(i) (*Redemption and Cancellation – Substitution/Redemption in Whole for Taxation and Other Reasons*) is subsisting, the Note Trustee may agree, subject to such amendments of these Conditions and of any of the Issuer Transaction Documents and to such other conditions (including satisfaction of the Ratings Test) as the Note Trustee (in the interest of the Noteholders) may require and subject to the terms of the Trust Deed, but without the consent of the Noteholders or the Couponholders or the Receiptholders, to the substitution of another body corporate in place of the Issuer as principal debtor under the Trust Deed and the Notes and the Facility Agreement and in respect of the other Issuer Secured Liabilities, subject to the Notes being unconditionally and irrevocably guaranteed by the Issuer (unless all or substantially all of the assets of the Issuer are transferred to such body corporate) and to such body corporate being a single purpose vehicle and undertaking itself to be bound by provisions corresponding to those set out in Condition 5 (*Issuer Covenants*) and the covenants applying to the Issuer under the Trust Deed.

## 15. **Note Trustee and Agents**

(a) *Note Trustee's Right to Indemnity*

Under the Issuer Transaction Documents, the Note Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances and to be paid or reimbursed any Liabilities incurred by it in priority to the claims of the Noteholders. In addition, the Note Trustee and its related companies are entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

(b) *Note Trustee Not Responsible for Loss or for Monitoring*

The Note Trustee will not be responsible for any loss, expense or Liability which may be suffered as a result of any assets comprised in the Issuer Security or any documents of title thereto being uninsured or inadequately insured or being held by or to the order of any person on behalf of the Note Trustee. The Note Trustee shall not be responsible for monitoring the compliance of any of the other parties to the Issuer Transaction Documents with their obligations under the Issuer Transaction Documents.

(c) *Appointment and Removal of Note Trustee*

The power of appointing a new trustee of the Trust Documents shall be vested in the Issuer, but no person shall be appointed who shall not previously have been approved by an Extraordinary Resolution of the holders of the Most Senior Class of Notes then outstanding in accordance with the Trust Deed. One or more persons may hold office as trustee or trustees of the Trust Documents, provided that such trustee or trustees shall be (if there is only one) or include (if there is more than one) a trust corporation. Any appointment of a new trustee of the Trust Documents shall as soon as

practicable thereafter be notified by the Issuer to the Paying Agents, the Rating Agencies and the Noteholders. The holders of the Most Senior Class of Notes then outstanding shall together have the power, exercisable by Extraordinary Resolution to remove any trustee or trustees for the time being of the Trust Documents. The removal of any trustee shall not become effective unless there remains a trustee of the Trust Documents (being a trust corporation) in office after such removal.

*(d) Paying Agents Solely Agents of Issuer*

In acting under the Paying Agency Agreement and in connection with the Notes, the Coupons and the Receipts, the Paying Agents act solely as agents of the Issuer and (to the extent provided therein) the Note Trustee and do not assume any obligations towards, or relationship of agency or trust for or with, any of the Noteholders, the Couponholders or the Receiptholders.

*(e) Initial Paying Agents*

The initial Paying Agents and their initial Specified Offices are listed below. The Issuer reserves the right (subject to the prior written approval of the Note Trustee) to vary or terminate the appointment of any Paying Agent and to appoint a successor principal paying agent and additional or successor paying agents at any time, having given not less than 30 days notice to such Paying Agent.

*(f) Maintenance of Agents*

The Issuer will at all times maintain a Paying Agent with a Specified Office in Ireland (so long as the Notes are listed on the Irish Stock Exchange) and a Paying Agent in London or a Paying Agent with Specified Offices in Ireland and London respectively and a principal paying agent. The Issuer undertakes that it will maintain a paying agent in an EU Member State that will not be obliged to withhold or deduct tax pursuant to the European Council Directive 2003/48/EC on taxation of savings income in the form of interest payments or any other directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 (the "**Savings Directive**") or any law implementing or complying with, or introduced in order to conform to, the conclusions of that ECOFIN Council meeting.

The Issuer reserves the right at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents.

Notice of any change in any of the Paying Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 17 (*Notices to Noteholders*).

**16. Replacement of Notes, Coupons, Receipts and Talons**

If any Note, Coupon, Receipt or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Principal Paying Agent, subject to all applicable laws and Irish Stock Exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons, Receipts or Talons must be surrendered before replacements will be issued.

**17. Notices to Noteholders**

*(a) Valid Notices and Date of Publication*

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be The Financial Times) and, for as long as the Notes are listed on the Irish Stock Exchange and the rules of that exchange so require, a leading newspaper having general circulation in Dublin (which is expected to be The Irish Times) or, in either case, if such publication is not practicable, in another appropriate newspaper having general circulation in London or, as the case may be, Dublin, previously approved in writing by the Note Trustee.

Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers).

Whilst the Notes are represented by Global Notes, notices to Noteholders will be valid if published as described above, for so long as the rules of the Irish Stock Exchange so require and if delivered to Clearstream, Luxembourg and/or Euroclear for communication by them to Noteholders.



Any notice delivered to Clearstream, Luxembourg and/or Euroclear as aforesaid shall be deemed to have been given on the date of such delivery.

(b) *Other Methods*

The Note Trustee may approve some other method of giving notice to the Noteholders if, in its opinion, that other method is reasonable having regard to market practice then prevailing and to the requirements of any stock exchange on which Notes are then listed and provided that notice of that other method is given to the Noteholders in the manner required by the Note Trustee.

(c) *Couponholders and Receiptholders Deemed to Have Notice*

Couponholders and Receiptholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made in the manner referred to above.

(d) *Notices to Irish Stock Exchange and Rating Agencies*

A copy of each notice given in accordance with this Condition 17 shall be provided to the Rating Agencies and the Irish Stock Exchange for so long as the Notes are listed on the Irish Stock Exchange and the rules of the Irish Stock Exchange so require.

## 18. **Subordination and Deferral of Interest**

(a) *Subordination and Deferral of Interest*

In the event that, on any Payment Date, Available Issuer Income, after deducting all amounts payable in priority to:

- (i) (in the case of the Class C Notes) interest on the Class C Notes; and
- (ii) (in the case of the Class B Notes) interest on the Class B Notes,

(the Available Issuer Income, after each such deduction being the "**Interest Residual Amount**") is not sufficient to satisfy in full the aggregate amount due and, subject to this Condition 18, payable in respect of (i) or (ii) (as the case may be) on such Payment Date, then there shall instead be payable in respect of (i) or (ii) (as the case may be) on such Payment Date a *pro rata* share of the relevant Interest Residual Amount calculated by dividing such Interest Residual Amount by the Principal Amount Outstanding of the relevant class of Notes.

In any such event, the Issuer shall create a provision in its accounts for the shortfall (if any) equal to the amount by which the aggregate amount paid in respect of (i) or (ii) (as the case may be) is less than the aggregate amount payable in respect of paragraphs (i) or (ii) (as the case may be) (the "**Shortfall**"). Such Shortfall shall itself accrue interest at the same rate as that payable in respect of the relevant class of Notes and shall be payable together with such accrued interest on any succeeding Payment Date only if and to the extent that on such Payment Date, the relevant Interest Residual Amount is sufficient to make such payment.

For the avoidance of doubt, non-payment on any Payment Date of any amount which would otherwise be payable under these Conditions but for this Condition 18 (*Subordination and Deferral of Interest*) shall not constitute a Note Event of Default pursuant to Condition 11 (*Note Events of Default*) other than failure to pay an amount in respect of the Most Senior Class of Notes then outstanding.

(b) *General*

Any amounts of interest in respect of the Notes otherwise payable under these Conditions which are not paid by virtue of this Condition 18 shall in any event become payable on the Final Maturity Date or on such earlier date as the Notes become immediately due and repayable under the Conditions.

(c) *Notification*

As soon as practicable after becoming aware that any part of a payment of interest on the Class B Notes or the Class C Notes will be deferred or that a payment previously deferred will be made in accordance with this Condition 18, the Issuer will give notice thereof to the relevant Noteholders in accordance with Condition 17 (*Notices to Noteholders*) and to the Irish Stock Exchange, so long as the Notes are listed on the Irish Stock Exchange and the rules of the Irish Stock Exchange so require.

19. **Further Notes, New Notes and Replacement Notes**

(a) ***Further Notes, New Notes and Replacement Notes***

The Issuer shall be at liberty, without the consent of the Noteholders, the Couponholders or the Receiptholders, but subject always to the provisions of these Conditions and the Trust Deed, to raise further funds, from time to time, on any date by (i) the creation and issue of further Class A Notes (the "**Further Class A Notes**"), further Class B Notes, (the "**Further Class B Notes**") and/or further Class C Notes, (the "**Further Class C Notes**" and, together with the Further Class A Notes and the Further Class B Notes, the "**Further Notes**"), in each case in bearer form carrying the same terms and conditions in all respects (or in all respects except in relation to the issue date, the first Interest Period, first Payment Date, the first Coupon and first Receipt) as, and so that the same shall be consolidated and form a single series and rank *pari passu* with, the Class A Notes, Class B Notes and/or Class C Notes, as the case may be, and/or (ii) the creation and issue of new notes (the "**New Notes**" in bearer form which may rank ahead of the Class A Notes *pari passu* with the Class A Notes (or after the Class A Notes but ahead of, *pari passu* with or after the Class B Notes) or *pari passu* with the Class B Notes (or after the Class B Notes but ahead of, *pari passu* with or after the Class C Notes) or *pari passu* with or after the Class C Notes carrying terms which differ from any class of Notes and which do not form a single series with any class of Notes and/or (iii) the creation and issue of replacement notes (the "**Replacement Notes**" and, together with the Further Notes and the New Notes, the "**Additional Notes**") in bearer form which may replace the Notes in whole or in part and may rank *pari passu* with or below the remaining Class A Notes, the remaining Class B Notes or the remaining Class C Notes, or below them carrying terms which differ from the Notes and which do not form a single series with the remaining Class A Notes, Class B Notes or Class C Notes, provided that:

- (i) the aggregate principal amount of all Further Notes or, as the case may be, New Notes or, as the case may be, Replacement Notes to be issued on such date is not less than £5,000,000;
- (ii) the Rating Agencies confirm in writing to the Note Trustee that any Further Notes or, as the case may be, New Notes ranking *pari passu* with any class of Notes are assigned the same ratings as the then current ratings of the class of Notes with which they rank *pari passu*;
- (iii) the Ratings Test will be satisfied notwithstanding the proposed issue of the Further Notes or, as the case may be, the New Notes or, as the case may be, the Replacement Notes ;
- (iv) the Issuer and the Note Trustee are satisfied that the Loan to Value Ratio shall be (i) 56 per cent. or less upon utilisation of the Additional Facility and purchase of the additional Properties to be acquired by the Borrower in connection with such Additional Facility or (ii) 50 per cent or less upon utilisation of the Additional Facility where, in connection with such utilisation, the Borrower does not, and is not required to, purchase additional Properties;
- (v) an amount equal to the gross proceeds of such Further Notes or, as the case may be, the New Notes or, as the case may be, the Replacement Notes (with an amount in respect of any issue expenses or commissions agreed to be paid by way of fee by the Borrower pursuant to the Facility Agreement) is either used to redeem Notes then outstanding or is applied by the Issuer to make a Further Loan or, as the case may be, a New Loan or, as the case may be, a Replacement Loan to the Borrower pursuant to the Facility Agreement and the conditions precedent therein for an advance of any Further Loan or, as the case may be, New Loan or, as the case may be, Replacement Loan are satisfied; and
- (vi) the Note Trustee has received a legal opinion in form and substance satisfactory to it in relation to the issue of such Further Notes or, as the case may be, the New Notes or, as the case may be, the Replacement Notes from a reputable London law firm; and
- (vii) no Note Event of Default or Potential Note Event of Default has occurred or would occur as a result of such issue.

(b) ***Supplemental Trust Deeds and Security***

Any such Additional Notes shall be secured by the Issuer Security, will be constituted by a further deed or deeds supplemental to the Trust Deed and have the benefit of the Issuer Security pursuant to the Issuer Deed of Charge as described above in Condition 2 (*Form, Denomination and Title*).

20. **Redenomination**

(a) *Notice of Redenomination*

The Issuer may, after the Euro Commencement Date, without the consent of the Noteholders, the Couponholders and the Receiptholders on giving at least 30 days' prior notice to the Noteholders and the Paying Agents, designate a Payment Date as the Redenomination Date.

(b) *Redenomination*

With effect from the Redenomination Date:

- (i) the Notes in each class shall be deemed to be redenominated into euro with the Principal Amount Outstanding of each Note in each class being equal to the Principal Amount Outstanding of that Note in such class in Sterling, converted into euro at the rate for conversion of Sterling into euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Union regulations); and
- (ii) notwithstanding Condition 20(b)(i) (*Redenomination*), if the Issuer determines, with the agreement of the Note Trustee, that the then market practice in respect of the redenomination into euro of internationally offered securities is different from that specified above, such provision shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders and the Couponholders, the Receiptholders, the Irish Stock Exchange and the Paying Agents of such deemed amendments in accordance with Condition 17 (*Notices to Noteholders*).

(c) *Notice of Redenomination Date*

The Issuer will notify the Noteholders, Couponholders and Receiptholders of the intended Redenomination Date in accordance with Condition 17 (*Notices to Noteholders*).

(d) *Effect of Redenomination*

With effect from the Redenomination Date:

- (i) all unmatured Coupons and Receipts denominated in Sterling (whether or not attached to the Notes) will become void and no payments will be made in respect of such Coupons and Receipts;
- (ii) the payment obligations contained in all Notes denominated in Sterling will become void but all other obligations of the Issuer thereunder (including the obligation to exchange such Notes in accordance with this Condition 20 (*Redenomination*)) shall remain in full force and effect;
- (iii) new Notes, Coupons and Receipts denominated in euro will be issued in exchange for Notes and Coupons and Receipts denominated in Sterling in such manner as the Principal Paying Agent may specify and as shall be notified to the Noteholders in accordance with Condition 17 (*Notices to Noteholders*); and
- (iv) all payments in respect of the Notes (other than, unless the Redenomination Date is on or after such date as Sterling ceases to be a sub-division of the euro, payments of interest in respect of periods commencing before the Redenomination Date) will be made solely in euro by cheque drawn on, or by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) maintained by the payee with, a bank in the principal financial centre of any Participating Member State.

## 21. **Post-Enforcement Call Option**

### (a) *Sale of Notes to Options*

The Noteholders will, at the request of Options, sell all (but not some only) of their holdings of Notes then outstanding to Options if an option (the "**Post-Enforcement Call Option**") which entitles Options to acquire all (but not some only) of the outstanding Notes for a consideration of one penny per Note, granted to Options by the Note Trustee (on behalf of the Noteholders) under a post-enforcement call option agreement expected to be entered into on the Closing Date between Options and the Note Trustee (the "**Post-Enforcement Call Option Agreement**"), becomes exercisable and is exercised.

### (b) *Exercise of Post-Enforcement Call Option*

The Post-Enforcement Call Option will become exercisable on the date upon which the Note Trustee gives written notice to Options that it has determined, in its sole opinion, that (i) all amounts outstanding under the Notes have become due and payable, (ii) the proceeds of enforcement of the Issuer Security are insufficient, after application of such proceeds in payment of all other claims ranking in priority to the Notes pursuant to the Issuer Deed of Charge to pay in full all amounts outstanding under the Notes, and (iii) there is no reasonable likelihood of there being any further realisations (whether arising from an enforcement of the Issuer Security or otherwise) which would be available to pay amounts outstanding under the Notes.

### (c) *Acknowledgement of Post-Enforcement Call Option*

Each of the Noteholders grants to the Note Trustee, and acknowledges that the Note Trustee has, the authority and the power to bind such Noteholder in accordance with the provisions set out in the Post-Enforcement Call Option Agreement and each Noteholder by acquiring the relevant Notes irrevocably authorises the Note Trustee to act on its behalf in respect of the Post-Enforcement Call Option and agrees to be bound by the terms of this Condition and the Post-Enforcement Call Option Agreement and ratifies the Note Trustee's entry into the Post-Enforcement Call Option Agreement, on its behalf, accordingly.

### (d) *Notice of Exercise*

If the Post-Enforcement Call Option becomes exercisable, the Note Trustee may give notice of exercise of the Post-Enforcement Call Option by the Note Trustee to the Noteholders in accordance with Condition 17 (*Notices to Noteholders*).

## 22. **Rounding**

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.).

## 23. **Third Party Rights**

These Conditions confer no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of these Conditions, but this does not affect any right or remedy of a third party which exists or is available aside from the Contracts (Rights of Third Parties) Act 1999.

## 24. **Governing Law**

The Notes, the Coupons, the Receipts and the Talons are governed by English law.

## UNITED KINGDOM TAXATION

*The following is a summary of the Issuer's understanding of the law and published practice in the United Kingdom as at the date of this Prospectus in relation to certain limited aspects of the United Kingdom taxation of payments of interest in respect of, and of the issue and transfers of, the Notes. The comments do not deal with all United Kingdom tax aspects of acquiring, holding or disposing of the Notes and relate only to the position of persons who are absolute beneficial owners of the Notes and may not apply to certain classes of Noteholders (such as dealers). The comments are made on the assumption that there will be no substitution of the Issuer pursuant to the Trust Deed or Condition 7(g)(i) (Redemption and Cancellation - Substitution/Redemption in Whole for Taxation and Other Reasons) or otherwise and do not consider the tax consequences of any such substitution.*

*The following is a general guide and should be treated with appropriate caution. Noteholders who are in any doubt as to their tax position should consult their own professional advisers. Noteholders who may be liable to taxation in jurisdictions other than the United Kingdom in respect of their acquisition, holding or disposal of the Notes are particularly advised to consult their professional advisers as to whether they are so liable (and if so under the laws of which jurisdictions), since the following comments relate only to certain United Kingdom taxation aspects in respect of the Notes. In particular, Noteholders should be aware that they may be liable to taxation under the laws of other jurisdictions in relation to payments in respect of the Notes even if such payments may be made without withholding or deduction for or on account of taxation under the laws of the United Kingdom.*

### **United Kingdom Withholding Tax on Payments of Interest on the Notes**

The Notes issued by the Issuer which carry a right to interest will constitute "quoted Eurobonds" provided they are and continue to be listed on a recognised stock exchange. On the basis of the United Kingdom HM Revenue & Customs' published interpretation of the relevant legislation, securities which are to be listed on a stock exchange in a country which is a member state of the European Union or which is part of the European Economic Area will satisfy this requirement if they are listed by a competent authority in that country and are admitted to trading on a recognised stock exchange in that country; securities which are to be listed on a stock exchange in any other country will satisfy this requirement if they are admitted to trading on a recognised stock exchange in that country. The Irish Stock Exchange is a recognised stock exchange for these purposes. Whilst the Notes are and continue to be quoted Eurobonds, payments of interest on the Notes may be made without withholding or deduction for or on account of United Kingdom income tax.

In all other cases, interest on the Notes may fall to be paid under deduction of United Kingdom income tax at the lower rate (currently 20 per cent.) subject to such relief as may be available under the provisions of any applicable double taxation treaty or any other exemption which may apply.

### **Other Rules Relating to United Kingdom Withholding Tax**

Where Notes are to be, or may fall to be, redeemed at a premium, as opposed to being issued at a discount, then any such element of premium may constitute a payment of interest. Payments of interest are subject to United Kingdom withholding tax and reporting requirements as outlined above.

Where interest has been paid under deduction of United Kingdom income tax, Noteholders who are not resident in the United Kingdom may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "interest" above and in the section entitled "*Provision of Information*" below mean "interest" as understood in United Kingdom tax law. The statements above do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the Conditions or any related documentation.

### **Provision of Information**

Noteholders should note that where any interest on Notes is paid to them (or to any person acting on their behalf) by the Issuer or any person in the United Kingdom acting on behalf of the Issuer (a "paying agent"), or is received by any person in the United Kingdom acting on behalf of the relevant Noteholder (other than solely by clearing or arranging the clearing of a cheque) (a "collecting agent"), then the Issuer, the paying agent or the collecting agent (as the case may be) may, in certain cases, be required to supply to the United Kingdom HM Revenue & Customs details of the payment and certain details relating to the Noteholder (including the Noteholder's name and address). These provisions will

apply whether or not the interest has been paid subject to withholding or deduction for or on account of United Kingdom income tax and whether or not the Noteholder is resident in the United Kingdom for United Kingdom taxation purposes. Where the Noteholder is not so resident, the details provided to the United Kingdom HM Revenue & Customs may, in certain cases, be passed by the United Kingdom HM Revenue & Customs to the tax authorities of the jurisdiction in which the Noteholder is resident for taxation purposes.

With effect from 6 April 2005, the provisions referred to above may also apply, in certain circumstances, to payments made on redemption of any Notes where the amount payable on redemption is greater than the issue price of the Notes.

#### **Stamp Duty and Stamp Duty Reserve Tax**

No United Kingdom stamp duty or stamp duty reserve tax is payable on the issue of the Notes or on the transfer by delivery of a Note.

#### **EU Savings Directive**

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident in that other Member State. However, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident in one of those territories.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer nor any Paying Agent nor any other person would be obliged to pay additional amounts to the Noteholders or to otherwise compensate Noteholders for the reduction in the amounts that they will receive as a result of the imposition of such withholding tax. However, the Issuer is required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the directive (if such a state exists).

## SUBSCRIPTION AND SALE

The Joint Lead Managers have, pursuant to a subscription agreement dated 21 March 2006 (the "**Subscription Agreement**") between the Joint Lead Managers, the other Managers named therein (together with the Joint Lead Managers, the "**Managers**") and the Issuer, agreed with the Issuer to subscribe, or to procure subscriptions for the Class A Notes at the issue price of 100 per cent. of their initial principal amount, the Class B Notes at the issue price of 100 per cent. of their initial principal amount and the Class C Notes at the issue price of 100 per cent. of their initial principal amount.

The Issuer has agreed to indemnify the Joint Lead Managers (on behalf of the Managers) against certain liabilities incurred in connection with the offer and sale of the Notes.

The Subscription Agreement is subject to a number of conditions and may be terminated by the Joint Lead Managers (on behalf of the Managers) in certain circumstances prior to payment for the Notes to the Issuer.

### United Kingdom

Each Manager has represented, amongst other things, that:

- (a) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer.

### United States of America

Each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, the Notes (i) as part of their distribution at any time and (ii) otherwise until 40 days after the later of the commencement of the offering of the Notes and the Closing Date, except in accordance with Rule 903 of Regulation S under the Securities Act and, accordingly, that:

- (a) neither it nor any of its affiliates (including any person acting on its behalf or any of its affiliates) has engaged or will engage in any directed selling efforts with respect to the Notes; and
- (b) it and its affiliates have complied and will comply with the offering restrictions requirement of Regulation S under the Securities Act.

Each Manager has also undertaken that, at or prior to confirmation of sale, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration which purchases Notes from it during the restricted period a confirmation or notice in substantially the following form:

"The Securities covered hereby have not been registered under the United States Securities Act of 1933 (the "**Securities Act**") and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons, (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the closing date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."

In addition each Manager:

- (a) has represented and agreed that except to the extent permitted under United States Treasury Regulation Section 1.163-5(c)(2)(i)(D) (the "**D Rules**"), (i) it has not offered or sold, and during the restricted period that it will not offer or sell, any Notes to a person who is within the United States or its possessions or to a US person, and (ii) it has not delivered and will not deliver in definitive form within the United States or its possessions any Notes that are sold during the restricted period;
- (b) has further represented and agreed that it has, and throughout the restricted period it will have, in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes are aware that the Notes may not be offered or sold during the

restricted period to a person who is within the United States or its possessions or to a US person, except as permitted by the D Rules; and

- (c) with respect to each affiliate which acquires Notes from it for the purpose of offering or selling such Notes during the restricted period, has either (i) repeated and confirmed the representations and agreements contained in paragraphs (a) and (b) on its own behalf or (ii) agreed that it will obtain from such affiliate for the benefit of the Issuer the representations and agreements contained in paragraphs (a) and (b).

Terms used in this section (*United States of America*) have the meanings given to them by Regulation S and by the United States Internal Revenue Code 1986, as amended, and regulations thereunder, including the D Rules.

### **The Republic of Ireland**

Each Manager has represented and agreed that:

- (a) it has not offered or sold and will not offer or sell any Notes except in conformity with the provisions of the Prospectus Regulations and the Irish Companies Acts, 1963 to 2001;
- (b) it has and will not offer or sell any Notes other than in compliance with the provisions of the Irish Market Abuse (Directive 2003 /6/ EC) Regulations 2005; and
- (c) it will not underwrite the issue of, or place, the Notes otherwise than in conformity with the provisions of the Irish Investment Intermediaries Act 1995 (as amended), including without limitation, Sections 9, 23 (including any advertising restrictions made thereunder) and Section 37 (including any codes of conduct issued thereunder) and the provisions of the Irish Investor Compensation Act 1998 including without limitation, Section 21.

### **General**

Other than the listing of the Notes on the Irish Stock Exchange, no action has been or will be taken in any jurisdiction that would or is intended to permit a public offering of the Notes, or the possession, circulation or distribution of this Prospectus or any other material relating to the Issuer or the Notes in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Prospectus nor any other offering material or advertisement in connection with the Notes may be distributed or published in or from any country or jurisdiction, except under circumstances that will result in compliance with any applicable rules and regulations of any such country or jurisdiction.

Each purchaser of the Notes must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such Notes or possesses or distributes this Prospectus and must obtain any consent, approval or permission required for the purchase, offer or sale by it of such Notes under the laws and regulations in force in any jurisdictions to which it is subject or in which it makes such purchases, offers or sales, and none of the Issuer, the Managers or the Note Trustee (or any of their respective affiliates) specified herein shall have any responsibility therefor.



## GENERAL INFORMATION

1. The issue of the Notes has been authorised by a resolution of the board of directors of the Issuer passed on 20 March 2006.
2. Application has been made to list the Notes on the Official List of the Irish Stock Exchange by the Issuer, through the Listing Agent, Arthur Cox Listing Services Limited ("ACLSL"). ACLSL is not seeking admission to listing on the Irish Stock Exchange for the purposes of the Prospectus Directive.
3. It is expected that the listing of the Notes on the Official List of the Irish Stock Exchange will be granted on the date of this Prospectus, subject only to the issue of the Temporary Global Notes. The listing of the Notes will be cancelled if any of the Temporary Global Notes are not issued. Transactions will normally be effected for settlement in Sterling and for delivery on the third working day after the day of the transaction. Prior to the official listing and admission to trading, however, dealings in the Notes will be permitted by the Irish Stock Exchange in accordance with its rules.
4. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Common Code and the ISIN for each class of Notes is as follows:

	Common Code	ISIN
Class A Notes:	024851028	XS0248510280
Class B Notes:	024851079	XS0248510793
Class C Notes:	024851125	XS0248511254

5. So long as the Notes are admitted to listing on the Official List of the Irish Stock Exchange, the most recently published audited accounts and Quarterly Investor Report of the Issuer will be available at the Specified Office of each Paying Agent and at the Issuer's registered office. The Issuer does not publish interim accounts.
6. The Issuer is not involved, nor has been involved, in any legal, arbitration or governmental proceedings which may have, or have had, since the date of its incorporation, a significant effect on its financial position, nor is the Issuer aware that any such proceedings are pending or threatened.
7. The Borrower is not involved, nor has been involved, in any legal, arbitration or governmental proceedings which may have, or have had, since the date of its incorporation, a significant effect on its financial position, nor is the Borrower aware that any such proceedings are pending or threatened.
8. Since the date of its incorporation (and other than entering into the Subscription Agreement) the Issuer has, save as disclosed in this Prospectus, not:
  - (a) commenced operations;
  - (b) made up accounts as at the date of this Prospectus; or
  - (c) entered into any contracts or arrangements not being in its ordinary course of business.
9. Since the date of its incorporation (and other than entering into certain Borrower Transaction Documents) the Borrower has, save as disclosed in this Prospectus, not:
  - (a) commenced operations;
  - (b) made up accounts as at the date of this Prospectus; or
  - (c) entered into any contracts or arrangements not being in its ordinary course of business.
10. Atisreal Limited, a firm of Chartered Surveyors and member of the Royal Institution of Chartered Surveyors whose business address is at 90 Chancery Lane, London WC2A 1EU has

given and not withdrawn its written consent to the inclusion herein of their reports or reference to their reports and references to their respective names, as applicable, in the form and context in which they appear.

11. Save as disclosed in this Prospectus, since 29 December 2005 (being the date of incorporation of the Issuer), there has been no material adverse change in the financial position or prospects of the Issuer and no significant change in the trading or financial position of the Issuer.
12. Save as disclosed in this Prospectus, the Issuer has no outstanding loan capital, borrowings, indebtedness or contingent liabilities, nor has the Issuer created any mortgage, charge or security or given any guarantees.
13. Copies of the following documents may be inspected in electronic or physical format during usual business hours at the Specified Offices of the Irish Paying Agent and at the registered office of the Issuer from the date of this Prospectus:
  - (a) the Memorandum and Articles of Association of the Issuer;
  - (b) the Memorandum and Articles of Association of the Borrower;
  - (c) the Subscription Agreement;
  - (d) the consents referred to in paragraph 9 above;
  - (e) prior to the Closing Date, drafts (subject to modification) and, after the Closing Date, copies of the following documents:
    - (i) the Loan Novation Documents;
    - (ii) the Trust Deed;
    - (iii) the Issuer Deed of Charge;
    - (iv) the Securitisation Floating Charge Debenture;
    - (v) the Paying Agency Agreement;
    - (vi) the Liquidity Facility Agreement;
    - (vii) the Hedge Agreements;
    - (viii) the Issuer Account Bank Agreement;
    - (ix) the Issuer Cash Management Agreement;
    - (x) the Issuer/Holdings Corporate Services Agreements;
    - (xi) the Post-Enforcement Call Option Agreement;
    - (xii) the Tax Deed of Covenant; and
    - (xiii) the Master Definitions Schedule.

## INDEX OF DEFINED TERMS

*There follows an index of the defined terms used in this Prospectus, together with details of the page(s) on which such term(s) is or are defined.*

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