

## Acquisition of Home Retail Group plc

### Note on UK Capital Gains Tax

Please see the Scheme Document for a summary of the tax treatment for certain shareholders, which is available at [www.j-sainsbury.co.uk/investor-centre/hrg-acquisition-download-centre/](http://www.j-sainsbury.co.uk/investor-centre/hrg-acquisition-download-centre/).

*This document is intended as a general guide only and should not be relied upon as giving tax advice. It is addressed solely to UK tax resident individuals who hold their shares as investments. The tax treatment of individual shareholders and their shareholdings may vary depending on their circumstances. **If you are in any doubt as to your tax position, any matter set out in this Tax Note, or are subject to tax outside the UK, then you are advised to consult your professional adviser.***

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#### Market value of New Sainsbury's Shares

The market value of New Sainsbury's Shares (being the closing middle-market value) on 2 September 2016 (completion of the Acquisition) was **246.1 pence** per share. We have also taken this share price plus the 55p per share cash consideration in determining a proxy for the market value of Newco Shares (see 'Capital Return – Stage 2' on pages 2 and 3).

#### Am I liable to UK capital gains tax?

Any cash sums that you receive as part of this transaction may give rise to a capital gains tax liability. Future disposals of your New Sainsbury's Shares may also give rise to such a liability. There is, however, a threshold below which capital gains tax is not payable.

#### Am I below the UK capital gains tax threshold?

##### Receipt(s) of cash on this transaction

You should not be liable for any UK capital gains tax on this transaction if the total cash you are receiving, plus any capital gains you make on other transactions in the current tax year from 6 April 2016 to 5 April 2017, is less than £11,100 (the capital gains tax annual exemption for this tax year).

### Sale of new Sainsbury's shares after this transaction

You should not be liable for any UK capital gains tax on a sale of your New Sainsbury's Shares after this transaction if the consideration you receive for those shares, plus any capital gains you make on other transactions in the tax year in which that sale takes place, is less than any capital gains tax annual exemption for that tax year (as above, £11,100 is the current annual exemption).

### Position where the two paragraphs above do not apply

Where the two paragraphs above do not apply, whether or not a capital gains tax liability arises for you will depend, among other things, on the base cost you had in your Home Retail Group ('HRG') Shares before this transaction.

### **My HRG Shares – what is my base cost?**

Broadly, the base cost you had in your HRG Shares before the transaction should be the amount you paid for them. The base cost of your HRG Shares will then be apportioned between your New Sainsbury's Shareholding and any cash sums that you have received as part of this transaction. Therefore, both the Capital Return and the acquisition of HRG Shares by Sainsbury's will need to be taken into account in determining whether you have a capital gains tax liability, and for the purpose of calculating your new base cost going forward.

### Stages of the Scheme and Acquisition

1. Under the Scheme, a new holding company for HRG (Newco) was introduced, with Home HRG Shareholders receiving Newco Shares on a 1-for-1 basis;
2. Following that, Newco undertook a reduction of capital with Court approval, which enabled the c. £200 million Capital Return largely in connection with the sale of Homebase to be made to HRG (Newco) Shareholders; and
3. Upon the Newco Capital Return becoming effective, all Newco Shares were transferred from HRG (Newco) Shareholders to Sainsbury's in return for the Sainsbury's Offer Consideration.

**For each HRG (Newco) Share, HRG Shareholders had a basic entitlement to:**

**27.8 pence in cash (being the Capital Return)**

**55 pence in cash and 0.321 New Sainsbury's Shares (being the Sainsbury's Offer Consideration).**

For the following sections, please refer to Box A of your Welcome Letter for the number of New Sainsbury's Shares you received, Box B for the cash consideration, and Box C for the amount of cash you received on the Capital Return.

### Capital Return – Stage 2

Your original base cost in your HRG Shares should be split between the Capital Return (Box C) per stage 2 above, and the value of the remaining HRG (Newco) Shares (which is the same as the value of the Sainsbury's Offer Consideration per stage 3, being the share consideration (Box A) and cash consideration (Box B)).

The proportion of your base cost allocated to your Capital Return should be  $C / ((A \times V) + B + C)$ , where:

**C** is the amount of the Capital Return (Box C),

**A** is the share consideration - your New Sainsbury's Shares (Box A)

**V** is £2.461, being the market value of New Sainsbury's Shares on 2 September 2016 (see 'Market value of New Sainsbury's Shares' on page 1 regarding a proxy for the value of Newco Shares)

**B** is the cash consideration you have received from Sainsbury's (Box B).

This proportion of your base cost should be set against your Capital Return to determine your taxable gain, subject to your personal circumstances. The remainder of the base cost (**R**) attaches to your HRG (Newco) Shares which were transferred to Sainsbury's at stage 3.

A worked example is shown at the end of this Tax Note.

Note: Where the amount of your Capital Return (Box C) is £3,000 or less, provided the base cost attributable to your HRG Shares (see above) is equal to or greater than the amount of your Capital Return, no capital gain should arise under stage 2. Instead, an amount equal to the amount of the Capital Return should be deducted from the base cost attributable to your HRG (Newco) Shares used in stage 3.

#### Acquisition of HRG (Newco) Shares by Sainsbury's – Stage 3

On the acquisition of your HRG (Newco) Shares by Sainsbury's, the remaining base cost in your HRG Shares (not already allocated to the Capital Return) will be split between your cash consideration (Box B) and the value of your New Sainsbury's Shares (Box A multiplied by V).

The proportion of your remaining base cost (**R**) allocated to your cash consideration should be  $B / ((A \times V) + B)$ , where:

**B** is the cash consideration you have received from Sainsbury's (Box B)

**A** is the share consideration - your New Sainsbury's Shares (Box A)

**V** is £2.461, being the closing middle-market value of each New Sainsbury's Share on 2 September 2016.

This proportion of your base cost should be set against your cash consideration (**B**) to determine your taxable gain, subject to your personal circumstances. The remainder of the base cost attaches to your New Sainsbury's Shares going forward.

A worked example is shown at the end of this Tax Note.

Note: Where all three conditions below are met, no capital gain should arise under stage 3. Instead, an amount equal to the cash consideration (Box B) should be deducted from the base cost attributable to your New Sainsbury's Shares going forward.

- (i) where your cash consideration (**B**) is £3,000 or less;

- (ii) where your cash consideration (**B**) is 5 per cent or less of the market value of your New Sainsbury's Shares (**A x V**) plus the cash consideration (**B**)
- (iii) where the base cost attributable to your HRG Shares after the Capital Return (**R**) is equal to or greater than the cash consideration (**B**).

**Example base cost calculation (for simplicity, ignoring the £3,000 rules above)**

In January 2015, Mr Smith buys, in a single transaction, 1000 HRG Shares for £1.00 per share. The base cost of this holding is therefore £1,000 (for simplicity, excluding allowable stamp duty and commission costs). In September 2016, Mr Smith is issued with one Newco Share per HRG Share pursuant to the Scheme (stage 1 above). Mr Smith subsequently receives 27.8p per Newco Share in respect of the Capital Return, and 55p and 0.321 New Sainsbury's Share per Newco Share in respect of the Sainsbury's Offer Consideration.

Mr Smith's base cost allocation is calculated as follows:

*Stage 2: Capital Return*

The proportion of Mr Smith's base cost allocated to his Capital Return should be

$$\frac{\text{£0.278}}{(0.321 \times \text{£2.461}) + \text{£0.55} + \text{£0.278}} \times \text{£1,000} = \text{£171.82}$$

The remainder of the base cost (**R**) attaching to his HRG (Newco) Shares qualifying for the Sainsbury's Offer Consideration at stage 3 is

$$\text{£1,000} - \text{£171.82} = \text{£828.18}$$

*Stage 3: Sainsbury's Offer Consideration*

The proportion of Mr Smith's remaining base cost (**R**) allocated to the cash consideration should be

$$\frac{\text{£0.55}}{(0.321 \times \text{£2.461}) + \text{£0.55}} \times \text{£828.18} = \text{£339.93}$$

Therefore, the base cost of Mr Smith's holding of New Sainsbury's Shareholding is

$$\text{£828.18} - \text{£339.93} = \text{£488.25}$$

5 September 2016