

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. THIS DOCUMENT CONTAINS A PROPOSAL WHICH, IF IMPLEMENTED, WILL RESULT IN THE CANCELLATION OF THE LISTING OF HOME RETAIL GROUP PLC'S SHARES ON THE OFFICIAL LIST AND TRADING OF HOME RETAIL GROUP SHARES ON THE LONDON STOCK EXCHANGE'S MAIN MARKET FOR LISTED SECURITIES. PART II OF THIS DOCUMENT COMPRISES AN EXPLANATORY STATEMENT IN COMPLIANCE WITH SECTION 897 OF THE COMPANIES ACT 2006.**

**If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser who, if you are taking advice in the United Kingdom, is authorised pursuant to the Financial Services and Markets Act 2000 or, if you are in a territory outside the United Kingdom, is an appropriately authorised independent financial adviser.**

If you sell, or have sold or otherwise transferred all of your Home Retail Group Shares, please send this document (but not any accompanying personalised documents) at once to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee. If you have sold or otherwise transferred part of your holding of Home Retail Group Shares, please consult the bank, stockbroker or other agent through whom the sale or transfer was effected.

The distribution of this document in jurisdictions other than the United Kingdom may be restricted by the laws of those jurisdictions, and therefore persons into whose possession this document and any accompanying documents come should inform themselves about, and observe, any such restrictions. Any failure to comply with those restrictions may constitute a violation of the securities laws of any such jurisdiction.

The accompanying Forms of Proxy and Form of Election are personalised. If you have recently purchased or been transferred Home Retail Group Shares, you should contact Home Retail Group's registrars, Capita Asset Services, on the telephone number set out on page 4 of this document to obtain replacements for these documents.

Application will be made by Sainsbury's for the New Sainsbury's Shares to be admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities. It is expected that admission of the New Sainsbury's Shares to trading on the London Stock Exchange's main market for listed securities will become effective and that dealings for normal settlement will commence on or around 5 September 2016.

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**Recommended offer by**  
**J SAINSBURY PLC**  
**for**  
**HOME RETAIL GROUP PLC**  
**to be effected by means of a**  
**Scheme of Arrangement**  
**under Part 26 of the Companies Act 2006**  
**and the steps contemplated by such scheme as set out herein,**  
**including a return of capital to Home Retail Group Shareholders pursuant to**  
**a court-approved reduction of capital**

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**Your attention is drawn to the letter from the Chairman of Home Retail Group plc in Part I of this document, which contains the unanimous recommendation of the Home Retail Group Directors that you vote in favour of the Scheme at the Court Meeting and the Special Resolution at the General Meeting. A letter from Bank of America Merrill Lynch explaining the Scheme appears in Part II of this document.**

**Notices of the Court Meeting and the General Meeting, which will both be held at Holiday Inn Milton Keynes, 500 Saxon Gate West, Milton Keynes MK9 2HQ on 27 July 2016, are set out at the end of this document. The Court Meeting will start at 11.00 a.m. and the General Meeting at 11.10 a.m. (or as soon thereafter as the Court Meeting shall have concluded or been adjourned).**

**Home Retail Group Shareholders will find enclosed with this document a blue Form of Proxy for use at the Court Meeting and a yellow Form of Proxy for use at the General Meeting. Whether or not you intend to attend the Meetings in person, please complete and sign both the enclosed Forms of Proxy in accordance with the instructions printed thereon and return them to the Company's registrars, Capita, as soon as possible and, in any event, so as to be received no later than 11.00 a.m. on 25 July 2016 in the case of the Court Meeting and 11.10 a.m. on 25 July 2016 in the case of the General Meeting. If the blue Form of Proxy for use at the Court Meeting is not returned by the above time, it may be handed to a representative of Capita at the venue of the Court Meeting or the Chairman of the Court Meeting before the start of the Court Meeting. However, in the case of the General Meeting, unless the yellow Form of Proxy is returned by the time mentioned above, it will be invalid. The completion and return of a Form of Proxy will not prevent Home Retail Group Shareholders from attending and voting in person at either the Court Meeting or the General Meeting, or any adjournment thereof, if you so wish and are so entitled.**

If you have any questions relating to this document or the completion and return of the Forms of Proxy or the Form of Election, please call the Shareholder Helpline between 9.00 a.m. and 5.30 p.m. (London time) Monday to Friday (except UK public holidays) on +44 (0) 371 664 0437. Calls will be charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Please note that the Shareholder Helpline operators cannot provide advice on the merits of the Scheme or the Acquisition or give financial, tax, investment or legal advice.

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

UBS Limited ("**UBS**"), which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority in the UK is acting as financial adviser to Sainsbury's and no one else in connection with the Acquisition or any other matter referred to herein. In connection with such matters, UBS, its affiliates, and its or their respective directors, officers, employees and agents will not regard any other person as their client, nor will they be responsible to anyone other than Sainsbury's for providing advice in relation to the Acquisition or any other matter referred to herein.

Merrill Lynch International ("**Bank of America Merrill Lynch**"), a subsidiary of Bank of America Corporation, is acting exclusively for Home Retail Group in connection with the Acquisition or any other matter referred to herein and for no one else, and will not be responsible to anyone other than Home Retail Group for providing the protections afforded to its clients or for providing advice in relation to the Acquisition or any other matter referred to herein.

This document has been prepared for the purposes of complying with English law and the Takeover Code, and the information disclosed herein may not be the same as that which would have been disclosed if this document had been prepared in accordance with the laws of any other jurisdiction.

## **IMPORTANT NOTICE**

The distribution of this document in jurisdictions other than the United Kingdom may be restricted by law and therefore persons into whose possession this document comes should inform themselves about, and should observe, such restrictions. Any failure to comply with the restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer or an invitation to purchase or subscribe for any securities, or a solicitation of an offer to buy any securities, pursuant to the document or otherwise in any jurisdiction in which such offer or solicitation is unlawful.

The statements contained herein are made as at the date of this document, unless some other time is specified in relation to them, and service of this document shall not give rise to any implication that there has been no change in the facts set forth herein since such date.

In the event of any ambiguity or conflict between this document and the Sainsbury's Prospectus in respect of the terms and conditions of the Acquisition or the Scheme, this document shall prevail.

## **CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This document contains statements about Sainsbury's, Newco and Home Retail Group plc that are, or may be, forward-looking statements. All statements other than statements of historical fact included in this document regarding the business, financial condition or results of operations of Sainsbury's, Sainsbury's Group, Home Retail Group plc, Home Retail Group or Newco, and certain plans, objectives, assumptions, expectations or beliefs with respect to these items, and statements regarding other future events or prospects, are forward-looking statements. Should one or more of the risks or uncertainties associated with such forward-looking statements materialise, or should assumptions underlying such forward-looking statements prove incorrect, actual results may vary materially from those described herein. Home Retail Group plc, Sainsbury's and Newco assume no obligation to update or correct the information contained in this document.

These statements include, without limitation, those concerning: strategy and the ability to achieve it; expectations regarding sales, expenses, profitability and growth; possible or assumed future results of operations; capital expenditure and investment plans; adequacy of capital; and financing plans. The words "aim", "may", "expect", "anticipate", "believe", "future", "continue", "help", "estimate", "plan", "intend", "should", "could", "would", "shall" and similar terms, or the negative or other variations thereof, as well as other statements regarding matters that are not historical fact, are or may constitute forward-looking statements. In addition, this document includes forward-looking statements relating to potential exposure to various types of market risks, such as interest rate risks and other risks related to financial assets and liabilities. These forward-looking statements have been based on the current view of Home Retail Group plc or Sainsbury's management, as applicable, with respect to future events and financial performance. These views reflect the best judgement of the management of Home Retail Group plc or Sainsbury's, as applicable, but involve a number of risks and uncertainties which could cause actual results to differ materially from those predicted in forward-looking statements and from past results, performance or achievements. Although it is the belief of Home Retail Group plc or Sainsbury's, as the case may be, that the estimates reflected in the forward-looking statements are reasonable, such estimates may prove to be incorrect. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including the following: risks of contamination or other circumstances that could harm the integrity of, or customer support for, brands or products, economic downturn, recession, acts or threats of terrorism, acts or the threat of war or other adverse political developments in key markets, legislative and regulatory changes, failure to protect intellectual property rights or any infringement claims, ability to successfully anticipate changes in consumer preferences and tastes, interruption or substantial decrease in ability to supply customers of brands due to loss of inventory or loss of production facilities, termination of arrangements with third parties in various key markets for any reason, litigation and publicity concerning product quality, health and other issues, future exchange and interest rates, pricing and product initiatives of competitors, repayment of indebtedness incurred in connection with the Scheme or the Acquisition and unexpected costs or difficulties in integrating the business and operations of Home Retail Group plc and Sainsbury's or in executing the strategy of the Combined Group.

## INFORMATION FOR OVERSEAS SHAREHOLDERS

The release, publication or distribution of this document in certain jurisdictions may be restricted by law. Persons who are not resident in the United Kingdom or who are subject to other jurisdictions should inform themselves of, and should observe, any applicable requirements. Any failure to comply with these requirements may constitute a violation of the securities laws of any such jurisdiction. To the fullest extent permitted by applicable law, the companies and persons involved in the Acquisition disclaim any responsibility or liability for the violation of such requirements by any person.

Unless otherwise determined by Sainsbury's or required by the Takeover Code, and permitted by applicable law and regulation, the Acquisition will not be made available, directly or indirectly, in, into or from a jurisdiction where to do so would violate the laws in that jurisdiction, and no person may vote in favour of the Acquisition by any such use, means, instrumentality or form within any jurisdiction if to do so would constitute a violation of the laws of that jurisdiction. Accordingly, copies of this document and all documents relating to the Acquisition are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in, into or from a jurisdiction where to do so would violate the laws in that jurisdiction, and persons receiving this document and all documents relating to the Acquisition (including custodians, nominees and trustees) must not mail or otherwise distribute or send them in, into or from such jurisdictions where to do so would violate the laws in that jurisdiction. Any person (including, without limitation, any custodian, nominee and trustee) who would, or otherwise intends to, or who may have a contractual or legal obligation to, forward this announcement and/or the Scheme Document and/or any other related document to any jurisdiction outside the UK should inform themselves of, and observe, any applicable legal or regulatory requirements of their jurisdiction.

The availability of the Acquisition to Home Retail Group Shareholders who are not resident in the United Kingdom may be affected by the laws of the relevant jurisdictions in which they are resident (including affecting the ability of such Home Retail Group Shareholders to vote their Home Retail Group Shares with respect to the Scheme and the Acquisition at the Home Retail Group Meetings, or to execute and deliver Forms of Proxy appointing another to vote at the Home Retail Group Meetings on their behalf). Persons who are not resident in the United Kingdom or who are subject to the laws and/or regulations of another jurisdiction should inform themselves of, and should observe, any applicable requirements.

Overseas Shareholders with a registered address in, or who are a citizen, resident or national of, a Restricted Jurisdiction will not be sent a Form of Election and will not be entitled to participate in the Mix and Match Facility.

### *Notice to United States Home Retail Group Shareholders*

The Acquisition relates to shares of a UK company and is proposed to be effected by means of a scheme of arrangement under the laws of England and Wales. A transaction effected by means of a scheme of arrangement is not subject to proxy solicitation or tender offer rules under the US Exchange Act. Accordingly, the Scheme is subject to the disclosure requirements, rules and practices applicable in the United Kingdom to schemes of arrangement, which differ from the requirements of US proxy solicitation or tender offer rules. However, if Sainsbury's were to elect to implement the Acquisition by means of a Takeover Offer, such Takeover Offer will be made in compliance with all applicable laws and regulations, including Section 14(e) of the US Exchange Act and Regulation 14E thereunder. Such a Takeover Offer would be made in the United States by Sainsbury's and/or Newco and no one else. In addition to any such Takeover Offer, Sainsbury's, Newco, certain affiliated companies and the nominees or brokers (acting as agents) may make certain purchases of, or arrangements to purchase, shares in Home Retail Group plc outside such Takeover Offer during the period in which such Takeover Offer would remain open for acceptance. If such purchases or arrangements to purchase were to be made, they would be made outside the United States and would comply with applicable law, including the US Exchange Act. Any information about such purchases will be disclosed as required in the UK, will be reported to a Regulatory Information Service of the UKLA and will be available on the London Stock Exchange website: <http://www.londonstockexchange.com/>.

The financial information included in this document has been prepared in accordance with IFRS and thus may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

Neither the Newco Shares nor the New Sainsbury's Shares have been, and nor will they be, registered under the US Securities Act or under the securities laws of any state or other jurisdiction of the United

States. Accordingly, neither the Newco Shares nor the New Sainsbury's Shares may be offered, sold, resold, delivered, distributed or otherwise transferred, directly or indirectly, in or into the United States absent registration under the US Securities Act or an exemption therefrom. The Newco Shares and the New Sainsbury's Shares are expected to be issued in reliance upon the exemption from the registration requirements of the US Securities Act provided by Section 3(a)(10) thereof. Home Retail Group Shareholders who will be affiliates of Sainsbury's after the Effective Date will be subject to certain US transfer restrictions relating to the Newco Shares and the New Sainsbury's Shares received pursuant to the Scheme. Holders of Home Retail Group ADRs should refer to paragraph 24 of Part II of this document.

For the purposes of qualifying for the exemption from the registration requirements of the US Securities Act afforded by Section 3(a)(10), Home Retail Group plc will advise the Court that its sanctioning of the Scheme will be relied upon by Newco and Sainsbury's as an approval of the Scheme following a hearing on its fairness to Home Retail Group Shareholders.

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

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

None of the securities referred to in this document has been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have such authorities passed upon or determined the adequacy or accuracy of the information contained in this document. Any representation to the contrary is a criminal offence in the United States.

#### **NO PROFIT FORECASTS OR ESTIMATES**

No statement in this document is intended as a profit forecast or estimate for any period and no statement in this document should be interpreted to mean that earnings or earnings per share for Sainsbury's or Home Retail Group plc, as appropriate, for the current or future financial years would necessarily match or exceed the historical published earnings or earnings per share for Sainsbury's or Home Retail Group plc, as appropriate.

#### **DEALING DISCLOSURE REQUIREMENTS**

Under Rule 8.3(a) of the Takeover Code, any person who is interested in one per cent. or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the Offer Period and, if later, following the announcement in which any securities exchange offeror is first identified.

An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 p.m. (London time) on the 10th business day following the commencement of the Offer Period and, if appropriate, by no later than 3.30 p.m. (London time) on the 10th business day following the announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the Takeover Code, any person who is, or becomes, interested in one per cent. or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s), save to the extent that these details



have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 p.m. (London time) on the business day following the date of the relevant dealing.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a paper offeror, they will be deemed to be a single person for the purpose of Rule 8.3.

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

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

### **ELECTRONIC COMMUNICATIONS**

Please be aware that addresses, electronic addresses and certain information provided by Home Retail Group Shareholders, persons with information rights and other relevant persons for the receipt of communications from Home Retail Group plc may be provided to Sainsbury's during the Offer Period as requested under section 4 of Appendix 4 to the Takeover Code.

### **PUBLICATION ON WEBSITE AND AVAILABILITY OF HARD COPIES**

A copy of this document, together with the Sainsbury's Prospectus and all information incorporated into this document by reference to another source, will be made available, subject to certain restrictions relating to persons resident in, or subject to the laws and/or regulations, of any Restricted Jurisdiction or resident in any jurisdiction where the extension or availability of the Acquisition would breach any applicable law, on Sainsbury's and Home Retail Group plc's websites at <http://www.j-sainsbury.co.uk/investor-centre/disclaimer/> and <http://www.homeretailgroup.com/investor-centre/sainsburys-offer/>, respectively, by no later than 12.00 noon (London time) on the date following publication of this document. For the avoidance of doubt, neither the contents of those websites nor the contents of any website accessible from hyperlinks on those websites (or any other websites referred to in this document) are incorporated into, or form part of, this document.

You may, subject to applicable securities laws, request a hard copy of this document and all information incorporated into this document by contacting Home Retail Group plc's registrars, Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU or the Shareholder Helpline between 9.00 a.m. and 5.30 p.m. (London time) Monday to Friday (except UK public holidays) on +44 (0) 371 664 0437. Home Retail Group Shareholders may also, subject to applicable securities laws, request that all future documents, announcements and information sent to them in relation to the Acquisition be in hard copy form. A hard copy of such document, announcement (including this document) or information will not be sent unless so requested.

### **ROUNDING**

Certain figures included in this document have been subjected to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

## CONTENTS

	<u>Page</u>
EXPECTED TIMETABLE OF PRINCIPAL EVENTS .....	6
TO VOTE ON THE PROPOSALS .....	8
PART I LETTER FROM THE CHAIRMAN OF HOME RETAIL GROUP PLC .....	13
PART II EXPLANATORY STATEMENT .....	21
PART III CONDITIONS TO THE SCHEME AND THE ACQUISITION.....	50
PART IV FINANCIAL AND RATINGS INFORMATION .....	61
PART V MANDATORY TRANSFER PROVISIONS OF THE NEWCO ARTICLES.....	63
PART VI ADDITIONAL INFORMATION .....	65
PART VII NOTES FOR MAKING ELECTIONS UNDER THE MIX AND MATCH FACILITY .....	89
PART VIII THE SCHEME OF ARRANGEMENT .....	95
PART IX DEFINITIONS .....	105
PART X NOTICE OF COURT MEETING .....	115
PART XI NOTICE OF GENERAL MEETING .....	117
APPENDIX I QUANTIFIED FINANCIAL BENEFITS STATEMENT .....	123

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS<sup>(1)</sup>

Event	Expected time/date
<b>Latest time for lodging blue Forms of Proxy for use at the Court Meeting<sup>(2)</sup></b> . . . . .	<b>11.00 a.m. on 25 July 2016</b>
<b>Latest time for lodging yellow Forms of Proxy for use at the General Meeting<sup>(2)</sup></b> . . . . .	<b>11.10 a.m. on 25 July 2016</b>
Voting Record Time . . . . .	6.00 p.m. on 25 July 2016
<b>Court Meeting</b> . . . . .	<b>11.00 a.m. on 27 July 2016</b>
<b>General Meeting<sup>(3)</sup></b> . . . . .	<b>11.10 a.m. on 27 July 2016</b>
Latest time for receipt of green Forms of Election or Electronic Elections from CREST holders . . . . .	1.00 p.m. on 30 August 2016
Scheme Court Hearing (to sanction the Scheme) . . . . .	31 August 2016*
Last day of dealings in and for registration of transfers, and disablement in CREST, of Home Retail Group Shares . . . . .	31 August 2016*
Suspension of trading in Home Retail Group Shares . . . . .	4.30 p.m. on 31 August 2016*
Scheme Record Time . . . . .	6.00 p.m. on 31 August 2016*
Home Retail Group Reduction Court Hearing (to confirm Home Retail Group Reduction of Capital) . . . . .	1 September 2016*
Effective Date of the Scheme . . . . .	1 September 2016*
Cancellation of Home Retail Group Shares and issue of Newco Shares to Home Retail Group Shareholders . . . . .	1 September 2016*
Newco Reduction Record Time . . . . .	6.00 p.m. on 1 September 2016*
Newco Reduction Court Hearing (to confirm Newco Reduction of Capital) . . . . .	2 September 2016*
Effective date of Newco Reduction of Capital . . . . .	2 September 2016*
Execution of transfer of Newco Shares held by Home Retail Group Shareholders to Sainsbury's . . . . .	2 September 2016*
New Sainsbury's Shares issued to Home Retail Group Shareholders . . . . .	by 8.00 a.m. on 5 September 2016*
Admission and commencement of dealings in New Sainsbury's Shares on the London Stock Exchange . . . . .	8.00 a.m. on 5 September 2016*
Cancellation of listing of Home Retail Group Shares . . . . .	5 September 2016*
<b>Settlement of Sainsbury's Offer Consideration:</b>	
- CREST accounts of Home Retail Group Shareholders credited with new Sainsbury's Shares . . . . .	As soon as possible after 8.00 a.m. on 5 September 2016*
- CREST accounts of Home Retail Group Shareholders credited with any cash due . . . . .	Within 14 days of the Newco Reduction Effective Time
- Despatch of cheques and share certificates of New Sainsbury's Shares to Home Retail Group Shareholders who held Home Retail Group Shares in certificated form . . . . .	Within 14 days of the Newco Reduction Effective Time



<u>Event</u>	<u>Expected time/date</u>
<b>Settlement of Capital Return:</b>	
- Despatch of cheques or settlement through CREST .....	Within 14 days of the Newco Reduction Effective Time
Long Stop Date .....	29 March 2017

**Notes:**

- (1) Unless otherwise stated, all references in this document to times are to London times.
  - (2) A blue Form of Proxy for the Court Meeting not so lodged may be handed to a representative of Capita at the venue of the Court Meeting or the Chairman of the Court Meeting before the start of the Court Meeting. However, the yellow Form of Proxy for the General Meeting must be lodged by 11.10 a.m. on 25 July 2016 in order to be valid.
  - (3) To commence at 11.10 a.m. or, if later, immediately after the conclusion or adjournment of the Court Meeting.
- \* The expected date of the Scheme Court Hearing (to sanction the Scheme) and each of the subsequent dates set out in this timetable could be subject to change to earlier or later dates. These dates will depend, among other things, on the date on which the regulatory and other Conditions to the Scheme and the Acquisition are satisfied or, if capable of waiver, waived.

## TO VOTE ON THE PROPOSALS

Whether or not you plan to attend the Meetings, if you are a Home Retail Group Shareholder, please:

- complete and return the BLUE Form of Proxy (for the Court Meeting); and
- complete and return the YELLOW Form of Proxy (for the General Meeting),

**so that they are received no later than 11.00 a.m. on 25 July 2016 (in the case of the BLUE Form of Proxy for the Court Meeting) or 11.10 a.m. on 25 July 2016 (in the case of the YELLOW Form of Proxy for the General Meeting). A pre-paid envelope is provided for this purpose in the UK only.**

Alternatively, BLUE Forms of Proxy (but NOT YELLOW Forms of Proxy) may be handed to a representative of Capita at the venue of the Court Meeting or the Chairman of the Court Meeting before the start of the Court Meeting on 27 July 2016 and will still be valid. In the case of the General Meeting, unless the YELLOW Form of Proxy is returned by the time and date mentioned in the instructions printed thereon, it will be invalid.

The completion and return of the Forms of Proxy will not prevent eligible Home Retail Group Shareholders from attending and voting at the Court Meeting or the General Meeting, or any adjournment thereof, in person.

Home Retail Group Shareholders who hold Home Retail Group Shares in CREST may appoint a proxy or proxies through the CREST electronic proxy appointment service using the procedures described in the CREST Manual.

Home Retail Group Shareholders who prefer to register the appointment of their proxy electronically via the internet can do so through the Capita website at <https://www.homeretailgroup-shares.com/> using your investor code and following the online instructions. Further details in relation to electronic appointment of proxies are set out on page 11 of this document.

**IT IS IMPORTANT THAT, FOR THE COURT MEETING, AS MANY VOTES AS POSSIBLE ARE CAST SO THAT THE COURT MAY BE SATISFIED THAT THERE IS A FAIR REPRESENTATION OF HOME RETAIL GROUP SHAREHOLDER OPINION. YOU ARE THEREFORE STRONGLY URGED TO SIGN AND RETURN YOUR FORMS OF PROXY AS SOON AS POSSIBLE AND, IN ANY EVENT, SO AS TO BE RECEIVED BY CAPITA ASSET SERVICES, THE REGISTRY, 34 BECKENHAM ROAD, BECKENHAM, KENT BR3 4TU PRIOR TO THE DEADLINES SET OUT ABOVE, OR IN THE CASE OF AN ADJOURNED MEETING, NOT LESS THAN 48 HOURS PRIOR TO THE TIME AND DATE SET FOR THE ADJOURNED MEETING.**

**IF YOU ARE A HOME RETAIL GROUP SHAREHOLDER, YOUR ATTENTION IS DRAWN TO THE REGIME FOR THE APPOINTMENT OF PROXIES SET OUT IN THE NOTES TO THE FORMS OF PROXY AND THE NOTES SET OUT IN THE NOTICE OF GENERAL MEETING AND THE NOTICE OF THE COURT MEETING, INCLUDING IN RESPECT OF THE APPOINTMENT OF MULTIPLE PROXIES.**

**THE HOME RETAIL GROUP DIRECTORS UNANIMOUSLY RECOMMEND THAT YOU VOTE IN FAVOUR OF THE SCHEME AT THE COURT MEETING AND THE SPECIAL RESOLUTION TO BE PROPOSED AT THE GENERAL MEETING.**

This page should be read in conjunction with the “ACTION TO BE TAKEN” section on page 9 of this document and the “FORM OF PROXY FOR VOTING AT THE COURT MEETING AND THE GENERAL MEETING” section on page 10 of this document, the rest of this document and the accompanying Forms of Proxy.

**If you have any questions relating to this document or the completion and return of the Forms of Proxy or the Form of Election, please call the Shareholder Helpline between 9.00 a.m. and 5.30 p.m. (London time) Monday to Friday (except UK public holidays) on +44 (0) 371 664 0437.**

Calls will be charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Please note that the operators cannot provide advice on the merits of the Scheme or the Acquisition or give financial, tax, investment or legal advice.

For the reasons set out in this document, the Home Retail Group Directors, who have been so advised by Bank of America Merrill Lynch, consider the terms of the Acquisition to be fair and reasonable. In providing advice to the Home Retail Group Directors, Bank of America Merrill Lynch has taken into account the commercial assessments of the Home Retail Group Directors. Bank of America Merrill Lynch is providing independent financial advice to the Home Retail Group Directors for the purposes of Rule 3 of the Takeover Code.

Accordingly, in order to implement the Acquisition, the Home Retail Group Directors unanimously recommend that you vote in favour of the Scheme at the Court Meeting and the Special Resolution to be proposed at the General Meeting, as the Home Retail Group Directors have irrevocably undertaken to do, or procure, in respect of their own beneficial holdings of Home Retail Group Shares amounting to, in aggregate, 2,145,121 Home Retail Group Shares, representing approximately 0.26 per cent. of the issued ordinary share capital of Home Retail Group plc on 1 July 2016 (being the latest practicable date prior to the publication of this document). Further details of these irrevocable undertakings are contained in paragraph 5 of Part VI of this document.

#### ACTION TO BE TAKEN

Detailed instructions on the action to be taken are set out in paragraph 28 of Part II and in Part VII of this document and are summarised below.

Please check you have received the following with this document\*:

*All Home Retail Group Shareholders:*

- a blue Form of Proxy for use at the Court Meeting;
- a yellow Form of Proxy for use at the General Meeting; and
- a pre-paid envelope.

*All Home Retail Group Shareholders other than those with a registered address in, or who are a citizen, resident or national of, a Restricted Jurisdiction and those holding Home Retail Group Shares in uncertificated form (that is, in CREST)†:*

- a green Form of Election for use in connection with the Mix and Match Facility; and
- a pre-paid envelope (marked with a green flash) for use in the UK in connection with the Form of Election.

If you have not received the correct documents, please contact the Shareholder Helpline on the telephone number set out on page 4 of this document.

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\* If you have previously elected or been deemed to consent to receive documents and information from Home Retail Group plc by means of Home Retail Group plc's website, you will not receive a hard copy of this document but will receive a separate notification in accordance with your prescribed method. If you have not received the correct documents, please contact the Shareholder Helpline on the numbers set out in this document.

† If you hold Home Retail Group Shares in uncertificated form (that is, in CREST) and you wish to receive a hard copy of the Form of Election, please contact the Shareholder Helpline on the telephone number set out on page 4 of this document.

## FORM OF PROXY FOR VOTING AT THE COURT MEETING AND THE GENERAL MEETING

The Scheme requires approval at a meeting of the Scheme Shareholders convened by order of the Court to be held at Holiday Inn Milton Keynes, 500 Saxon Gate West, Milton Keynes MK9 2HQ. The Court Meeting is to be held at 11.00 a.m. on 27 July 2016. Implementation of the Scheme and the Acquisition also requires the passing of the Special Resolution by the Home Retail Group Shareholders at the General Meeting to be held at 11.10 a.m. on 27 July 2016 (or as soon thereafter as the Court Meeting has concluded or been adjourned).

### *Home Retail Group Shareholders*

**It is important that, for the Court Meeting, as many votes as possible are cast so that the Court may be satisfied that there is a fair representation of Home Retail Group Shareholder opinion. You are therefore strongly urged to sign and return your Forms of Proxy using the reply paid envelope as soon as possible and, in any event, so as to be received by Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU by:**

BLUE Forms of Proxy for the Court Meeting . . . . . 11.00 a.m. on 25 July 2016  
YELLOW Forms of Proxy for the General Meeting . . . . . 11.10 a.m. on 25 July 2016

or in the case of an adjourned meeting, not less than 48 hours prior to the time and date set for the adjourned meeting. This will enable your votes to be counted at the Meetings in the event of your absence. A pre-paid envelope is provided for this purpose for use in the UK only.

Alternatively, if the BLUE Form of Proxy is not lodged prior to the time and date mentioned above, it may be handed to a representative of Capita at the venue of the Court Meeting or the Chairman of the Court Meeting before the start of the Court Meeting on 27 July 2016 and will still be valid. If the YELLOW Form of Proxy is not returned by the time and date mentioned above, it will be invalid.

### *Proxy appointment*

A registered shareholder entitled to attend and vote at the Court Meeting and the General Meeting may appoint a proxy pursuant to the Articles to attend and to speak and vote in his/her place. A registered shareholder may appoint more than one proxy in relation to each of the Court Meeting and the General Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that registered shareholder. A proxy need not be a member of the Company. The appointment of a proxy will not preclude shareholders entitled to attend and vote at the meeting (or at any adjournment(s) thereof) from doing so in person if they wish.

Please note that the appointment of a proxy or proxies is separate for each of the Court Meeting and the General Meeting.

A person who has been nominated under section 146 of the Companies Act to enjoy information rights (a “**Nominated Person**”) may have a right under an agreement between him/her and the member by whom he/she was nominated to be appointed, or to have someone else appointed, as a proxy for the Court Meeting and the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. The statement of the rights of members to appoint proxies above does not apply to Nominated Persons. The rights described above can only be exercised by members.

To be effective, an appointment of proxy must be returned using one of the following methods:

- (i) by sending the appropriate Form of Proxy (together, if appropriate, with the power of attorney or other written authority under which it is signed or a certified copy of such power or authority) in the reply paid envelope provided or by hand (during normal business hours) or courier only to the office of the Company’s registrars, Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU; or
- (ii) by logging onto <https://www.homeretailgroup-shares.com/>, using your investor code and following the online instructions; or
- (iii) in the case of CREST members, by utilising the CREST proxy voting service in accordance with the paragraph “*Home Retail Group Shareholders holding shares in CREST*” below,

and in each case, the appointment of proxy (together with any relevant power/authority) must be received (or, in the case of the appointment of a proxy through CREST, retrieved by enquiry to CREST in the manner prescribed by CREST) by Capita not later than 11.00 a.m. on 25 July 2016 in the case of the Court

Meeting and not later than 11.10 a.m. on 25 July 2016 in the case of the General Meeting (or, in the case of an adjourned meeting, not less than 48 hours prior to the time and date set for the adjourned meeting).

#### ***Multiple proxy voting instructions***

Home Retail Group Shareholders who wish to appoint more than one proxy in respect of their shareholding should photocopy the Form of Proxy or call Capita Asset Services on the telephone number set out on page 4 of this document, indicate by ticking the box provided if the proxy is one of multiple instructions being given, fill in the name of the proxy and the number of shares in respect of which the proxy is appointed and return the multiple forms together (please ensure that all of the multiple Forms of Proxy in respect of one registered holding are sent in the same envelope if possible) by the time and date mentioned above.

#### ***Home Retail Group Shareholders holding shares in CREST***

Home Retail Group Shareholders who hold Home Retail Group Shares in CREST and who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Court Meeting and the General Meeting and any adjournments thereof by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed one or more voting service providers, should refer to their CREST sponsor or voting service providers, who will be able to take the appropriate action on their behalf. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a “**CREST Proxy Instruction**”) must be properly authenticated in accordance with Euroclear’s specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the Company’s agent (ID RA10) not later than 11.00 a.m. on 25 July 2016 in the case of the Court Meeting and not later than 11.10 a.m. on 25 July 2016 in the case of the General Meeting (or, in the case of an adjourned meeting, not less than 48 hours prior to the time and date set for the adjourned meeting). For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the Company’s agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the proxy through other means. CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear does not make available special procedure(s) in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed one or more voting service providers, to procure that his or her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service provider(s) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001. The CREST Manual can be reviewed at <https://www.euroclear.com/>.

#### ***Electronic appointment of proxies***

Home Retail Group Shareholders who prefer to register the appointment of their proxy electronically via the internet can do so through the Capita website at <https://www.homeretailgroup-shares.com/> using your investor code and following the online instructions.

A proxy appointment made electronically will not be valid if sent to any address other than that provided, or if received by Capita not later than 11.00 a.m. on 25 July 2016 in the case of the Court Meeting and not later than 11.10 a.m. on 25 July 2016 in the case of the General Meeting (or, in the case of an adjourned meeting, not less than 48 hours prior to the time and date set for the adjourned meeting). Please note that any electronic communication found to contain a computer virus will not be accepted.

Please note that the appointment of a proxy or proxies is separate for the Court Meeting and the General Meeting.

#### ***Home Retail Group ADR holders***

Holders of Home Retail Group ADRs should refer to paragraph 24 of Part II of this document.

## FORM OF ELECTION TO MAKE A MIX AND MATCH ELECTION

### *Home Retail Group Shareholders*

Under the terms of the Acquisition and subject to the Scheme and the Newco Reduction of Capital becoming Effective and subject to the terms thereof, it is intended that all Home Retail Group Shareholders will receive 55 pence in cash and 0.321 New Sainsbury's Shares in respect of each Home Retail Group Share they hold. However, Home Retail Group Shareholders (other than those with a registered address in, or who are a citizen, resident or national of, a Restricted Jurisdiction) may elect to vary the proportions of cash consideration and New Sainsbury's Shares they receive in respect of their holdings, subject to the elections by other Home Retail Group Shareholders, by completing and returning the Form of Election or making an Electronic Election. For more information regarding the Mix and Match Election, see paragraph 5 of Part II of this document.

If you hold your Home Retail Group Shares in certificated form (that is, not in CREST) and you wish to make a Mix and Match Election, please complete and return the enclosed green Form of Election to Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, using the pre-paid envelope (marked with a green flash) provided for use only in the UK. Instructions on how to complete the Form of Election are printed thereon.

If you hold your Home Retail Group Shares in uncertificated form (that is, in CREST) and you wish to make a Mix and Match Election, you must submit your election electronically by taking (or procuring to be taken) the actions set out in Part VII of this document to transfer the Home Retail Group Shares in respect of which you wish to make a Mix and Match Election to an escrow balance, using an Electronic Election specifying Capita (in its capacity as a CREST participant under the ID RA10) as the escrow agent. If you wish to make a Mix and Match Election by completing a Form of Election, you must first rematerialise your Home Retail Group Shares by completing a CREST stock withdrawal form, and you may request a Form of Election by contacting the Shareholder Helpline on the telephone number set out on page 4 of this document.

If you hold Home Retail Group Shares in both certificated and uncertificated form and you wish to make a Mix and Match Election in respect of both such holdings, you must make a separate election in respect of each holding.

**The Election Return Time (the last time for lodging your Form of Election or making your Electronic Election) is 1.00 p.m. on 30 August 2016, as set out in the expected timetable of principal events on pages 6 and 7 of this document.**

Home Retail Group Shareholders who do not wish to make a Mix and Match Election are not required to return the Form of Election or make an Electronic Election.

### *Home Retail Group ADR holders and Overseas Shareholders*

The Mix and Match Facility has not been extended to holders of Home Retail Group ADRs or those Home Retail Group Shareholders with a registered address in, or who are a citizen, resident or national of, a Restricted Jurisdiction, and no Form of Election will be sent to them. The availability of the Mix and Match Facility to other Overseas Shareholders may be limited. Further details are set out in paragraphs 27 and 28 of Part II of this document.

**If you are a holder of Home Retail Group ADRs or are a Home Retail Group Shareholder with a registered address in, or are a citizen, resident or national of, a Restricted Jurisdiction, you will not be sent a Form of Election and will not be entitled to participate in the Mix and Match Facility.**

**Details on how Home Retail Group Shareholders can make a Mix and Match Election are set out in paragraph 28 of Part II and in Part VII of this document.**

### *Helpline*

If you have any questions relating to this document or the completion and return of the Forms of Proxy or the Form of Election, please call the Shareholder Helpline between 9.00 a.m. and 5.30 p.m. (London time) Monday to Friday (except UK public holidays) on +44 (0) 371 664 0437. Calls will be charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Please note that the Shareholder Helpline operators cannot provide advice on the merits of the Scheme or the Acquisition or give financial, tax, investment or legal advice.



**PART I**  
**LETTER FROM THE CHAIRMAN OF HOME RETAIL GROUP PLC**

**Registered office:**

489-499 Avebury Boulevard  
Milton Keynes  
MK9 2NW (Registered in England and Wales, No. 05863533)

**Directors:**

John Coombe (Chairman)  
John Walden (Chief Executive Officer)  
Richard Ashton (Chief Financial Officer)  
Mike Darcey (Senior Independent Director)  
Ian Durant (Non-Executive Director)  
Cath Keers (Non-Executive Director)  
Jacqueline de Rojas (Non-Executive Director)

5 July 2016

*To all Home Retail Group Shareholders and, for information only, to participants in the Home Retail Group Share Plans and persons with information rights*

Dear Shareholder,

**RECOMMENDED OFFER BY J SAINSBURY PLC FOR HOME RETAIL GROUP PLC TO BE  
EFFECTED BY MEANS OF A SCHEME OF ARRANGEMENT AND THE STEPS CONTEMPLATED  
BY SUCH SCHEME, INCLUDING THE RETURN OF CAPITAL TO HOME RETAIL GROUP  
SHAREHOLDERS PURSUANT TO A COURT-APPROVED REDUCTION OF CAPITAL**

**1. Introduction**

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

**2. The Acquisition**

The Acquisition is to be implemented pursuant to a three-step process involving: (i) a scheme of arrangement of Home Retail Group plc under Part 26 of the Companies Act to introduce Newco as a new holding company of the Home Retail Group and issue Newco Shares to Home Retail Group Shareholders; (ii) a reduction of capital of Newco to effect the Capital Return; and (iii) the mandatory transfer of Newco Shares (which will then be held by Home Retail Group Shareholders) to Sainsbury's pursuant to the Newco Articles. Full details of the steps are set out in the Explanatory Statement in Part II of this document.

In accordance with the terms of the Scheme, Home Retail Group Shareholders will receive:

**for each Home Retail Group Share**

**One Newco Share**

Subject to the Scheme becoming Effective and the Newco Reduction of Capital becoming Effective, Home Retail Group Shareholders will receive from Newco:

**for each Newco Share**

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

Subject to the Scheme becoming Effective and the Newco Reduction of Capital becoming Effective, and with effect from the Newco Reduction Effective Time, pursuant to the Newco Articles, the Newco Shares will be transferred to Sainsbury's and/or its nominee(s) in consideration for which Home Retail Group Shareholders will receive from Sainsbury's:

**for each Newco Share**

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

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

- (i) the Sainsbury's Offer Consideration represents an indicative value of 143.7 pence per Home Retail Group Share and values Home Retail Group plc's issued ordinary share capital at approximately £1.2 billion;
- (ii) the Sainsbury's Offer Consideration and the Capital Return together represent an indicative value of 171.5 pence per Home Retail Group Share and value Home Retail Group plc's issued ordinary share capital at approximately £1.4 billion; and
- (iii) the Sainsbury's Offer Consideration and the Capital Return together represent a premium of approximately 74 per cent. to the Closing Price of 98.7 pence per Home Retail Group Share on 4 January 2016 (being the last business day prior to the commencement of the Offer Period).

Based on the Closing Price of Sainsbury's Shares of 236.1 pence per share on 1 July 2016 (being the latest practicable date prior to the publication of this document):

- (i) the Sainsbury's Offer Consideration represents an indicative value of 130.8 pence per Home Retail Group Share and values Home Retail Group plc's issued ordinary share capital at approximately £1.1 billion;
- (ii) the Sainsbury's Offer Consideration and the Capital Return together represent an indicative value of 158.6 pence per Home Retail Group Share and value Home Retail Group plc's issued ordinary share capital at approximately £1.3 billion; and
- (iii) the Sainsbury's Offer Consideration and the Capital Return together represent a premium of approximately 61 per cent. to the Closing Price of 98.7 pence per Home Retail Group Share on 4 January 2016 (being the last business day prior to the commencement of the Offer Period).

Upon Completion, approximately 261.1 million New Sainsbury's Shares will be allotted and issued to Home Retail Group Shareholders, which will result in former Home Retail Group Shareholders holding 11.94 per cent. of the Combined Group.

Pursuant to the Mix and Match Facility, Home Retail Group Shareholders (other than those with a registered address in, or who are a citizen, resident or national of, a Restricted Jurisdiction) are also being offered the opportunity to elect to vary the proportions of cash consideration and New Sainsbury's Shares they receive in respect of their holdings, subject to elections made by other Home Retail Group Shareholders. The Mix and Match Facility will not change the total number of New Sainsbury's Shares to be issued by Sainsbury's or the total cash consideration to be paid pursuant to the Acquisition. To the extent that elections for New Sainsbury's Shares or cash consideration cannot be satisfied in full, they will be scaled down on a pro rata basis. Further information about the Acquisition and the Mix and Match Facility is provided in paragraphs 2 and 5 of Part II of this document.

The Acquisition is subject to the Conditions set out in Part III of this document.

The Conditions include, amongst other things: (i) approval by a majority in number of Home Retail Group Shareholders present and voting, whether in person or by proxy, at the Court Meeting (or any adjournment thereof), and who represent not less than 75 per cent. in value of the Home Retail Group Shares voted by such Home Retail Group Shareholders; (ii) the passing of the Special Resolution to approve and implement the Scheme and the Acquisition by the requisite majority of Home Retail Group Shareholders at the General Meeting (or any adjournment thereof); (iii) regulatory clearances being received from the FCA and the CMA; (iv) approval of the Scheme and the Newco Reduction of Capital by the Court; and (v) the Scheme and the Newco Reduction of Capital becoming Effective and all other Conditions being fulfilled or (if capable of waiver) waived by no later than 11.59 p.m. on the Long Stop Date.

The Acquisition was also conditional upon regulatory clearance being received from the GFSC. The GFSC confirmed on 24 May 2016 that it had no objection to the Acquisition.

Filings in respect of the above-mentioned anti-trust and other regulatory Conditions have been submitted. The regulatory Conditions are not necessarily subject to a set timetable and so the regulatory timetable remains uncertain. The expected timetable of principal events for the Acquisition is set out on pages 6 and 7 of this document. It is currently expected that Completion will occur (following satisfaction of the outstanding regulatory and other Conditions) on or around 2 September 2016 and the Sainsbury's Group and the Home Retail Group will operate as the Combined Group with effect from the following business day (i.e. Monday 5 September 2016).

### **3. Background to and reasons for recommending the Acquisition**

In October 2012, Argos outlined a five-year Transformation Plan to reinvent itself as a digital retail leader, transforming from a catalogue-led business to a digitally-led business. The Transformation Plan addresses competitive challenges, aims to exploit emerging market opportunities and restore sustainable growth. The Homebase Sale, which completed on 27 February 2016, further enables the remaining group to focus on the Transformation Plan.

As stated in Home Retail Group plc's circular dated 2 February 2016 relating to the Homebase Sale, meaningful progress has been made to date on the Transformation Plan, and the Home Retail Group Directors continue to believe that execution of the plan would create a leading digital retailer in the UK and deliver future shareholder value.

On 5 January 2016, Sainsbury's confirmed that it had made an approach in November 2015 regarding a possible offer for Home Retail Group plc and its rationale for that possible offer. This was followed on 2 February 2016 by a joint announcement by Sainsbury's and Home Retail Group plc regarding the terms of a possible recommended offer, which consisted of 0.321 New Sainsbury's Shares, 55 pence in cash, approximately 25 pence reflecting the Homebase Sale, and 2.8 pence to be paid as a capital return (in light of which there would be no final dividend for Home Retail Group plc's financial year ending 27 February 2016). On 19 February 2016, Steinhoff International Holdings NV ("**Steinhoff**") announced the terms of a possible all-cash offer of 175 pence per Home Retail Group Share. Both Sainsbury's and Steinhoff were given a deadline of 18 March 2016 to either announce a firm intention to make an offer for Home Retail Group plc or announce that they did not intend to make an offer.

On 18 March 2016, Steinhoff announced that it did not intend to make an offer for Home Retail Group plc and, as a result of that announcement, became subject to certain restrictions on making another offer for the next six months pursuant to Rule 2.8 of the Takeover Code. Later that day, Sainsbury's announced a firm intention to make an offer for Home Retail Group plc on the terms previously stated. Following further discussions, on 1 April 2016, the Home Retail Group Board announced its intention to recommend the Acquisition.

For Home Retail Group plc, there will be significant business benefits in the combination with Sainsbury's, including benefits of scale and the opportunity to accelerate the work begun under the Transformation Plan, creating opportunities for our employees and other stakeholders. While the Home Retail Group Directors are confident of the future growth prospects of Home Retail Group plc, they believe that the Acquisition provides Home Retail Group Shareholders with a value today which is attractive and reflects the prospects for Home Retail Group plc under the Transformation Plan. In addition, the share component of the Acquisition will enable Home Retail Group Shareholders to benefit from the value creation expected to arise through the combination, including significant synergies.

The Home Retail Group Directors considered the Acquisition in relation to the value and prospects of the underlying business, and the potential medium-term standalone value of Home Retail Group Shares in reaching its conclusion. Accordingly, the Home Retail Group Directors unanimously recommend that Home Retail Group Shareholders vote in favour of the Scheme at the Court Meeting and the Special Resolution relating to the Scheme and the Acquisition to be proposed at the Home Retail Group General Meeting.

### **4. Undertakings to vote in favour of the Scheme**

Sainsbury's has received irrevocable undertakings from each of the Home Retail Group Directors to vote in favour of the Scheme at the Court Meeting and the Special Resolution to be proposed at the General Meeting (or, if the Acquisition is subsequently structured as a Takeover Offer, to accept any Takeover Offer made by Sainsbury's) in respect of an aggregate of 2,145,121 Home Retail Group Shares, representing, in aggregate, approximately 0.26 per cent. of the ordinary share capital of Home Retail Group plc in issue on 1 July 2016 (being the latest practicable date prior to the publication of this document).

Further details of the irrevocable undertakings are set out in paragraph 5 of Part VI of this document.

### **5. Structure of the Scheme, the Capital Return and the Acquisition**

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

### *Step 1: Introduction of Newco*

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

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

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

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

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

### *Step 2: Newco Reduction of Capital*

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

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

### *Step 3: Transfer of Newco Shares to Sainsbury's*

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

## **6. Management, employees and locations**

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

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

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

Retail Group leadership team will be determined as soon as possible and in consultation with the Home Retail Group's senior leadership.

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

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

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

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

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

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

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

Sainsbury's confirms that the existing contractual and statutory employment rights, including pension rights, of all employees of the Sainsbury's Group and the Home Retail Group will be fully observed following Completion.

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

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

## **7. Current trading and prospects**

### *Home Retail Group plc current trading and prospects*

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

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



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

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

In the course of implementing its new governance and risk management procedures, the Home Retail Group's Financial Services division identified that it had erroneously collected excess fees in relation to the late payment of amounts due from certain customers. The Home Retail Group took advice on this matter and based upon this advice it booked a charge in its FY16 financial statements. The Home Retail Group has subsequently been advised that a more extensive customer redress programme will now be required. A detailed review exercise will now be undertaken, however a preliminary estimate has been prepared, which indicates that the existing customer redress provision may need to be increased by an amount in the region of £30 million.

#### *Sainsbury's current trading and prospects*

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

- (a) Total retail sales for the first quarter increased by 0.3 per cent. (excluding fuel) and decreased by 0.1 per cent. (including fuel) compared to the same quarter in the previous year; Sainsbury's like-for-like retail sales for the first quarter decreased by 0.8 per cent. (excluding fuel) and decreased by 1.0 per cent. (including fuel) year-on-year. Sainsbury's also achieved like-for-like transaction growth across all channels in the quarter;
- (b) Sainsbury's is focused on delivering its multi-channel, multi-product strategy. Sainsbury's has a clear and simple trading strategy focusing on lower regular prices which is resonating with customers; is reducing promotional participation levels and continues to lower the prices of everyday products. The Sainsbury's Group is investing in improving the quality and range of its own-brand food and non-food products and continues to see encouraging results from Sainsbury's Bank;
- (c) Sainsbury's convenience business achieved growth of over six per cent. and opened seven new convenience stores in the quarter. Groceries online performed well with over eight per cent. sales growth and nearly a 13 per cent. increase in orders. Sainsbury's also launched its new groceries online app in the quarter; and
- (d) Market conditions remain challenging, with food price deflation continuing to impact the Sainsbury's Group's sales and pressures on pricing meaning the market will remain competitive for the foreseeable future. However, the Sainsbury's Directors are confident that the Sainsbury's Group's strategy to be a trusted multi-channel, multi-product and services retailer is delivering and will enable the Sainsbury's Group to continue to outperform its major peers.

#### **8. Home Retail Group Share Plans**

Further details of the arrangements proposed to be implemented in relation to the Home Retail Group Share Plans in connection with the Acquisition are set out in paragraph 13 of Part II of this document.

#### **9. Home Retail Group plc pension arrangements**

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

- An agreed basis for the statutory valuation in relation to the Home Retail Group Pension Scheme as at 31 March 2015; an increase in the level of deficit contributions payable by Argos Limited under the Home Retail Group Pension Scheme's statutory schedule of contributions (to £40 million per annum, payable quarterly); and a lump sum payment of £50 million, to be made following Completion. These contributions are in addition to the lump sum contributions totalling £50 million agreed by Home Retail Group plc with the Home Retail Group Trustee in connection with the Homepage Sale, £26 million of which has already been paid to the Home Retail Group Pension Scheme and the balance to be paid after the Capital Return.



- A commitment from Sainsbury's to stand behind Argos Limited's obligations under the statutory schedule of contributions and to make a lump sum payment to the Home Retail Group Pension Scheme (of up to £470 million) if there is an insolvency of Sainsbury's or Argos Limited. This commitment will replace similar commitments currently in place from Home Retail Group plc (which will fall away following Completion) and, subject to certain conditions, will be reset at the next two statutory valuations in relation to the scheme (expected to have effective dates in 2018 and 2021).
- The grant of an additional £37.5 million of security over freehold assets in favour of the Home Retail Group Trustee (resulting in an aggregate £75 million of security in total, inclusive of the £37.5 million of security agreed with Home Retail Group plc in connection with the Homebase Sale).

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

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

#### **10. Dividends and dividend policy**

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

The Sainsbury's Board and the Home Retail Group Board have agreed that, if the Acquisition has not Completed by the Sainsbury's Interim Dividend Record Time (and provided that Home Retail Group plc has not paid, declared, approved or made any dividend or distribution since the date of the Original Announcement), Home Retail Group Shareholders will be entitled to receive an interim dividend from Home Retail Group plc for the 26 weeks ending 27 August 2016 in an aggregate amount of not more than £0.01 per Home Retail Group Share (the "**Permitted Home Retail Group plc Interim Dividend**"), equivalent to the Home Retail Group plc interim dividend in respect of its financial year ended 27 February 2016.

#### **11. Home Retail Group ADRs**

Holders of Home Retail Group ADRs should refer to paragraph 24 of Part II of this document.

#### **12. Taxation**

Your attention is drawn to paragraph 26 of Part II of this document, which contains a summary of limited aspects of the United Kingdom tax treatment of the Scheme, the Newco Reduction of Capital and the transfer of Newco Shares pursuant to the Acquisition and of the ongoing United Kingdom tax treatment of Home Retail Group Shareholders who take up New Sainsbury's Shares. That summary relates only to the position of certain categories of Home Retail Group Shareholders (as explained further in Part II of this document), does not constitute tax advice and does not purport to be a complete analysis of all potential United Kingdom tax consequences of the Scheme, the Newco Reduction of Capital or the Acquisition or of all potential United Kingdom tax consequences of holding New Sainsbury's Shares.

Home Retail Group Shareholders who are in any doubt about their taxation position, or who are subject to taxation in a jurisdiction outside the United Kingdom, are strongly advised to contact an appropriate independent professional adviser immediately.

#### **13. Dealing Facility**

Sainsbury's has arranged for the Dealing Facility to be provided for a period of six months following Completion to enable eligible Home Retail Group Shareholders who receive New Sainsbury's Shares as a result of the Acquisition to sell all (but not part) of the New Sainsbury's Shares to which they become entitled at a cost of 0.5 per cent. commission plus £8.50 per transaction. The Dealing Facility will be available to:

- persons who appear on the register of members of Newco as holders of Newco Shares at the Newco Reduction Record Time (and who held Home Retail Group Shares in certificated form as at the Scheme Record Time); or
- persons for whom Home Retail Group Shares are held as nominee in CREST by the trustee of the Home Retail Group Employee Share Trust, the Home Retail Group Share Incentive Plan or the Home Retail Group Ireland Approved Profit Sharing Scheme respectively at the Scheme Reduction Record Time,

and, in each case following Completion and the final allocation of New Sainsbury's Shares pursuant to the Mix and Match Facility (if a Mix and Match Election is made) would be entitled to: (i) at least one New Sainsbury's Share; and (ii) no more than 4,000 New Sainsbury's Shares pursuant to the Acquisition. The Dealing Facility will also be available to persons who acquire Home Retail Group Shares under the Home Retail Group Share Plans after the Scheme Effective Time and who receive New Sainsbury's Shares pursuant to Home Retail Group's amended Articles provided that they are entitled to (i) at least one New Sainsbury's Share; and (ii) no more than 4,000 New Sainsbury's Shares in aggregate.

Persons who wish to use the Dealing Facility must hold the New Sainsbury's Shares in certificated form at the time of participating in the Dealing Facility.

The Dealing Facility will be made available subject to any local legal or regulatory restrictions. Further details on the Dealing Facility are set out in paragraph 25 of part II of this document.

#### **14. Action to be taken**

Your attention is drawn to paragraph 28 of Part II of this document, which explains the action you should take in relation to the Acquisition and the Scheme.

#### **15. Overseas Shareholders**

The attention of Overseas Shareholders is drawn to paragraph 27 of Part II of this document.

#### **16. Further information**

Your attention is further drawn to the Sainsbury's Prospectus published on Sainsbury's website, <http://www.j-sainsbury.co.uk/investor-centre/disclaimer/>, which contains further information on Sainsbury's and the New Sainsbury's Shares. A copy of the Sainsbury's Prospectus will also be made available on the Home Retail Group's website, <http://www.homeretailgroup.com/investor-centre/sainsburys-offer/>, and a hard copy can, subject to applicable securities laws, be requested by contacting Home Retail Group's registrars, Capita Asset Services, whose contact details are set out on page 4 of this document.

**You are advised to read the whole of this document and not just rely on the summary information contained in this letter.**

Your attention is further drawn to the information contained in Part II (*Explanatory Statement*), Part III (*Conditions to the Scheme and the Acquisition*), Part VI (*Additional Information*), Part VII (*Notes for making elections under the Mix and Match Facility*), Part VIII (*The Scheme of Arrangement*) and to the expected timetable of principal events set out on pages 6 and 7 of this document and to the Sainsbury's Prospectus.

#### **17. Recommendation**

**For the reasons set out in this document, the Home Retail Group Directors, who have been so advised by Bank of America Merrill Lynch, consider the terms of the Acquisition to be fair and reasonable. In providing advice to the Home Retail Group Directors, Bank of America Merrill Lynch has taken into account the commercial assessments of the Home Retail Group Directors. Bank of America Merrill Lynch is providing independent financial advice to the Home Retail Group Directors for the purposes of Rule 3 of the Takeover Code.**

**Accordingly, in order to implement the Acquisition, the Home Retail Group Directors unanimously recommend Home Retail Group Shareholders vote in favour of the Scheme at the Court Meeting and the Special Resolution to be proposed at the General Meeting, as the Home Retail Group Directors have irrevocably undertaken to do, or procure, in respect of their own beneficial holdings of Home Retail Group Shares amounting to, in aggregate, 2,145,121 Home Retail Group Shares, representing approximately 0.26 per cent. of the issued ordinary share capital of Home Retail Group plc on 1 July 2016 (being the latest practicable date prior to the publication of this document).**

Yours faithfully

John Coombe  
Chairman

**PART II**  
**EXPLANATORY STATEMENT**  
*(in compliance with section 897 of the Companies Act 2006)*

5 July 2016

*To all Home Retail Group Shareholders and, for information only, to participants in the Home Retail Group Share Plans and persons with information rights*

Dear Sir or Madam,

**RECOMMENDED OFFER BY J SAINSBURY PLC FOR  
HOME RETAIL GROUP PLC TO BE EFFECTED BY MEANS OF A SCHEME OF ARRANGEMENT  
AND THE STEPS CONTEMPLATED BY SUCH SCHEME, INCLUDING THE RETURN OF  
CAPITAL TO HOME RETAIL GROUP SHAREHOLDERS PURSUANT TO A COURT-APPROVED  
REDUCTION OF CAPITAL**

**1. Introduction**

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

The Acquisition is to be implemented pursuant to a three-step process involving: (i) a scheme of arrangement of Home Retail Group plc under Part 26 of the Companies Act to introduce Newco as the new holding company of the Home Retail Group and issue Newco Shares to Home Retail Group Shareholders; (ii) a reduction of capital of Newco to effect the Capital Return; and (iii) the mandatory transfer of Newco Shares (which will then be held by Home Retail Group Shareholders) to Sainsbury's pursuant to the Newco Articles.

Your attention is drawn to the letter from the Chairman of Home Retail Group plc, John Coombe, set out in Part I of this document, which forms part of this Explanatory Statement. That letter contains, among other things, information on the background to and reasons for the unanimous recommendation by the Home Retail Group Directors to Home Retail Group Shareholders to vote in favour of the Scheme at the Court Meeting and the Special Resolution at the General Meeting. Your attention is also drawn to the Sainsbury's Prospectus published on Sainsbury's website, <http://www.j-sainsbury.co.uk/investor-centre/disclaimer/>, which contains further information on Sainsbury's and the New Sainsbury's Shares to be issued in connection with the Acquisition. A copy of the Sainsbury's Prospectus will also be made available on the Home Retail Group's website, <http://www.homeretailgroup.com/investor-centre/sainsburys-offer/>, and on Sainsbury's website, <http://www.j-sainsbury.co.uk/investor-centre/disclaimer/>, and a hard copy, subject to applicable securities laws, can be requested by contacting Home Retail Group's registrars, Capita Asset Services, whose contact details are set out on page 4 of this document.

The Home Retail Group Board has been advised by Bank of America Merrill Lynch in connection with the Acquisition. Bank of America Merrill Lynch has been authorised by the Home Retail Group Board to write to you to explain the terms of the Acquisition and the Scheme and to provide you with other relevant information.

The terms of the Scheme are set out in full in Part VIII of this document. Your attention is also drawn to the additional information set out in Part VI of this document.

**2. Summary of the Acquisition**

In accordance with the terms of the Scheme, Home Retail Group Shareholders will receive:

<b>for each Home Retail Group Share</b>	<b>One Newco Share</b>
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Subject to the Scheme becoming Effective and the Newco Reduction of Capital becoming Effective, Home Retail Group Shareholders will receive from Newco:

<b>for each Newco Share</b>	<b>27.8 pence in cash (being the Capital Return)</b>
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Subject to the Scheme becoming Effective and the Newco Reduction of Capital becoming Effective, and with effect from the Newco Reduction Effective Time, pursuant to the Newco Articles, the Newco Shares

will be transferred to Sainsbury's and/or its nominee(s) in consideration for which Home Retail Group Shareholders will receive from Sainsbury's:

**for each Newco Share**

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

Further details on the steps to implement the Acquisition are set out in paragraphs 17 to 20 of this Part II.

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

- (i) the Sainsbury's Offer Consideration represents an indicative value of 143.7 pence per Home Retail Group Share and values Home Retail Group plc's issued ordinary share capital at approximately £1.2 billion;
- (ii) the Sainsbury's Offer Consideration and the Capital Return together represent an indicative value of 171.5 pence per Home Retail Group Share and value Home Retail Group plc's issued ordinary share capital at approximately £1.4 billion; and
- (iii) the Sainsbury's Offer Consideration and the Capital Return together represent a premium of approximately 74 per cent. to the Closing Price of 98.7 pence per Home Retail Group Share on 4 January 2016 (being the last business day prior to the commencement of the Offer Period).

Based on the Closing Price of Sainsbury's Shares of 236.1 pence on 1 July 2016 (being the latest practicable date prior to the publication of this document):

- (i) the Sainsbury's Offer Consideration represents an indicative value of 130.8 pence per Home Retail Group Share and values Home Retail Group plc's issued ordinary share capital at approximately £1.1 billion;
- (ii) the Sainsbury's Offer Consideration and the Capital Return together represent an indicative value of 158.6 pence per Home Retail Group Share and value Home Retail Group plc's issued ordinary share capital at approximately £1.3 billion; and
- (iii) the Sainsbury's Offer Consideration and the Capital Return together represent a premium of approximately 61 per cent. to the Closing Price of 98.7 pence per Home Retail Group Share on 4 January 2016 (being the last business day prior to the commencement of the Offer Period).

Pursuant to the Mix and Match Facility, Home Retail Group Shareholders (other than those with a registered address in, or who are a citizen, resident or national of, a Restricted Jurisdiction) are also being offered the opportunity to elect to vary the proportions in which they receive cash consideration and New Sainsbury's Shares in respect of their holdings. Satisfaction of such Mix and Match Elections will be subject to Mix and Match Elections made by other Home Retail Group Shareholders. The Mix and Match Facility will not change the total number of New Sainsbury's Shares to be issued by Sainsbury's or the total cash consideration to be paid pursuant to the Acquisition. To the extent that Mix and Match Elections for cash or New Sainsbury's Shares cannot be satisfied in full, they will be scaled down on a pro rata basis. Further information about the Mix and Match Facility is provided in paragraph 5 of this Part II and Part VII of this document.

The Acquisition is subject to the Conditions set out in Part III of this document.

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

Newco Shares to be issued as consideration under the Scheme will be issued credited as fully paid and free from all liens, charges, encumbrances, and, subject to the Newco Articles, rights of pre-emption and any other third party rights of any nature whatsoever.

New Sainsbury's Shares to be issued as consideration pursuant to the Newco Articles will be issued credited as fully paid and free from all liens, charges, encumbrances, and, subject to the Sainsbury's Articles, rights of pre-emption and any other third party rights of any nature whatsoever and will rank *pari passu* in all respects with the Existing Sainsbury's Shares from the date of issue, including the right to receive all dividends, distributions and other entitlements declared, made or paid by Sainsbury's on Sainsbury's Shares save that they will not participate in any dividend payable by Sainsbury's with reference to a record date prior to the Completion Date. Further details of the rights attaching to the New Sainsbury's Shares are set out in the Sainsbury's Prospectus published on Sainsbury's website <http://www.j-sainsbury.co.uk/investor-centre/disclaimer/> and will be available on Home Retail Group's website <http://www.homeretailgroup.com/investor-centre/sainsburys-offer/> and a hard copy of which, subject to applicable securities laws, can be requested by contacting Home Retail Group plc's registrars, Capita Asset Services, whose contact details are set out at page 4 of this document. Immediately following Completion of the Acquisition and the issue of the New Sainsbury's Shares, Home Retail Group Shareholders are expected to own 11.94 per cent. of the enlarged issued share capital of Sainsbury's.

Application will be made by Sainsbury's for the New Sainsbury's Shares to be admitted to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities. It is expected that admission of the New Sainsbury's Shares to trading on the London Stock Exchange's main market for listed securities will become effective and that dealings for normal settlement will commence on or around 5 September 2016.

### **3. Background to and reasons for the Acquisition**

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

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

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

In addition to these areas of strong organic growth, Sainsbury's has been working in partnership with the Home Retail Group trialling a number of Argos digital concessions in Sainsbury's stores. Argos launched 10 concessions in Sainsbury's supermarkets which have now been trading for an average of 54 weeks. In addition Sainsbury's has also offered Argos Fast Track Collection services in one small supermarket and two convenience stores since November 2015.

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

Sainsbury's has seen encouraging results from these trials, driving additional customers and sales to both Argos and Sainsbury's across the 10 concession locations. These trials, together with the due diligence



conducted in connection with the Acquisition, have enabled Sainsbury's to build up a strong understanding of the Home Retail Group business.

*The Acquisition accelerates Sainsbury's strategy*

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

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

*Leading food and non-food retailer of choice for customers*

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

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

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

*Optimises the use of combined retail space*

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



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

#### *Multi-channel capabilities*

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

#### *A financial services proposition with consumer-centric services*

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

#### *Deliver revenue and cost synergy potential*

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

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

#### *Synergy potential*

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

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

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

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

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

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

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

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

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

The synergies referred to above are expected to be recurring and are expected to arise as a direct result of the Acquisition and could not be achieved independently of the Acquisition. The synergies are also stated

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<sup>3</sup> References to "HRG" in the Quantified Financial Benefits Statement set out in the Original Announcement have been replaced with "Home Retail Group plc".

<sup>4</sup> Numbers refer to synergies in the third full year after Completion.

net of anticipated dis-synergies, which arise principally from lost sales in the Argos stores moving more than one mile or changing to a different retail location type as well as estimated cannibalisation impact of new infill Argos concessions. For the avoidance of doubt, the EBITDA impact of the synergies as set out above already reflects the impact of these identified dis-synergies.

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

The Sainsbury's Directors have confirmed that there have been no material changes to the Quantified Financial Benefits Statement since 1 April 2016 and the Quantified Financial Benefits Statement remains valid. Deloitte, Morgan Stanley and UBS have also confirmed to Sainsbury's that the reports they produced in connection with the Quantified Financial Benefits Statement (copies of which were set out in Appendix 3 to the Original Announcement on 18 March 2016) continue to apply.

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

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

#### *Financial effects*

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

On a pro forma basis and assuming the completion of the Acquisition had occurred on 12 March 2016, the Combined Group would have had total net assets of £7,222 million at that date (based on the total net assets of Sainsbury's and Home Retail Group plc in each case as at 12 March 2016 and 27 February 2016 respectively).

If the Acquisition completes, having been effected by the Scheme and related steps, Scheme Shareholders will receive 55 pence in cash and 0.321 New Sainsbury's Shares (being the Sainsbury's Offer Consideration) and 27.8 pence in cash (being the Capital Return) for every Home Retail Group Share held, subject to Elections pursuant to the Mix and Match Facility.

The following table shows, for illustrative purposes only, and on the bases and assumptions set out in the notes below, the financial effects of the Acquisition on capital value and income for a holder of 1,000 Home Retail Group Shares receiving the default Sainsbury's Offer Consideration and the Capital Return.

Column (A) is based on the Closing Price of Sainsbury's Shares and Home Retail Group Shares on 1 July 2016 (being the latest practicable date prior to the publication of this document).

Column (B) is based on the Closing Price of Sainsbury's Shares and Home Retail Group Shares on 4 January 2016 (the last business day before the commencement of the Offer Period).

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

<sup>6</sup> These statements are not, and shall not be construed as, profit forecasts.

<b>Illustrative effect on capital value of 1,000 Home Retail Group Shares<sup>(7)</sup></b>	<b>(A)</b>	<b>(B)</b>
Market value of the 321 New Sainsbury's Shares <sup>(1)</sup> . . . . .	£758	£820
Value of cash portion of the Sainsbury's Offer Consideration . . . . .	£550	£550
<b>Total Value of Sainsbury's Offer Consideration . . . . .</b>	<b>£1,308</b>	<b>£1,370</b>
Value of the Capital Return . . . . .	£278	£278
<b>Total Value of Total Consideration in respect of 1,000 Home Retail Group Shares . .</b>	<b>£1,586</b>	<b>£1,648</b>
Less: Market value of 1,000 Home Retail Group Shares <sup>(2)</sup> . . . . .	£(1,531)	£(987)
<b>Illustrative increase/(decrease) in capital value<sup>(3)</sup> . . . . .</b>	<b>£55</b>	<b>£661</b>
<i>Percentage difference . . . . .</i>	<i>3.6%</i>	<i>66.9%</i>
<b>Illustrative effect on gross income of 1,000 Home Retail Group Shares<sup>(7)</sup></b>	<b>(A)</b>	<b>(B)</b>
Gross annual dividend income from 321 Sainsbury's Shares <sup>(4)</sup> . . . . .	£39	£39
Gross income from reinvestment of cash portion of Sainsbury's Offer Consideration and the Capital Return <sup>(5)</sup> . . . . .	£7	£16
<b>Total gross income under the terms of the Acquisition in respect of 1,000 Home Retail Group Shares . . . . .</b>	<b>£46</b>	<b>£54</b>
Less: Gross dividend income from 1,000 Home Retail Group Shares <sup>(6)</sup> . . . . .	£(38)	£(38)
<b>Illustrative increase/(decrease) in gross income . . . . .</b>	<b>£8</b>	<b>£16</b>
<i>Percentage difference . . . . .</i>	<i>21.0%</i>	<i>43.1%</i>

Notes:

- (1) The market value of Sainsbury's Shares is based on the Closing Price per Sainsbury's Share of:
  - (a) 236.1 pence on 1 July 2016; and
  - (b) 255.3 pence on 4 January 2016, respectively in columns (A) and (B).
- (2) The market value of Home Retail Group Shares is based on the Closing Price per Home Retail Group Share of:
  - (a) 153.1 pence on 1 July 2016; and
  - (b) 98.7 pence on 4 January 2016, respectively in columns (A) and (B).
- (3) In assessing the financial effects of the Total Consideration, no account has been taken of any dividends to be paid by Sainsbury's or Home Retail Group plc, except that in light of the proposed Capital Return there is no proposal to pay a final dividend in respect of the Home Retail Group plc's financial year ended 27 February 2016.
- (4) The gross dividend income from 321 New Sainsbury's Shares is based on aggregate gross dividends of 12.1 pence per Sainsbury's Share in respect of the 52 weeks ended 12 March 2016. Historical dividend income is no guide to future dividend income and is used in this table for illustrative purposes only.
- (5) The income on the cash payment has been calculated on the assumption that the cash from both the cash portion of the Sainsbury's Consideration and the Capital return is reinvested for a period of 12 months to yield approximately:
  - (a) 0.863 per cent. per annum, being the yield shown by UK Gilts of ten-year maturities on 1 July 2016; and
  - (b) 1.876 per cent. per annum, being the yield shown by UK Gilts of ten-year maturities on 4 January 2016, respectively in columns (A) and (B).
- (6) The gross dividend from 1,000 Home Retail Group Shares is based on the aggregate of (a) the gross interim dividend of 1 pence per share in respect of the financial year ended 27 February 2016 and (b) 2.8 pence per share which will be paid as part of the Capital Return in light of which there will be no final dividend for that financial year. Historical dividend income is no guide to future dividend income and is used in this table for illustrative purposes only.
- (7) Figures shown in this table are rounded for illustration purposes. Actual amounts may vary.

Home Retail Group Shareholders are entitled to receive the Permitted Home Retail Group plc Interim Dividend in the circumstances set out in paragraph 10 of Part I of this document.

Sainsbury's Shareholders are entitled to receive the final dividend of 8.1p per Sainsbury's Share proposed by the Sainsbury's Directors for the 52 weeks ended 12 March 2016.

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

## 5. Mix and Match Facility

Under the terms of the Acquisition, subject to the Scheme and the Newco Reduction of Capital becoming Effective and subject to the provisions regarding fractional entitlements set out in paragraph 2 of this

Part II and in the Newco Articles, it is intended that all Home Retail Group Shareholders will receive 55 pence in cash and 0.321 New Sainsbury's Shares in respect of each Newco Share they hold as a result of implementation of the Scheme, unless they actively elect to vary the proportions of cash consideration and New Sainsbury's Shares they receive in respect of their holdings of Newco Shares, subject to the elections by other Home Retail Group Shareholders, by completing and returning the Form of Election or making an Electronic Election.

Satisfaction of Mix and Match Elections will be subject to the Mix and Match Elections made by other Home Retail Group Shareholders.

Mix and Match Elections may only be made in respect of whole numbers of Home Retail Group Shares. Irrespective of the number of Home Retail Group Shareholders who elect for cash consideration or New Sainsbury's Shares under the Mix and Match Facility, the total cash consideration to be paid and the total number of New Sainsbury's Shares to be issued pursuant to the Acquisition will not be varied.

Accordingly, Sainsbury's ability to satisfy all Mix and Match Elections for cash consideration or New Sainsbury's Shares made by Home Retail Group Shareholders will depend on other Home Retail Group Shareholders making equal and opposite Mix and Match Elections. To the extent that Mix and Match Elections for cash consideration or New Sainsbury's Shares cannot be satisfied in full, they will be scaled down on a pro rata basis. As a result, Home Retail Group Shareholders who elect to receive additional cash consideration or New Sainsbury's Shares under the Mix and Match Facility will not necessarily know the exact amount of cash consideration or number of New Sainsbury's Shares they are entitled to receive until settlement of the consideration under the Acquisition.

Elections under the Mix and Match Facility may be made on the following basis:

<b>for every 55 pence in cash</b>	<b>0.233 of a New Sainsbury's Share</b>
<b>OR</b>	
<b>for every 0.321 of a New Sainsbury's Share</b>	<b>75.8 pence in cash</b>

The basis for making Elections under the Mix and Match Facility has been determined with reference to the Closing Price per Sainsbury's Share of 236.1 pence on 1 July 2016 (being the latest practicable date prior to the publication of this document).

The table below shows, for illustrative purposes only, the possible outcomes for a Home Retail Group Shareholder who holds one Home Retail Group Share and, pursuant to the Mix and Match Facility, validly elects to receive: (i) all cash; (ii) all New Sainsbury's Shares; or (iii) does not make (or it is deemed not to have made) any valid Election under the Mix and Match Facility:

<u>Election</u>	<u>Cash (pence)<sup>(1)</sup></u>	<u>New Sainsbury's Shares<sup>(1)</sup></u>
Cash Election . . . . .	130.8	—
Share Election . . . . .	—	0.554
No Election . . . . .	55.0	0.321

Note:

(1) Figures shown in this table are rounded for illustration purposes, and do not take into account the effect of the provisions regarding fractional entitlements set out in paragraph 2 of this Part II and in the Newco Articles. Actual amounts may vary.

An announcement will be made at Completion concerning the extent to which Mix and Match Elections have been satisfied.

The Mix and Match Facility has not been extended to holders of Home Retail Group ADRs or those Home Retail Group Shareholders with a registered address in, or who are a citizen, resident or national of, a Restricted Jurisdiction, and no Form of Election will be sent to them. The availability of the Mix and Match Facility to other Overseas Shareholders may be limited.

**The Mix and Match Facility will not affect the entitlements of those Home Retail Group Shareholders who do not make a Mix and Match Election under the Mix and Match Facility.**

Details on how and when Home Retail Group Shareholders can make a Mix and Match Election are set out in Part VII of this document and in paragraph 28 of this Part II.



Overseas Shareholders should also read paragraph 27 of this Part II in relation to their ability to make a Mix and Match Election.

## **6. Information on the Home Retail Group**

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

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

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

Home Retail Group plc is the holding company of Argos and was listed on the London Stock Exchange in 2006. On 27 February 2016, Home Retail Group plc completed the Homebase Sale. As at 1 July 2016, being the latest practicable date prior to the publication of this document, Home Retail Group plc had a market capitalisation of £1,245 million.

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

## **7. Information on Sainsbury's**

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

J Sainsbury plc is the holding company of the Sainsbury's Group. Sainsbury's was listed on the London Stock Exchange in 1973. As at 1 July 2016, being the latest practicable date prior to the publication of this document, Sainsbury's had a market capitalisation of £4,546 million.

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

## **8. Information on Newco**

Newco is a private limited company newly incorporated in England and Wales, specifically for the purpose of implementing the Acquisition. Newco is currently owned and controlled by Sainsbury's and has not traded prior to the date of this document or entered into any obligations (except for entering into transactions relating to the Scheme and the Acquisition). Upon the Scheme becoming Effective, Newco will issue ordinary shares to the Home Retail Group Shareholders, and ownership of Newco will therefore



transfer to the Home Retail Group Shareholders, and the Subscriber Share held by Sainsbury's will be converted into a deferred share.

Pursuant to the mandatory transfer provisions in the Newco Articles, and with immediate effect from the Newco Reduction Effective Time, the Newco Shares will be transferred to Sainsbury's and/or its nominee(s) (and Sainsbury's will be the beneficial holder(s) of the Newco Shares from the Newco Reduction Effective Time), in consideration for which Sainsbury's will deliver the Sainsbury's Offer Consideration to each transferor of such Newco Shares (being the Home Retail Group Shareholders) within 14 days of such transfer.

The transfer will be effected by means of a form of transfer or other instrument or instruction of transfer, or by means of CREST, and, to give effect to such transfer, any person may be appointed by Sainsbury's as agent and attorney for each Newco Shareholder to transfer their Newco Shares. Further details of the mandatory transfer provisions in the Newco Articles are set out in Part V of this document.

## **9. Financing arrangements**

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

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

Morgan Stanley and UBS, financial advisers to Sainsbury's, are satisfied that sufficient resources are available to Sainsbury's to satisfy in full the cash consideration payable to Newco Shareholders pursuant to the terms of the Acquisition.

Further details of the Amendment and Restatement Agreement and the financing arrangements are set out in paragraph 12(g) of Part VI of this document.

## **10. Financing of Capital Return**

Home Retail Group has entered into a loan arrangement with Newco in order to provide Newco with the requisite funds to effect the payment of the Capital Return. The loan agreement is conditional upon the Newco Reduction of Capital becoming Effective.

## **11. Management, employees and locations**

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

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

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

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

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

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

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

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

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

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

Sainsbury's confirms that the existing contractual and statutory employment rights, including pension rights, of all employees of the Sainsbury's Group and the Home Retail Group will be fully observed following Completion.

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

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

## **12. The Home Retail Group Directors and the effect of the Scheme on their interests**

Details of the interests of the Home Retail Group Directors in the share capital of Home Retail Group plc and options over this share capital are set out in paragraph 6 of Part VI of this document. Home Retail Group Shares held by the Home Retail Group Directors will be subject to the Scheme.

Particulars of the service contracts (including termination provisions) and letters of appointment of the Home Retail Group Directors are set out in paragraph 10 of Part VI of this document. Home Retail Group plc has announced that John Walden will leave Home Retail Group. If no other agreement is reached, Richard Ashton's employment will terminate on the terms set out in paragraph 10 of Part VI of this document. Save as referred to above and in paragraph 10 of Part VI of this document, which describes the terms on which John Walden will leave the Home Retail Group, the total emoluments receivable by the Home Retail Group Directors will not be varied as a consequence of the Scheme becoming Effective.

Each of the Home Retail Group Directors has irrevocably undertaken to vote in favour of the Scheme in respect of the 2,145,121 Home Retail Group Shares in which they are each interested (representing approximately 0.26 per cent. of the ordinary share capital of Home Retail Group plc in issue on 1 July 2016, being the latest practicable date prior to the publication of this document).

The effect of the Scheme on the interests of Home Retail Group Directors does not differ from its effect on the like interests of any other Home Retail Group Shareholder.

## **13. Home Retail Group Share Plans**

The Company is committed to operating an employee incentive framework that supports the interests of its shareholders, by aligning incentives and associated performance targets with the creation of long-term value for the Company's shareholders. The Company grants share awards and options under the Home Retail Group Share Plans as summarised in this document.

### **(a) The Home Retail Group Deferred Bonus Plan**

Awards granted under the Home Retail Group Deferred Bonus Plan will vest in full at the time the Scheme Court Order is made in accordance with the plan rules. Awards will be settled by transferring Home Retail Group Shares from the Employee Trust or in cash (where required by the rules of the Home Retail Group Deferred Bonus Plan) for an amount per Home Retail Group Share equal to the Total Consideration receivable in respect of that Home Retail Group Share.

### **(b) The Home Retail Group Performance Share Plan**

- (i) Awards granted under the Home Retail Group Performance Share Plan will vest at the time the Scheme Court Order is made subject to the satisfaction of applicable performance conditions and time pro-rating each as determined by the Home Retail Group Remuneration Committee in accordance with the plan rules. Awards will be settled by transferring Home Retail Group Shares from the Employee Trust.
- (ii) Home Retail Group plc's malus and clawback policy will continue to apply to awards granted under the Home Retail Group Performance Share Plan from the financial year ended 27 February 2016 onwards (except that, after Completion, clawback will not be applied where there is a material restatement of results due to a change in accounting policy, treatment or assumptions made by Sainsbury's as a result of the Acquisition or to rectify a non-material error).

### **(c) The Home Retail Group Tax Qualified Share Option Plan**

- (i) Options under the Home Retail Group Tax Qualified Share Option Plan will, if not already exercisable, become exercisable at the time the Scheme Court Order is made subject to the satisfaction of any applicable performance conditions as determined by the Home Retail Group Remuneration Committee in accordance with the relevant plan rules. These options will lapse six months after the date of the Scheme Court Order.
- (ii) The exercise of an option granted under the Home Retail Group Tax Qualified Share Option Plan will be satisfied by the transfer of Home Retail Group Shares from the Employee Trust or, following Completion, the issue of Home Retail Group Shares.

(d) The Home Retail Group UK Tax Qualified Sharesave Plan

- (i) Options under the Home Retail Group UK Tax Qualified Sharesave Plan will, if not already exercisable, become exercisable at the time the Scheme Court Order is made and will lapse six months after the date of the Scheme Court Order. Options will be exercisable to the extent of the optionholder's savings at the time of exercise.
- (ii) Option exercises will be satisfied by the transfer of Home Retail Group Shares from the Employee Trust or, following Completion, the issue of Home Retail Group Shares.
- (iii) As an alternative to the exercise of options described in paragraphs (i) and (ii) above, Sainsbury's will offer holders of options granted under the Home Retail Group UK Tax Qualified Sharesave Plan which remain outstanding at the time of the Scheme Court Order the opportunity to exchange their options for equivalent options over Sainsbury's Shares (such exchange to take account of the value of the Capital Return) so that, in calculating the exchange, the value of a Home Retail Group Share will be treated as being equal to the Total Consideration.

(e) The Home Retail Group Share Incentive Plan and the Home Retail Group Ireland Approved Profit Sharing Scheme

The Home Retail Group Shares held under the Home Retail Group Share Incentive Plan and the Home Retail Group Ireland Approved Profit Sharing Scheme will be subject to the Scheme in the same way as Home Retail Group Shares held by other shareholders.

(f) Letters to Home Retail Group Share Plan participants

As required under Rule 15 of the Takeover Code, participants in the Home Retail Group Share Plans will be contacted separately on or around the date of this document regarding the effect of the Scheme on their awards and/or options under the Home Retail Group Share Plans (as summarised above).

(g) Articles of Association

The Articles will be changed pursuant to the Special Resolution so that, with effect from the Scheme Effective Time, any Home Retail Group Shares issued after the Scheme Record Time will, conditional on the Newco Reduction of Capital becoming Effective, be automatically transferred to, or to the order of, Sainsbury's in exchange for the Sainsbury's Offer Consideration and a cash amount equal to the Capital Return.

#### 14. Home Retail Group plc pension arrangements

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

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

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

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

## **15. Regulatory approvals**

Filings in respect of the anti-trust and other regulatory Conditions to the Acquisition have been submitted. The regulatory Conditions are not necessarily subject to a set timetable and so the regulatory timetable remains uncertain. The expected timetable of principal events for the Acquisition is set out on pages 6 and 7 of this document. It is currently expected that Completion will occur (following satisfaction of the outstanding regulatory and other Conditions) on or around 2 September 2016 and the Sainsbury's Group and the Home Retail Group will operate as the Combined Group with effect from the following business day (i.e. Monday 5 September 2016).

## **16. Undertakings to vote in favour of the Acquisition**

Sainsbury's has received irrevocable undertakings from each of the Home Retail Group Directors to vote in favour of the Scheme at the Court Meeting and the Special Resolution to be proposed at the General Meeting (or if the Acquisition is subsequently structured as a Takeover Offer, to accept any Takeover Offer made by Sainsbury's) in respect of an aggregate of 2,145,121 Home Retail Group Shares, representing, in aggregate, approximately 0.26 per cent. of the ordinary share capital of Home Retail Group plc in issue on 1 July 2016 (being the latest practicable date prior to the publication of this document).

Further details of the irrevocable undertakings are set out in paragraph 5 of Part VI of this document.

## **17. Structure of the Scheme, the Capital Return and the Acquisition**

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

### *Step 1: Introduction of Newco*

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

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

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

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

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



### *Step 2: Newco Reduction of Capital*

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

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

### *Step 3: Transfer of Newco Shares to Sainsbury's*

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

Further details are set out in paragraphs 18 to 20 of this Part II.

## **18. Approval of the Scheme**

### **(a) Introduction**

The Acquisition is to be effected by way of a scheme of arrangement of Home Retail Group plc under Part 26 of the Companies Act, the Newco Reduction of Capital and by means of a mandatory transfer pursuant to the Newco Articles. The provisions of the scheme of arrangement of Home Retail Group plc are set out in full in Part VIII of this document.

The Scheme involves an application by Home Retail Group plc to the Court to sanction the Scheme, which involves the cancellation of the Home Retail Group Shares, in consideration for which Home Retail Group Shareholders on the register of members at the Scheme Record Time will receive Newco Shares on the basis set out in paragraph 2 of this Part II. The cancellation of the shares and the subsequent issue of new shares in Home Retail Group plc to Newco provided for in the Scheme will result in Home Retail Group plc becoming a wholly-owned subsidiary of Newco. Upon the Scheme becoming Effective, the Subscriber Share held by Sainsbury's will automatically be converted into a deferred share in accordance with the Newco Articles.

Save for the issue of the new Home Retail Group Shares to Newco pursuant to the Scheme, Home Retail Group plc will not issue any shares between the Scheme Record Time and Completion.

Subject to the Scheme becoming Effective and the register of members of Newco being updated to reflect the allotment and issue of Newco Shares to Home Retail Group Shareholders, pursuant to the Scheme, Newco shall procure the delivery to the Registrar of Companies of the Newco Reduction Court Order, and upon the Newco Reduction of Capital taking effect by registration by the Registrar of Companies of the Newco Reduction Court Order, the share capital of Newco shall be reduced by cancelling paid-up capital upon each of the Newco Shares to the extent of an amount equal to the nominal value upon issue less £0.01 per Newco Share and reducing the nominal amount of each of the Newco Shares to £0.01.

As part of the Newco Reduction of Capital, pursuant to the Scheme, Newco shall also procure that 27.8 pence of capital per Newco Share (subject to the rounding of entitlements as set out in the Newco Reduction Resolution) be returned to Newco Shareholders on the register of members of Newco at the Newco Reduction Record Time (being the Home Retail Group Shareholders). The remaining capital reduced as part of the Newco Reduction of Capital but not returned to shareholders as part of the Capital Return will be credited to reserves of Newco, which will be available to Newco to fund future dividends and for other lawful purposes.

Subject to and forthwith upon the Newco Reduction of Capital becoming Effective, pursuant to the Newco Articles, Sainsbury's (and/or its nominee(s)) shall acquire all of the Newco Shares and, in consideration for the transfer of the Newco Shares, Sainsbury's shall deliver the Sainsbury's Offer Consideration to the Newco Shareholders (being the Home Retail Group Shareholders) in accordance with the Takeover Code.

(b) The Meetings

The Scheme, which is subject to the satisfaction, or (in certain cases) waiver, of the Conditions set out in Part III of this document, will require approval by a majority in number of the Home Retail Group Shareholders (excluding members of the Sainsbury's Group) who are on the register of members of Home Retail Group plc at the Voting Record Time and who attend and vote (either in person or by proxy), and who hold at least 75 per cent. in value of the Home Retail Group Shares then in issue and for which votes are cast, at the Court Meeting to be held at 11.00 a.m. on 27 July 2016 at Holiday Inn Milton Keynes, 500 Saxon Gate West, Milton Keynes MK9 2HQ. Implementation of the Scheme and the subsequent steps contemplated therein will also require the passing of the Special Resolution at the General Meeting to be held immediately thereafter.

If the Scheme becomes Effective, it will be binding on all Home Retail Group Shareholders, including those who do not vote to approve the Scheme.

**It is important that, for the Court Meeting, as many votes as possible are cast so that the Court may be satisfied that there is a fair representation of opinion of the Home Retail Group Shareholders. You are therefore strongly urged to sign and return both your Forms of Proxy as soon as possible.**

Whether or not you vote in favour of the Scheme at the Court Meeting or the General Meeting, if the Scheme becomes Effective, your shares will be cancelled and you will receive one Newco Share for each Home Retail Group Share that you hold immediately prior to the Scheme Record Time.

Before the Court's approval can be sought, the Scheme will require approval at the Court Meeting and the passing of the Special Resolution at the General Meeting. Notices of the Court Meeting and the General Meeting are set out in Part X and Part XI of this document, respectively. All Home Retail Group Shareholders whose names appear on the register of members of Home Retail Group plc at 6.00 p.m. on 25 July 2016 or, if either of the Meetings is adjourned, on the register of members at 6.00 p.m. on the date falling two days before the date set for such adjourned meeting, shall be entitled to attend and vote at the relevant meeting in respect of the number of Home Retail Group Shares registered in their name at the Voting Record Time.

*The Court Meeting*

The Court Meeting, which has been convened for 11.00 a.m. on 27 July 2016, is being held at the direction of the Court to seek the approval of Home Retail Group Shareholders (other than members of the Sainsbury's Group) for the Scheme. At the Court Meeting, voting will be by way of poll and each member present, either in person or by proxy, will be entitled to one vote for each Home Retail Group Share held. The approval required at the Court Meeting is a majority in number of those Home Retail Group Shareholders present and voting, either in person or by proxy, who hold at least 75 per cent. in value of the Home Retail Group Shares for which votes are cast.

*The General Meeting*

In addition to the Court Meeting, the General Meeting has been convened for 11.10 a.m. on 27 July 2016, or as soon thereafter as the Court Meeting has concluded or been adjourned, to consider and, if thought fit, pass the Special Resolution (which requires votes in favour representing at least 75 per cent. of the votes cast) to approve:

- (i) the Home Retail Group Reduction of Capital and the issue of new shares in Home Retail Group plc to Newco provided for in the Scheme;
- (ii) amendments to the Articles in accordance with the Scheme and in the manner described in paragraph (d) below;
- (iii) the Newco Reduction of Capital; and
- (iv) a loan by Home Retail Group plc to Newco to fund the Capital Return.

As at the date of this document, no member of the Sainsbury's Group holds any Home Retail Group Shares. If they were to acquire any Scheme Shares, members of the Sainsbury's Group would not be entitled to attend or vote at the Court Meeting and would abstain from voting at the General Meeting in respect of any Home Retail Group Shares held by them. It is intended that one deferred share in the capital of Home Retail Group plc will be issued to Newco prior to the Scheme Record Time and this deferred share will not be subject to the Scheme, so that there is no requirement under the

Companies Act for an independent valuation of the ordinary shares in Home Retail Group plc to be issued to Newco pursuant to the Scheme.

(c) Sanction of the Scheme by the Court

Under the Companies Act, the Scheme also requires the sanction of the Court. The Scheme Court Hearing and the Home Retail Group Reduction Court Hearing are expected to be held one business day apart. The gap between the Scheme Court Hearing and the Home Retail Group Reduction Court Hearing is included in order to permit the registration of Home Retail Group Shares released, transferred or issued under the terms of the Home Retail Group Share Plans prior to the Scheme becoming Effective. Sainsbury's and Newco have confirmed that they will be represented by Counsel at the Scheme Court Hearing and the Home Retail Group Reduction Court Hearing so as to consent to the Scheme and to undertake to the Court to be bound thereby.

Home Retail Group Shareholders will have the right to attend the Scheme Court Hearing and to appear in person or be represented by Counsel to support or oppose the sanction of the Scheme.

The Scheme will become Effective as soon as a copy of the Home Retail Group Reduction Court Order has been duly delivered to the Registrar of Companies or, if the Court so orders, on the registration of the Home Retail Group Reduction Court Order.

If the Scheme becomes Effective, it will be binding on all Home Retail Group Shareholders irrespective of whether or not they attended or voted in favour of the Scheme at the Court Meeting or in favour of the Special Resolution at the General Meeting. If the Scheme does not become Effective by 28 March 2017 (or such later date (if any) as Home Retail Group plc and Sainsbury's may agree and the Court may allow), the Scheme will not become Effective, the Newco Reduction of Capital will not occur and the Acquisition will not proceed.

(d) Amendment to the Company's Articles

The Special Resolution to be proposed at the General Meeting will contain provisions to amend the Company's Articles of Association to ensure that any Home Retail Group Shares issued (other than to a member of the Sainsbury's Group) between the adoption of the new Article pursuant to the Special Resolution and the Scheme Record Time will be subject to the Scheme and that any Home Retail Group Shares issued after the Scheme Record Time will, conditional on the Newco Reduction of Capital becoming Effective, automatically be acquired by Sainsbury's in exchange for the Sainsbury's Offer Consideration and a cash amount equal to the Capital Return.

It is proposed that the Articles be amended to include rights attaching to the deferred shares for the reasons set out in paragraph (b) above.

## **19. Newco Reduction of Capital**

(a) Introduction

Subject to the Scheme becoming Effective and the register of members of Newco being updated to reflect the allotment and issue of Newco Shares to Home Retail Group Shareholders pursuant to the Scheme, the capital of Newco will be reduced pursuant to the Newco Reduction Resolution of the sole member of Newco, being Sainsbury's, passed before the date of this document and to be confirmed by the Court after the Scheme Effective Time. It is also anticipated that Home Retail Group Shareholders will approve the Newco Reduction of Capital at the General Meeting. Upon the Newco Reduction of Capital taking effect by registration by the Registrar of Companies of the Newco Reduction Court Order, the share capital of Newco shall be reduced by cancelling paid-up capital upon each of the Newco Shares to the extent of an amount equal to the nominal value upon issue less £0.01 per Newco Share and reducing the nominal amount of each of the Newco Shares to £0.01.

As part of the Newco Reduction of Capital, Newco shall also return 27.8 pence of capital per Newco Share (subject to the rounding of entitlements as set out in the Newco Reduction Resolution) to Newco Shareholders on the register of members of Newco at the Newco Reduction Record Time (being the Home Retail Group Shareholders).

(b) Confirmation of the Newco Reduction of Capital by the Court

Under the Companies Act, the Newco Reduction of Capital also requires the confirmation of the Court. The Newco Reduction Court Hearing is expected to be held the business day after the Home

Retail Group Reduction Court Hearing in order to permit the registration of Newco Shares issued to Home Retail Group Shareholders pursuant to the Scheme.

The Newco Reduction of Capital will become Effective as soon as a copy of the Newco Reduction Court Order has been registered by the Registrar of Companies. Payment of the Capital Return will be effected within 14 days after the Newco Reduction of Capital becomes Effective.

## **20. Transfer of Newco Shares**

Immediately following the Newco Reduction of Capital becoming Effective, all of the Newco Shares will be transferred to Sainsbury's pursuant to the mandatory transfer provisions in the Newco Articles, in exchange for the Sainsbury's Offer Consideration (being, subject to the Mix and Match Facility and the provisions relating to fractional entitlements in the Newco Articles, 0.321 New Sainsbury's Shares and 55 pence in cash for each Newco Share).

Accordingly, unless you have made a valid election under the Mix and Match Facility in respect of your Newco Shares, pursuant to the Newco Articles, you will receive 55 pence in cash and 0.321 New Sainsbury's Shares for each Newco Share that you hold at the Newco Reduction Record Time (save that fractions of New Sainsbury's Shares to which Newco Shareholders would otherwise have been entitled will be aggregated, allotted, issued and sold in the market after the Completion Date and the net proceeds of such sale (after deduction of all expenses, costs and commissions incurred in connection with the sale) will be paid in cash in sterling to such Newco Shareholders entitled thereto in accordance with what would otherwise have been their respective fractional entitlements).

## **21. Conditions to the Acquisition**

The Conditions to the Acquisition are set out in full in Part III of this document. In summary, the implementation of the Acquisition is conditional upon, amongst other things, the following events occurring on or before 29 March 2017 or such later date as Home Retail Group plc and Sainsbury's agree:

- (i) approval of the Scheme by a majority in number of Home Retail Group Shareholders who are present and vote, whether in person or by proxy, at the Court Meeting (or any adjournment thereof), and who represent not less than 75 per cent. in value of the Home Retail Group Shares voted by such Home Retail Group Shareholders, and the Court Meeting being held on or before 18 August 2016 (or such later date as Sainsbury's and Home Retail Group plc may agree and the Court may allow);
- (ii) the passing of the Special Resolution to implement the Scheme and the Acquisition and to approve the related Home Retail Group Reduction of Capital and Newco Reduction of Capital being passed by the requisite majority of Home Retail Group Shareholders at the General Meeting (or any adjournment thereof), and the General Meeting being held on or before 18 August 2016 (or such later date as Sainsbury's and Home Retail Group plc may agree and the Court may allow);
- (iii) the UK Listing Authority having acknowledged to Sainsbury's or its agent (and such acknowledgement not having been withdrawn) that the application for the admission of the New Sainsbury's Shares to the Official List with a premium listing has been approved and (after satisfaction of any conditions to which such approval is expressed to be subject ("**listing conditions**")) will become effective as soon as a dealing notice has been issued by the FCA and any listing conditions have been satisfied;
- (iv) the London Stock Exchange having acknowledged to Sainsbury's or its agent (and such acknowledgement not having been withdrawn) that the New Sainsbury's Shares will be admitted to trading on the main market for listed securities;
- (v) regulatory clearances being received from the FCA, the GFSC and the CMA;
- (vi) the Scheme being sanctioned and the related Home Retail Group Reduction of Capital being confirmed by the Court, and the Court hearing to sanction the Scheme being held on or before 22 September 2016 (or such later date as Sainsbury's and Home Retail Group plc may agree and the Court may allow);

- (vii) the delivery of copies of the Scheme Court Order and the Reduction Court Order for registration to the Registrar of Companies and, if the Court requires, registration of the Reduction Court Order;
- (viii) the Newco Reduction of Capital being confirmed by the Court, and the Court hearing to confirm the Newco Reduction of Capital being held on or before 24 September 2016 (or such later date as Sainsbury's and Home Retail Group plc may agree and the Court may allow); and
- (ix) registration of the Newco Reduction Court Order by the Registrar of Companies.

The Conditions relating to the approval of the Scheme by the Home Retail Group Shareholders at the Court Meeting, the passing of the Special Resolution at the General Meeting, the sanction of the Scheme by the Court, the confirmation of the Newco Reduction of Capital by the Court, the delivery or registration of the Court orders with the Registrar of Companies and the approval by the UK Listing Authority of the application for admission to listing, are not capable of being waived in whole or in part.

## **22. Alternative means of implementing the Acquisition**

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

Sainsbury's has also reserved the right to implement the Acquisition by way of a Takeover Offer for the entire issued and to be issued share capital of Home Retail Group plc as an alternative to the Scheme (with the consent of the Panel and subject to the terms of the Co-operation Agreement). In such an event, the Takeover Offer will be implemented on substantially the same terms as set out in the Original Announcement, including an acceptance condition of 90 per cent. of the shares to which such Takeover Offer relates (or such lesser percentage (being more than 50 per cent.) as Sainsbury's may decide with the consent of the Panel). In such circumstances, the Capital Return would be structured in a manner to be determined at such time.

## **23. Delisting, listing, settlement and dealings**

### **(a) Delisting of Home Retail Group Shares**

The last day of dealings in Home Retail Group Shares is expected to be 31 August 2016. It is intended that dealings in Home Retail Group Shares will be suspended at 4.30 p.m. London time on that date. No transfers of Home Retail Group Shares will be registered after 6.00 p.m. on this date (the "**Scheme Record Time**"). However, new Home Retail Group Shares will be issued to Newco in accordance with the Scheme.

A request will be made to each of the London Stock Exchange and the UKLA to cancel the trading in Home Retail Group Shares on the London Stock Exchange's main market for listed securities and to remove the listing of the Home Retail Group Shares from the premium listing segment of the Official List, in each case on the business day following the Effective date of the Newco Reduction of Capital.

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

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

### **(b) Listing of New Sainsbury's Shares**

Application will be made to the UKLA for the admission of up to 261,115,846 New Sainsbury's Shares to the premium listing segment of the Official List and to the London Stock Exchange for the New Sainsbury's Shares be admitted to trading on the London Stock Exchange's main market for listed securities. The Sainsbury's Prospectus, which is required to be published to effect the introduction of the New Sainsbury's Shares to the premium listing segment of the Official List, is available on Sainsbury's website <http://www.j-sainsbury.co.uk/investor-centre/disclaimer> and will be available on Home Retail Group plc's website at <http://www.homeretailgroup.com/investor-centre/sainsburys-offer/> or, alternatively, subject to applicable securities laws, a hard copy is available upon request, by



telephoning between 9.00 a.m. and 5.30 p.m. (London time) Monday to Friday (except UK public holidays) on +44 (0) 371 664 0437. Calls will be charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate.

It is expected that admission of the New Sainsbury's Shares will become effective and that dealings in the New Sainsbury's Shares will commence at 8.00 a.m. on the business day following Completion, currently expected to be 5 September 2016. This date may be deferred if it is necessary to adjourn the shareholder meetings required to approve the Scheme or if there is any delay in obtaining the Court's sanction of the Scheme or the Court's confirmation of the Newco Reduction of Capital.

(c) Settlement

*Newco Shares*

The Newco Shares will be allotted and issued to Home Retail Group Shareholders, who hold their Home Retail Group Shares in either certificated or uncertificated form at the Scheme Record Time, as soon as practicable after the Scheme Record Time and in any event within two business days following the Scheme Effective Time. However, no share certificates will be issued or despatched in respect of Newco Shares, and the Newco Shares will not be admitted to CREST.

*Settlement in respect of Home Retail Group Shares held in uncertificated form (that is, in CREST)*

The Sainsbury's Directors will apply for the New Sainsbury's Shares to be admitted to CREST, so that settlement of transactions in New Sainsbury's Shares following admission of New Sainsbury's Shares can take place in uncertificated form within the CREST system. For Home Retail Group Shareholders who held their Home Retail Group Shares in uncertificated form at the Scheme Record Time, New Sainsbury's Shares to which the Home Retail Group Shareholder is entitled will be issued in uncertificated form through CREST. The ISIN number for the New Sainsbury's Shares will be GB00B019KW72 and the SEDOL number for the New Sainsbury's Shares will be B019KW7. Sainsbury's will procure that Euroclear is instructed to credit the appropriate stock account in CREST of the relevant Home Retail Group Shareholders with the applicable number of New Sainsbury's Shares as soon as possible after 8.00 a.m. on the date of admission of the New Sainsbury's Shares.

Home Retail Group Shares held in uncertificated form will be disabled in CREST from the Effective Date.

(i) Sainsbury's Offer Consideration

New Sainsbury's Shares will be delivered to those Home Retail Group Shareholders who hold their Home Retail Group Shares in uncertificated form at the Scheme Record Time, by procuring that Euroclear is instructed to credit the appropriate stock account in CREST of the relevant Home Retail Group Shareholders.

Cash consideration due under the Acquisition to Home Retail Group Shareholders who hold their Home Retail Group Shares in uncertificated form at the Scheme Record Time will be made by Sainsbury's procuring that Euroclear is instructed to create an assured payment obligation in favour of the relevant Home Retail Group Shareholder's payment bank in accordance with the CREST assured payment arrangements.

(ii) Capital Return

Settlement of the cash payment in respect of the Capital Return pursuant to the Newco Reduction of Capital for Home Retail Group Shareholders who hold their Home Retail Group Shares in uncertificated form at the Scheme Record Time will be made by Newco procuring that Euroclear be instructed to create an assured payment obligation in favour of the relevant Home Retail Group Shareholder's payment bank in accordance with the CREST assured payment arrangements.

Sainsbury's reserves the right to issue New Sainsbury's Shares, and pay cash, to any or all Home Retail Group Shareholders who hold Home Retail Group Shares in uncertificated form at the Scheme Record Time in the manner referred to below if, for reasons outside its reasonable control, it is not able to effect settlement within the CREST system.

*Settlement in respect of Home Retail Group Shares held in certificated form (that is, not in CREST)*

(i) Sainsbury's Offer Consideration

New Sainsbury's Shares will be allotted and issued to those Home Retail Group Shareholders who hold their Home Retail Group Shares in certificated form at the Scheme Record Time. Pending the despatch of share certificates for New Sainsbury's Shares, issues of New Sainsbury's Shares will be certified against the register of members of Sainsbury's. Temporary documents of title will not be issued in respect of the New Sainsbury's Shares.

Cash consideration due under the Acquisition to Home Retail Group Shareholders who hold their Home Retail Group Shares in certificated form at the Scheme Record Time will be despatched by first class post (or international standard post, if overseas) by cheque drawn on a branch of a UK clearing bank to the relevant Home Retail Group Shareholders.

All such cash payments will be made in sterling. Payment made by cheque will be payable to the Home Retail Group Shareholder concerned or, in the case of joint holders, to all joint holders on the register of members of Home Retail Group plc (except that in the case of joint holders, Sainsbury's may make such cheques payable to that one of the joint holders whose name stands first in the register of members of Home Retail Group plc in respect of such joint holding at the Scheme Record Time).

(ii) Capital Return

Settlement of the cash payment in respect of the Capital Return pursuant to the Newco Reduction of Capital for Home Retail Group Shareholders who hold their Home Retail Group Shares in certificated form at the Scheme Record Time will be made by Newco procuring the despatch by first class post (or international standard post, if overseas) of cheques drawn on a branch of a UK clearing bank. All such cash payments will be made in sterling and will be payable to the Home Retail Group Shareholder concerned or in the case of joint holders, to all joint holders on the register of members of Home Retail Group plc (except that in the case of joint holders, Sainsbury's may make such cheques payable to that one of the joint holders whose name stands first in the register of members of Home Retail Group plc).

## **24. Home Retail Group ADRs**

The offer of New Sainsbury's Shares will not be extended to holders of Home Retail Group ADRs. Therefore, if the Scheme and the Newco Reduction of Capital become Effective, the Home Retail Group Depositary will sell the New Sainsbury's Shares it receives pursuant to the Acquisition as agent for and on behalf of Home Retail Group ADR holders, will call for surrender of the Home Retail Group ADRs and, upon those surrenders, will deliver the proceeds of that sale, net of applicable fees, expenses, taxes and governmental charges, together with an amount in respect of the cash element of the Sainsbury's Offer Consideration and in respect of the Capital Return, to the Home Retail Group ADR holders entitled thereto in accordance with the terms of the Deposit Agreement. Thereafter, the Home Retail Group ADR programme will be terminated.

Home Retail Group ADR holders will not be entitled to vote directly on the Scheme or the Acquisition. However, Home Retail Group ADR holders have the right to instruct the Home Retail Group Depositary how to vote the Home Retail Group Shares underlying the Home Retail Group ADRs with respect to the Scheme, subject to and in accordance with the terms of the Deposit Agreement, but the Home Retail Group Depositary will not send voting cards or otherwise solicit those instructions from Home Retail Group ADR holders.

Home Retail Group ADR holders will not be entitled to participate in the Mix and Match Facility.

If you hold Home Retail Group ADRs and wish to vote directly on the Scheme or to receive New Sainsbury's Shares pursuant to the Acquisition or participate in the Mix and Match Facility, you must surrender your Home Retail Group ADRs to the Home Retail Group Depositary, pay the Home Retail Group Depositary's fees and charges in accordance with the Deposit Agreement and become a holder of Home Retail Group Shares prior to the Voting Record Time or Scheme Record Time, as applicable, and in each case subject to and in accordance with the terms of the Deposit Agreement. Home Retail Group ADR holders who wish to vote directly on the Scheme or to receive New Sainsbury's Shares pursuant to the Acquisition should take care to surrender their Home Retail Group ADRs in time to permit processing to be completed by the Home Retail Group Depositary and its English custodian prior to the Voting

Record Time or the Scheme Record Time, as applicable. If you hold Home Retail Group ADRs through a broker or other securities intermediary, you should contact that broker or intermediary to determine the date by which you must instruct them to act in order that the necessary processing can be completed in time.

Sainsbury's ADR programme will continue to be available. Information on the Sainsbury's ADR programme can be found on Sainsbury's website at <http://www.j-sainsbury.co.uk/investor-centre/shareholder-centre/adr-information/>.

## **25. Dealing Facility**

Sainsbury's has arranged for the Dealing Facility to be provided for a period of six months following Completion to enable eligible Home Retail Group Shareholders who receive New Sainsbury's Shares as a result of the Acquisition to sell all (but not part) of the New Sainsbury's Shares to which they become entitled at a cost of 0.5 per cent. commission plus £8.50 per transaction. Proceeds of sale will be remitted to the persons entitled thereto in sterling. The Dealing Facility will be available to:

- (a) persons who appear on the register of members of Newco as holders of Newco Shares at the Newco Reduction Record Time (and who held Home Retail Group Shares in certified form as at the Scheme Record Time); or
- (b) persons for whom Home Retail Group Shares are held as nominee in CREST by the trustee of the Home Retail Group Employee Share Trust, the Home Retail Group Share Incentive Plan or the Home Retail Group Ireland Approved Profit Sharing Scheme respectively at the Scheme Record Time,

and, in each case, following Completion and the final allocation of New Sainsbury's Shares pursuant to the Mix and Match Facility (if a Mix and Match Election is made), would be entitled to: (i) at least one New Sainsbury's Share; and (ii) no more than 4,000 New Sainsbury's Shares pursuant to the Acquisition. The Dealing Facility will also be available to persons who acquire Home Retail Group Shares under the Home Retail Group Share Plans after the Scheme Effective Time and who receive New Sainsbury's Shares pursuant to Home Retail Group's amended Articles provided that they are entitled to (i) at least one New Sainsbury's Share; and (ii) no more than 4,000 New Sainsbury's Shares in aggregate.

Persons who wish to use the Dealing Facility must hold the New Sainsbury's Shares in certificated form at the time of participating in the Dealing Facility.

Holdings of greater than 4,000 New Sainsbury's Shares will be able to be sold via an alternative dealing facility generally available to Sainsbury's Shareholders via Computershare at a cost of one per cent. per transaction, with a minimum charge of £35 (for telephone sales) and £30 (for online sales). Details of the facility are available at <https://www-uk.computershare.com/investor/sharedealing.asp#charges>.

The Dealing Facility will be made available subject to any local legal or regulatory restrictions. The attention of Overseas Shareholders is drawn to paragraph 27 of this Part II.

The Dealing Facility cannot be used to buy additional New Sainsbury's Shares. Persons wanting to sell their New Sainsbury's Shares are not obliged to sell them through the Dealing Facility. Persons wanting to use the Dealing Facility may also be required by applicable anti-money laundering laws to provide evidence of their identity prior to despatch of the proceeds of sale.

Home Retail Group Shareholders who have not received the documentation relating to the Dealing Facility following Completion, but believe that they may be entitled to use it with respect to their New Sainsbury's Shares, can contact the Sainsbury's registrar as notified to them following the issue of the New Sainsbury's Shares.

## **26. Taxation**

**The following paragraph relates only to certain categories of Home Retail Group Shareholders who are resident in the United Kingdom. Home Retail Group Shareholders or prospective Home Retail Group Shareholders who are resident or otherwise subject to taxation in a jurisdiction outside the United Kingdom should consult their own professional advisers immediately.**

## *UK Taxation*

The comments set out below are based on current United Kingdom tax law as applied in England and Wales and HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs) as at the date of this document, both of which are subject to change, possibly with retrospective effect. They assume that the Finance Bill 2015-16 to 2016-17, as ordered to be printed on 19 May 2016, will be enacted without amendment. They are intended as a general guide to certain limited aspects of the UK tax treatment of the Scheme, the Capital Return and the Acquisition and apply only to Home Retail Group Shareholders resident and, in the case of an individual, domiciled for tax purposes in the United Kingdom and to whom “split year” treatment does not apply (except insofar as express reference is made to the treatment of non-United Kingdom residents), who hold their shares in Home Retail Group plc (and subsequently any shares in Sainsbury’s) as an investment and who are the absolute beneficial owners thereof (“**UK Holders**”).

The discussion does not address all possible tax consequences relating to an investment in any relevant shares. Certain categories of shareholders, including those carrying on certain financial activities, those subject to specific tax regimes or benefitting from certain reliefs and exemptions, those connected with Home Retail Group plc or Sainsbury’s, and those for whom the shares are employment-related securities may be subject to special rules and this summary does not apply to such shareholders.

Shareholders or prospective shareholders who are in any doubt about their tax position, or who are resident or otherwise subject to taxation in a jurisdiction outside the United Kingdom, should consult their own professional advisers immediately.

### *Part A: Taxation of Chargeable Gains*

The following paragraphs describe how each stage of the arrangements described in this document comprising the Scheme, the Capital Return and then the Acquisition should be treated for the purposes of United Kingdom taxation of chargeable gains.

#### **(a) The Scheme**

Under the Scheme, each UK Holder will receive Newco Shares in exchange for his Home Retail Group Shares. For the purpose of the UK taxation of chargeable gains, the cancellation of Home Retail Group Shares and issue of Newco Shares should be treated as a reorganisation of share capital. Accordingly, UK Holders should not be treated as having made a disposal of their Home Retail Group Shares or an acquisition of Newco Shares as a result of the UK Scheme. Instead, the Newco Shares should be treated as the same asset and as having been acquired at the same time and for the same consideration as those Home Retail Group Shares which they represent. A UK Holder’s base cost in his Home Retail Group Shares will be attributed to his Newco Shares.

UK Holders who, alone or together with connected persons, hold more than 5 per cent. of, or any class of, shares or debentures of Home Retail Group plc are advised that no clearance has been sought from HMRC under section 138 of the Taxation of Chargeable Gains Act 1992 that section 137 of that Act will not apply to prevent the treatment described in this paragraph.

#### **(b) The Capital Return on the Newco Reduction of Capital**

Subject to the paragraph below, the Capital Return received from Newco in respect of the Newco Reduction of Capital should be treated as a part disposal by UK Holders of Newco Shares with the chargeable gain being computed on the basis of an apportionment of the allowable cost of the holding of Newco Shares by reference to the market value of such holding at the time of part disposal. Depending on a UK Holder’s individual circumstances (including the availability of exemptions, reliefs or allowable losses), that part disposal may give rise to a liability to UK tax on chargeable tax.

To the extent that the amount received by a UK Holder from Newco in respect of the Capital Return is small in comparison with the value of his Newco Shares and the allowable cost attributable to his or her Newco Shares is equal to or greater than the amount of the Capital Return, the UK Holder will not be treated as having disposed of the shares in respect of which the cash was received. Instead, an amount equal to the amount of such cash will be deducted from the allowable cost of his Newco Shares.

Under current HMRC practice, any cash payment of £3,000 or less or (if greater) which is 5 per cent. or less of the market value of a UK Holder's holding of Newco Shares will generally be treated as small for these purposes.

(c) Tax Consequences of the Acquisition by Sainsbury's of Newco Shares

A UK Holder's liability to UK tax on capital gains will depend on the individual circumstances of that UK Holder and on the form of consideration received.

(i) Cash

To the extent a UK Holder receives cash from Sainsbury's under the Acquisition in respect of his or her Newco Shares, that UK Holder will, except for the circumstances set out in the next paragraph, be treated as disposing of his Newco Shares which may, depending on the UK Holder's individual circumstances (including the availability of exemptions, reliefs or allowable losses) give rise to a liability to UK tax on capital gains.

To the extent that a UK Holder receives cash from Sainsbury's in addition to Sainsbury's Shares under the Acquisition, and the amount of cash received is small in comparison with the value of his or her Newco Shares and the allowable cost attributable to his or her Newco Shares is equal to or greater than the amount of such cash received, the UK Holder will not be treated as having disposed of the shares in respect of which the cash was received. Instead, an amount equal to the amount of such cash will be deducted from the allowable cost of his New Sainsbury's Shares.

Under current HMRC practice, any cash payment of £3,000 or less or (if greater) which is 5 per cent. or less of the market value of a UK Holder's holding of Newco Shares will generally be treated as small for these purposes.

In all other cases where a UK Holder receives cash in addition to Newco Sainsbury's Shares, the UK Holder will be treated as having made a part disposal of his Newco Shares, with the chargeable gain being computed on the basis of an apportionment of the allowable cost of the holding by reference to the market value of the remaining holding at the time of disposal.

(ii) Sainsbury's Shares

To the extent that a UK Holder receives New Sainsbury's Shares in exchange for his Newco Shares and does not hold (either alone or together with persons connected with him) more than 5 per cent. of, or of any class of, shares in or debentures of Home Retail Group plc, he will not be treated as having made a disposal of his Newco Shares. Instead, the New Sainsbury's Shares should be treated as the same asset as those Newco Shares acquired at the same time and for the same consideration as those shares.

UK Holders who, alone or together with connected persons, hold more than 5 per cent. of, or of any class of shares in or debentures of Home Retail Group plc are advised that no clearance has been sought from HMRC under section 138 of the Taxation of Chargeable Gains Act 1992 that section 137 of that Act will not apply to prevent the treatment described in this paragraph.

*Part B: Tax Treatment of Holdings of New Sainsbury's Shares*

(a) Dividends on New Sainsbury's Shares

UK Holders who are issued New Sainsbury's Shares pursuant to the Acquisition are referred to the Sainsbury's Prospectus for a description of the tax position in respect of dividends on those shares.

(b) Future Disposal of New Sainsbury's Shares

A subsequent disposal of New Sainsbury's Shares may, depending on individual circumstances (including the availability of exemptions, reliefs and allowable losses), give rise to a liability to UK tax on capital gains.

*Part C: UK Stamp Duty and Stamp Duty Reserve Tax ("SDRT")*

No UK stamp duty or SDRT will be payable by UK Holders as a result of the Scheme, the Capital Return or acceptance of the Acquisition.

Stamp duty or SDRT will generally be payable on subsequent transfers for value of, or on an agreement to transfer for value, New Sainsbury's Shares. Stamp duty and SDRT are normally liabilities of the purchaser.



## 27. Overseas Shareholders

### *General*

The availability of the Scheme and the Acquisition (including the right to make a Mix and Match Election) to Overseas Shareholders may be affected by the laws of the relevant jurisdictions. Overseas Shareholders should inform themselves about and should observe any applicable legal requirements. It is the responsibility of all Overseas Shareholders to satisfy themselves as to the full compliance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental, exchange control or other consents which may be required, or the compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes due in such jurisdiction. Home Retail Group Shareholders who are in any doubt regarding such matters should consult an appropriate independent professional adviser in the relevant jurisdiction without delay.

In any case, if, in respect of a Home Retail Group Shareholder with a registered address in a jurisdiction outside the United Kingdom or whom Sainsbury's reasonably believes to be a citizen, resident or national of a jurisdiction outside the United Kingdom (in each case, including but not limited to, the Republic of South Africa), Sainsbury's is advised that the allotment and/or issue of Newco Shares pursuant to the Scheme or the granting of the right to make a Mix and Match Election or the allotment and/or issue of New Sainsbury's Shares pursuant to the Newco Articles to such shareholder would or may infringe the laws of any jurisdiction or would or may require the Company, Sainsbury's or Newco (as the case may be) to comply with any governmental or other consent or any registration, filing or other formality with which the Company, Sainsbury's or Newco is unable to comply, or compliance with which Sainsbury's or Home Retail Group plc regards as unduly onerous, then Sainsbury's or Newco (as applicable) may, in its sole discretion, require Home Retail Group plc to treat such Home Retail Group Shareholder as a Restricted Overseas Shareholder for the purpose of this Scheme and may either:

- (i) determine that such Newco Shares or New Sainsbury's Shares (as the case may be) shall be sold, in which event the relevant shares shall be issued to such Home Retail Group Shareholder and Sainsbury's shall appoint a person who shall be authorised on behalf of such Home Retail Group Shareholder to procure that such shares shall, as soon as practicable following the Newco Reduction Effective Time, be sold; or
- (ii) determine that such Newco Shares or New Sainsbury's Shares (as the case may be) shall not be issued to such Home Retail Group Shareholder but shall instead be issued to a person appointed by Sainsbury's to hold such shares for such shareholder on terms that such person shall, as soon as practicable following the Newco Reduction Effective Time, sell the relevant shares so issued.

**Overseas Shareholders with a registered address in, or who are a citizen, resident or national of, a Restricted Jurisdiction will not be sent the Form of Election and will not be entitled to participate in the Mix and Match Facility.**

### *US securities law*

The New Sainsbury's Shares have not been and will not be registered under the US Securities Act or under the securities laws of any state or other jurisdiction of the United States. Accordingly, the New Sainsbury's Shares may not be offered, sold, resold, delivered, distributed or otherwise transferred, directly or indirectly, in or into or from the United States absent registration under the US Securities Act or an exemption therefrom. The New Sainsbury's Shares are expected to be issued in reliance upon the exemption from the registration requirements of the US Securities Act provided by Section 3(a)(10) thereof. Home Retail Group Shareholders (whether or not US persons) who are or will be affiliates (within the meaning of the US Securities Act) of Sainsbury's or Home Retail Group plc prior to, or of Sainsbury's after, the Effective Date will be subject to certain US transfer restrictions relating to the New Sainsbury's Shares received pursuant to the Scheme (as described below).

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

Under US securities laws, persons who are or will be deemed to be affiliates (as defined under the US Securities Act) of Home Retail Group plc or Sainsbury's prior to, or of Sainsbury's after, the Effective Date may not resell the New Sainsbury's Shares received under the Scheme without registration under the

US Securities Act, except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. Whether a person is an affiliate of a company for such purposes depends upon the circumstances, but affiliates of a company can include certain officers and directors and significant shareholders. Home Retail Group Shareholders who believe they may be affiliates for the purposes of the US Securities Act should consult their own legal advisers prior to any resale of New Sainsbury's Shares received under the Scheme.

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

#### *Other overseas securities laws*

Unless otherwise determined by Sainsbury's or required by the Takeover Code, and permitted by applicable law and regulation, the Acquisition will not be made available, directly or indirectly, in, into or from a jurisdiction where to do so would violate the laws in that jurisdiction and no person may vote in favour of the Acquisition by any such use, means, instrumentality or form within any jurisdiction if to do so would constitute a violation of the laws of that jurisdiction.

Accordingly, unless otherwise determined by Sainsbury's or Home Retail Group plc or required by the Takeover Code and permitted by applicable law and regulation, copies of this document and all documents relating to the Acquisition are not being, and must not be, directly or indirectly, mailed or otherwise forwarded, distributed or sent in, into or from a jurisdiction where to do so would violate the laws in that jurisdiction, and persons receiving this document and all documents relating to the Acquisition (including custodians, nominees and trustees) must not mail or otherwise distribute or send them in, into or from such jurisdictions where to do so would violate the laws in that jurisdiction. Any person (including, without limitation, any custodian, nominee and trustee) who would, or otherwise intends to, or who may have a contractual or legal obligation to, forward this announcement and/or the Scheme Document and/or any other related document to any jurisdiction outside the UK should inform themselves of, and observe, any applicable legal or regulatory requirements of their jurisdiction.

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

#### **28. Action to be taken**

You will find enclosed with this document\*:

*All Home Retail Group Shareholders:*

- a blue Form of Proxy for use at the Court Meeting;
- a yellow Form of Proxy for use at the General Meeting; and
- a pre-paid envelope.

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\* If you have previously elected or been deemed to consent to receive documents and information from Home Retail Group plc by means of Home Retail Group plc's website, you will not receive a hard copy of this document but will receive a separate notification in accordance with your prescribed method. If you have not received the correct documents please contact the Shareholder Helpline on the telephone number set out on page 4 of this document.

*All Home Retail Group Shareholders other than any with a registered address in, or who are a citizen, resident or national of, a Restricted Jurisdiction and those holding Home Retail Group Shares in uncertificated form (that is, in CREST)<sup>†</sup>:*

- a green Form of Election for use in connection with the Mix and Match Facility; and
- a pre-paid envelope (marked with a green flash) for use in the UK in connection with the Form of Election.

#### *Forms of Proxy*

**Whether or not you intend to attend the Court Meeting or the General Meeting, you are requested to complete and sign the enclosed Forms of Proxy and return them in accordance with the instructions printed on them. Completed Forms of Proxy should be returned, if posted in the UK, in the pre-paid envelope provided, or by hand (during normal business hours) or courier only to the Company's registrars, Capita Asset Services, at The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible and, in any event, so as to be received no later than 11.00 a.m. on 25 July 2016 in the case of the Court Meeting and 11.10 a.m. on 25 July 2016 in the case of the General Meeting.**

If the blue Form of Proxy for use at the Court Meeting is not lodged by such time, it may be handed to a representative of Capita at the venue of the Court Meeting or to the Chairman of the Court Meeting before the start of the Court Meeting. However, in the case of the yellow Form of Proxy for use at the General Meeting, it will be invalid unless it is lodged with the Company's registrars, Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to be received no later than 11.10 a.m. on 25 July 2016. The completion and return of the Forms of Proxy will not prevent you from attending and voting in person at either the Court Meeting or the General Meeting, or at any adjournment thereof, if you so wish and are so entitled.

If you hold your Home Retail Group Shares in uncertificated form (that is, in CREST) you may vote using the CREST proxy voting service in accordance with the procedures set out in the CREST Manual (please also refer to the accompanying notes for the Notice of General Meeting set out at the end of this document).

Home Retail Group Shareholders who prefer to register the appointment of their proxy electronically via the internet can do so through the Capita website at <https://www.homeretailgroup-shares.com/> using your investor code and following the online instructions. Further details in relation to electronic appointment of proxies are set out on page 11 of this document.

Proxies submitted via CREST (under CREST ID RA10) or electronically through the Capita website must be received by Capita not later than 11.00 a.m. on 25 July 2016 in the case of the Court Meeting and 11.10 a.m. on 25 July 2016 in the case of the General Meeting (or, in the case of an adjourned meeting, not less than 48 hours prior to the time and date set for the adjourned meeting).

Notices convening the Court Meeting and the General Meeting are set out in Part X and Part XI of this document, respectively.

#### *Form of Election*

Home Retail Group Shareholders who wish to make a Mix and Match Election to vary the proportions of cash consideration and New Sainsbury's Shares they receive, subject to elections by other Home Retail Group Shareholders, should complete the Form of Election in accordance with the instructions printed thereon.

If you hold Home Retail Group Shares (which, pursuant to the Scheme, will be cancelled in exchange for Newco Shares) in certificated form and you wish to make a Mix and Match Election, you should complete and return the enclosed Form of Election so as to reach Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU using the pre-paid envelope (marked with a green flash) provided for use only in the UK. Instructions on how to complete the Form of Election are printed thereon.

If you hold Home Retail Group Shares (which, pursuant to the Scheme, will be cancelled in exchange for Newco Shares) in uncertificated form and you wish to make a Mix and Match Election, you must submit

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<sup>†</sup> If you hold Home Retail Group Shares in uncertificated form (that is, in CREST) and you wish to receive a hard copy of the Form of Election, please contact the Shareholder Helpline on the telephone number set out on page 4 of this document.

your election electronically by taking (or procuring to be taken) the actions set out in Part VII of this document to transfer the Newco Shares in respect of which you wish to make a Mix and Match Election to an escrow balance, using an Electronic Election specifying Capita (in its capacity as a CREST participant under the ID RA10) as the escrow agent. If you wish to make a Mix and Match Election by completing a Form of Election, you must first rematerialise your Home Retail Group Shares by completing a CREST stock withdrawal form and you may request a Form of Election by contacting the Shareholder Helpline on the telephone number set out on page 4 of this document.

**The Election Return Time (the last time for lodging your Form of Election or making your Electronic Election) is 1.00 p.m. on 30 August 2016 as set out in the expected timetable of principal events on pages 6 and 7 of this document.**

**Details on how Home Retail Group Shareholders can make a Mix and Match Election are set out in Part VII of this document.**

Home Retail Group Shareholders who do not wish to make a Mix and Match Election are not required to return the Form of Election or make an Electronic Election.

#### ***Home Retail Group ADR holders and Overseas Shareholders***

The Mix and Match Facility has not been extended to holders of Home Retail Group ADRs or those Home Retail Group Shareholders with a registered address in, or who are a citizen, resident or national of, a Restricted Jurisdiction, and no Form of Election will be sent to them. The availability of the Mix and Match Facility to other Overseas Shareholders may be limited. Further details are set out in paragraph 27 of this Part II.

**If you are a holder of Home Retail Group ADRs or are a Home Retail Group Shareholder with a registered address in, or are a citizen, resident or national of, a Restricted Jurisdiction, you will not be sent a Form of Election and will not be entitled to participate in the Mix and Match Facility.**

#### **29. Helpline**

If you have any questions relating to this document or the completion and return of the Forms of Proxy or the Form of Election, please call the Shareholder Helpline between 9.00 a.m. and 5.30 p.m. (London time) Monday to Friday (except UK public holidays) on +44 (0) 371 664 0437. Calls will be charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Please note that the Shareholder Helpline operators cannot provide advice on the merits of the Scheme or the Acquisition or give financial, tax, investment or legal advice.

#### **30. Further information**

The terms of the Scheme are set out in full in Part VIII of this document. Your attention is also drawn to the further information contained in this document and, in particular, to Part III (*Conditions to the Scheme and the Acquisition*), Part IV (*Financial and Ratings Information*), Part V (*Mandatory transfer provisions of the Newco Articles*) and Part VI (*Additional Information*) of this document, which form part of this Explanatory Statement, and to the Sainsbury's Prospectus.

Yours faithfully

for and on behalf of  
Bank of America Merrill Lynch

Jonathan Bewes  
*Managing Director*

and

Geoff Iles  
*Managing Director*

### **PART III**

#### **CONDITIONS TO THE SCHEME AND THE ACQUISITION**

Each Condition shall be regarded as a separate Condition (as the case may be) and shall not be limited by reference to any other Condition.

#### **1 Conditions of the Acquisition**

- (a) The Acquisition will be conditional upon the Scheme and the Newco Reduction of Capital becoming unconditional and Effective, and all other Conditions being fulfilled or (if capable of waiver) waived, subject to the Takeover Code, by no later than 11.59 p.m. on the Long Stop Date;

#### **Scheme approval**

- (b) The Scheme will be conditional upon:
  - (i) (I) the approval by a majority in number of Home Retail Group Shareholders who are on the register of members of Home Retail Group plc at the Voting Record Time, present and voting, whether in person or by proxy, at the Court Meeting and at any separate class meeting which may be required (or any adjournment thereof), and who represent not less than 75 per cent. in value of the Home Retail Group Shares voted by such Home Retail Group Shareholders, and (II) such Court Meeting (or any adjournment thereof) being held on or before 18 August 2016 (or such later date as Sainsbury's and Home Retail Group plc may agree and the Court may allow);
  - (ii) (I) all resolutions required to approve and implement the Scheme and the Acquisition and to approve certain related matters being duly passed by the requisite majorities at the General Meeting (or any adjournment thereof), and (II) the General Meeting (or any adjournment thereof) being held on or before 18 August 2016 (or such later date as Sainsbury's and Home Retail Group plc may agree); and
  - (iii) (I) the sanction of the Scheme by the Court (with or without modification (but subject to such modification being acceptable to Sainsbury's and Home Retail Group plc)) and the delivery of the copy of the Scheme Court Order to the Registrar of Companies, and (II) the Court hearing to sanction the Scheme being held on or before 22 September 2016 (or such later date as Sainsbury's and Home Retail Group plc may agree and the Court may allow);

#### **Newco Reduction of Capital**

- (c) (I) the confirmation of the Newco Reduction of Capital by the Court and the copy of the Reduction Court Order having been delivered to and registered by the Registrar of Companies, and (II) the Court hearing to confirm the Newco Reduction of Capital being held on or before 24 September 2016 (or such later date as Sainsbury's and Home Retail Group plc may agree and the Court may allow).

In addition, Home Retail Group plc and Sainsbury's have agreed that, subject to the requirements of the Panel in accordance with the Takeover Code, the Acquisition will also be conditional upon, and accordingly the necessary actions to make the Scheme Effective will only be taken on, the satisfaction or, where relevant, waiver of the following Conditions:

#### **Admission of New Sainsbury's Shares**

- (d) (I) the FCA having acknowledged to Sainsbury's or its agent (and such acknowledgement not having been withdrawn) that the application for the admission of the New Sainsbury's Shares to the Official List with a premium listing has been approved and (after satisfaction of any conditions to which such approval is expressed to be subject ("**listing conditions**")) admission will become effective as soon as a dealing notice has been issued by the FCA and any listing conditions have been satisfied, and (II) the London Stock Exchange having acknowledged to Sainsbury's or its agent (and such acknowledgement not having been withdrawn) that the New Sainsbury's Shares will be admitted to trading;

#### **Regulatory conditions**

- (e) the FCA giving notice in writing pursuant to section 189(4)(a) of FSMA, in terms reasonably satisfactory to Sainsbury's, of its approval (or being treated as having given such approval under section 189(6) of FSMA) in respect of each person (whether or not a member of the Wider Sainsbury's Group) who will acquire control or (if applicable) increase control over (as defined in



sections 181 and 182 of FSMA) any member of the Wider Home Retail Control Group which is (or shall be as at Completion) a UK authorised person (as defined in section 191G(1) of FSMA), and which in either case would result from or in connection with or is contemplated by the implementation of the Scheme or the Acquisition and the FCA not having cancelled or varied, and not having notified (or intimated that it may notify) any proposal to cancel or vary, any permission (within the meaning of FSMA) held by any such authorised person at the date of the Original Announcement;

- (f) the GFSC either giving notice in writing pursuant to The Insurance Business (Bailiwick of Guernsey) Law, 2002 (the “**Insurance Law**”), in terms reasonably satisfactory to Sainsbury’s, of no objection or being deemed to have given such no objection pursuant to the Insurance Law, as a result of or in connection with or as contemplated by the implementation of the Scheme or the Acquisition in respect of any member of the Wider Home Retail Control Group which is (or shall be as at Completion) a GFSC licensed entity, and the GFSC not having cancelled, varied or imposed conditions on, and not having notified (or intimated that it may notify) any proposal to cancel, vary or impose conditions on, the terms of any licence held by any such GFSC licensed entity at the date of the Original Announcement;

#### **Merger control**

- (g) the CMA deciding not to make a Phase 2 CMA Reference in respect of the Acquisition;

#### **Other Third Party clearances**

- (h) other than in respect of Conditions 1(e) to 1(g), no central bank, government or governmental, quasi-governmental, supranational, statutory, regulatory, environmental, administrative, fiscal or investigative body, court, trade agency, association, institution, environmental body, employee representative body or any other body or person whatsoever in any jurisdiction (each a “**Third Party**”) having given notice of a decision to take, institute, implement or threaten any action, proceeding, suit, investigation, inquiry or reference, or having required any action to be taken or otherwise having done anything or having enacted, made or proposed any statute, regulation, decision, order or change to published practice and there not continuing to be outstanding any statute, regulation, decision or order which would or might reasonably be expected to:
  - (i) make the Acquisition, its implementation or the acquisition or proposed acquisition of any shares or other securities in, or control or management of, any member of the Wider Home Retail Group by any member of the Wider Sainsbury’s Group void, illegal and/or unenforceable under the laws of any relevant jurisdiction, or otherwise directly or indirectly prevent, prohibit, or materially restrain, restrict, impede, challenge, delay or otherwise interfere with the implementation of, or impose additional material conditions or obligations with respect to, the Acquisition or the acquisition of any shares or other securities in, or control or management of, any member of the Wider Home Retail Group by any member of the Wider Sainsbury’s Group or require amendment of the Acquisition;
  - (ii) require, prevent or delay the divestiture or alter the terms envisaged for such divestiture by any member of the Wider Sainsbury’s Group or by any member of the Wider Home Retail Group of all or any part of their businesses, assets or property or impose any limitation on the ability of all or any of them to conduct their businesses (or any part thereof) or to own, control or manage any of their assets or properties (or any part thereof) in each case to an extent which is material in the context of the Wider Home Retail Group taken as a whole or the Wider Sainsbury’s Group taken as a whole or in the context of the Acquisition (as the case may be);
  - (iii) impose any material limitation on, or result in a material delay in, the ability of any member of the Wider Sainsbury’s Group directly or indirectly to acquire or hold or to exercise effectively all or any rights of ownership in respect of shares or other securities in Home Retail Group plc (or any member of the Wider Home Retail Group) or on the ability of any member of the Wider Home Retail Group or any member of the Wider Sainsbury’s Group directly or indirectly to hold or exercise effectively any rights of ownership in respect of shares or other securities (or the equivalent) in, or to exercise management control over, any member of the Wider Home Retail Group in each case to an extent which is material in the context of the Wider Home Retail Group taken as a whole or the Wider Sainsbury’s Group taken as a whole or in the context of the Acquisition (as the case may be);

- (iv) other than pursuant to the implementation of the Acquisition, require any member of the Wider Sainsbury's Group or the Wider Home Retail Group to acquire or offer to acquire any shares, other securities (or the equivalent) or interest in any member of the Wider Home Retail Group or any asset owned by any third party which is material in the context of the Wider Home Retail Group or the Wider Sainsbury's Group, in either case taken as a whole or in the context of the Acquisition;
- (v) require, prevent or delay a divestiture by any member of the Wider Sainsbury's Group of any shares or other securities (or the equivalent) in any member of the Wider Home Retail Group to an extent which is material in the context of the Wider Home Retail Group or the Wider Sainsbury's Group, in either case taken as a whole or in the context of the Acquisition;
- (vi) result in any member of the Wider Home Retail Group ceasing to be able to carry on business under any name under which it presently carries on business to an extent which is material in the context of the Wider Home Retail Group taken as a whole or in the context of the Acquisition;
- (vii) impose any limitation on the ability of any member of the Wider Sainsbury's Group or any member of the Wider Home Retail Group to conduct, integrate or co-ordinate all or any part of their respective businesses with all or any part of the business of any other member of the Wider Sainsbury's Group and/or the Wider Home Retail Group in each case in a manner which is materially adverse to the Wider Sainsbury's Group taken as a whole and/or the Wider Home Retail Group taken as a whole or in the context of the Acquisition; or
- (viii) except as Fairly Disclosed, otherwise affect the business, assets, value, profits, prospects or operational performance of any member of the Wider Home Retail Group or any member of the Wider Sainsbury's Group in each case in a manner which is adverse to and material in the context of the Wider Home Retail Group taken as a whole or of the obligations of any member of the Wider Sainsbury's Group in connection with the financing of the Acquisition or in the context of the Acquisition,

and all applicable waiting and other time periods (including any extensions thereof) during which any such Third Party could decide to take, institute, implement or threaten any such action, proceeding, suit, investigation, inquiry or reference or take any other step under the laws of any jurisdiction in respect of the Acquisition or proposed acquisition of any Home Retail Group Shares or otherwise intervene having expired, lapsed or been terminated;

- (i) no material undertakings or assurances being sought from any member of the Wider Sainsbury's Group or any member of the Wider Home Retail Group by the Secretary of State or any other Third Party, except on terms reasonably satisfactory to Sainsbury's;
- (j) other than in respect of Conditions 1(e) to 1(g), all material notifications, filings or applications which are necessary or appropriate having been made in connection with the Acquisition and all necessary waiting and other time periods (including any extensions thereof) under any applicable legislation or regulation of any jurisdiction having expired, lapsed or been terminated (as appropriate) and all statutory and regulatory obligations in any jurisdiction having been complied with and all Authorisations which are necessary or appropriate in any jurisdiction for or in respect of the Acquisition or the proposed acquisition of any shares or other securities in, or control of, Home Retail Group plc by any member of the Wider Sainsbury's Group having been obtained in terms and in a form reasonably satisfactory to Sainsbury's from all appropriate Third Parties or (without prejudice to the generality of the foregoing) from any person or bodies with whom any member of the Wider Home Retail Group or the Wider Sainsbury's Group has entered into contractual arrangements and all such Authorisations which are necessary or appropriate to carry on the business of any member of the Wider Home Retail Group in any jurisdiction having been obtained in each case where the direct consequence of a failure to make such notification or filing or to wait for the expiry, lapse or termination of any such waiting or other time period or to comply with such obligation or obtain such Authorisation would be unlawful in any relevant jurisdiction or have a material adverse effect on the Wider Home Retail Group or the Wider Sainsbury's Group in each case taken as a whole or the ability of Sainsbury's to implement the Acquisition and all such Authorisations remaining in full force and effect at the time at which the Acquisition becomes otherwise unconditional in all respects and there being no notice or intimation of an intention to revoke, suspend, restrict, modify or not to renew such Authorisations;

- (k) no temporary restraining order, preliminary or permanent injunction, preliminary or permanent injunction, or other order threatened or issued and being in effect by a court or other Third Party which has the effect of making the Acquisition or any acquisition or proposed acquisition of any shares or other securities or control or management of, any member of the Wider Home Retail Group by any member of the Wider Sainsbury's Group, or the implementation of either of them, void, voidable, illegal and/or unenforceable under the laws of any relevant jurisdiction, or otherwise directly or indirectly prohibiting, preventing, restraining, restricting, delaying or otherwise interfering with the consummation or the approval of the Acquisition or any matter arising from the proposed acquisition of any shares or other securities in, or control or management of, any member of the Wider Home Retail Group by any member of the Wider Sainsbury's Group, in each case in a manner which is adverse to and material in the context of the Acquisition;

**Confirmation of absence of adverse circumstances**

- (l) except as Fairly Disclosed, there being no provision of any arrangement, agreement, licence, permit, franchise, lease or other instrument to which any member of the Wider Home Retail Group is a party or by or to which any such member or any of its assets is or may be bound, entitled or subject or any event or circumstance which, as a consequence of the Acquisition or the proposed acquisition by any member of the Wider Sainsbury's Group of any shares or other securities in Home Retail Group plc or because of a change in the control or management of any member of the Wider Home Retail Group or otherwise, would or might reasonably be expected to result in, in each case to an extent which is material in the context of the Wider Home Retail Group taken as a whole or in the context of the Acquisition or to the obligations of any member of the Wider Sainsbury's Group in connection with the financing of the Acquisition:
- (i) any monies borrowed by, or any other indebtedness, actual or contingent of, or any grant available to, any member of the Wider Home Retail Group being or becoming repayable, or capable of being declared repayable, immediately or prior to its or their stated maturity date or repayment date, or the ability of any such member to borrow monies or incur any indebtedness being withdrawn or inhibited or being capable of becoming or being withdrawn or inhibited;
  - (ii) the rights, liabilities, obligations, interests or business of any member of the Wider Home Retail Group or any member of the Wider Sainsbury's Group under any such arrangement, agreement, licence, permit, lease or instrument or the interests or business of any member of the Wider Home Retail Group or any member of the Wider Sainsbury's Group in or with any other firm or company or body or person (or any agreement or arrangement relating to any such business or interests) being or likely to become terminated or adversely modified or affected or any onerous obligation or liability arising or any adverse action being taken or arising thereunder;
  - (iii) any member of the Wider Home Retail Group ceasing to be able to carry on business under any name under which it presently carries on business;
  - (iv) any assets or interests of, or any asset the use of which is enjoyed by, any member of the Wider Home Retail Group being or falling to be disposed of or charged or any right arising under which any such asset or interest could be required to be disposed of or charged or could cease to be available to any member of the Wider Home Retail Group otherwise than in the ordinary course of business;
  - (v) the creation or enforcement of any mortgage, charge or other security interest over the whole or any part of the business, property or assets of any member of the Wider Home Retail Group or any such mortgage, charge or other security interest (whenever created, arising or having arisen), becoming enforceable;
  - (vi) the business, assets, value, financial or trading position, profits, prospects or operational performance of any member of the Wider Home Retail Group being prejudiced or adversely affected;
  - (vii) the creation or acceleration of any liability (actual or contingent) by any member of the Wider Home Retail Group; or
  - (viii) any liability of any member of the Wider Home Retail Group to make any severance, termination, bonus or other payment to any of its directors or other officers;

**No material transactions, claims or changes in the conduct of the business of the Home Retail Group**

(m) since 28 February 2015 and except as Fairly Disclosed, no member of the Wider Home Retail Group having:

- (i) save as pursuant to the Scheme or between Home Retail Group plc and its wholly-owned subsidiaries or between such wholly-owned subsidiaries and save for the issue or transfer out of treasury of Home Retail Group Shares or Newco Shares on the exercise of options or vesting of awards granted before the date of the Original Announcement under the Home Retail Group Share Plans in the ordinary course, issued or agreed to issue or authorised or proposed or announced its intention to authorise or propose the issue of additional shares of any class, or securities or securities convertible into, or exchangeable for, or rights, warrants or options to subscribe for or acquire, any such shares or convertible securities or transferred or sold or agreed to transfer or sell or authorised or proposed the transfer or sale of Home Retail Group Shares or Newco Shares out of treasury;
- (ii) recommended, declared, paid or made or proposed to recommend, declare, pay or make any bonus issue, dividend or other distribution (whether payable in cash or otherwise) other than to Home Retail Group plc (and with effect from the Scheme becoming Effective, Newco) or one of its wholly-owned subsidiaries;
- (iii) save as pursuant to the Scheme or between Home Retail Group plc and its wholly-owned subsidiaries or between such wholly-owned subsidiaries, merged with (by statutory merger or otherwise) or demerged from or acquired any body corporate, partnership or business or acquired or disposed of, or, other than in the ordinary course of business, transferred, mortgaged or charged or created any security interest over, any assets or any right, title or interest in any asset (including shares and trade investments) or authorised, proposed or announced any intention to do so;
- (iv) save as between Home Retail Group plc and its wholly-owned subsidiaries or between such wholly-owned subsidiaries, made, authorised, proposed or announced an intention to propose any change in its loan capital;
- (v) issued, authorised or proposed or announced an intention to authorise or propose the issue of, or made any change in or to the terms of, any debentures or (save in the ordinary course of business and save as between Home Retail Group plc and its wholly-owned subsidiaries or between such wholly-owned subsidiaries) incurred or increased any indebtedness or become subject to any contingent liability to an extent which is material in the context of the Wider Home Retail Group or in the context of the Acquisition;
- (vi) entered into, varied, authorised or proposed entry into or variation of, or announced its intention to enter into or vary, any material contract, transaction, arrangement or commitment (whether in respect of capital expenditure or otherwise) (otherwise than in the ordinary course of business) which is of a long-term, unusual or onerous nature, or which involves or could reasonably be expected to involve an obligation of a nature or magnitude which is, in any such case, material in the context of the Wider Home Retail Group or in the context of the Acquisition, or which is or is reasonably likely to be restrictive on the business of any member of the Wider Home Retail Group or the Wider Sainsbury's Group to an extent which is or is likely to be material to the Wider Home Retail Group or the Wider Sainsbury's Group in each case taken as a whole or in the context of the Acquisition;
- (vii) entered into any licence or other disposal of intellectual property rights of any member of the Wider Home Retail Group which are material in the context of the Wider Home Retail Group and outside the normal course of business;
- (viii) entered into, varied, authorised or proposed entry into or variation of, or announced its intention to enter into or vary the terms of or made any offer (which remains open for acceptance) to enter into or vary the terms of, any contract, commitment, arrangement or any service agreement with any director or senior executive of the Wider Home Retail Group to an extent which is material in the context of the Wider Home Retail Group or in the context of the Acquisition save for salary increases, bonuses or variations of terms in the ordinary course;
- (ix) proposed, agreed to provide or modified the terms of any share option scheme, incentive scheme, or other benefit relating to the employment or termination of employment of any

employee of the Wider Home Retail Group which, taken as a whole, are material in the context of the Wider Home Retail Group taken as a whole or in the context of the Acquisition;

- (x) other than as provided for in the agreement entered into on 17 March 2016 by the trustee of the Home Retail Group Pension Scheme and Sainsbury's in relation to the future funding of that scheme following Completion, taken or having procured the trustees of the relevant pension scheme to take, or any such trustees having taken any action, to (I) propose, make or agree to any significant change to: (a) the terms of the trust deeds, rules, policy or other governing documents constituting any pension scheme or other retirement or death benefit arrangement established for the directors, former directors, employees or former employees of any entity in the Wider Home Retail Group or their dependants (a "**Relevant Pension Plan**"); (b) the basis on which benefits accrue, pensions which are payable or the persons entitled to accrue or be paid benefits, under any Relevant Pension Plan; (c) the basis on which the liabilities of any Relevant Pension Plan are funded or valued; (d) the manner in which the assets of any Relevant Pension Plan are invested; (e) the basis or rate of employer contribution to a Relevant Pension Plan; or (II) enter into or propose to enter into one or more bulk annuity contracts in relation to any Relevant Pension Plan; or (III) carry out any act: (a) which would or could reasonably be expected to lead to the commencement of the winding-up of any Relevant Pension Plan; (b) which would or might create a material debt owed by an employer to any Relevant Pension Plan; (c) which would or might accelerate any obligation on any employer to fund or pay additional contributions to any Relevant Pension Plan; or (d) which would or might give rise directly or indirectly to a liability in respect of a Relevant Pension Plan arising out of the operation of sections 38 to 56 inclusive of the Pensions Act 2004 in relation to the scheme;
- (xi) changed the trustee or trustee directors or other fiduciary of any Relevant Pension Plan;
- (xii) entered into, implemented or effected, or authorised, proposed or announced its intention to implement or effect, any joint venture, asset or profit sharing arrangement, partnership, composition, assignment, reconstruction, amalgamation, commitment, scheme or other transaction or arrangement (other than the Acquisition) which is material in the context of the Wider Home Retail Group taken as a whole or in the context of the Acquisition;
- (xiii) purchased, redeemed or repaid or announced any proposal to purchase, redeem or repay any of its own shares or other securities or reduced or, save in respect of the matters mentioned in sub-paragraph (i) above, made any other change to any part of its share capital;
- (xiv) waived, compromised or settled any claim otherwise than in the ordinary course of business which is material in the context of the Wider Home Retail Group taken as a whole or in the context of the Acquisition;
- (xv) other than pursuant to the Scheme, made any material alteration to its articles of association or other constitutional documents;
- (xvi) taken or proposed any steps, corporate action or had any legal proceedings instituted or threatened against it in relation to the suspension of payments, a moratorium of any indebtedness, its winding-up (voluntary or otherwise), dissolution, reorganisation or for the appointment of any administrator, receiver, manager, administrative receiver, trustee or similar officer of all or any of its assets or revenues or any analogous proceedings in any jurisdiction or appointed any analogous person in any jurisdiction or had any such person appointed;
- (xvii) been unable, or admitted in writing that it is unable, to pay its debts or commenced negotiations with one or more of its creditors with a view to rescheduling or restructuring any of its indebtedness, or having stopped or suspended (or threatened to stop or suspend) payment of its debts generally or ceased or threatened to cease carrying on all or a substantial part of its business;
- (xviii) entered into any contract, commitment, agreement or arrangement otherwise than in the ordinary course of business or passed any resolution or made any offer (which remains open for acceptance) with respect to or announced an intention to, or to propose to, effect any of the transactions, matters or events referred to in this Condition;
- (xix) terminated or varied the terms of any agreement or arrangement between any member of the Wider Home Retail Group and any other person in a manner which would or might be



expected to have a material adverse effect on the financial position of the Wider Home Retail Group taken as a whole; or

- (xx) having taken (or agreed or proposed to take) any action which requires, or would require, the consent of the Panel or the approval of Home Retail Group Shareholders in general meeting in accordance with, or as contemplated by, Rule 21.1 of the Takeover Code;

**No material adverse change**

(n) since 28 February 2015 and except as Fairly Disclosed:

- (i) there having been no adverse change and no circumstance having arisen which would be expected to result in any adverse change or deterioration in the business, assets, value, financial or trading position, profits, prospects or operational performance of any member of the Wider Home Retail Group to an extent which is material to the Wider Home Retail Group taken as a whole or in the context of the Acquisition or in the context of the obligations of any member of the Wider Sainsbury's Group in connection with the financing of the Acquisition;
- (ii) no litigation, arbitration proceedings, prosecution or other legal proceedings including, without limitation, with regard to intellectual property rights used by the Wider Home Retail Group having been threatened, announced or instituted by or against or remaining outstanding against any member of the Wider Home Retail Group or to which any member of the Wider Home Retail Group is or may become a party (whether as claimant or defendant or otherwise) and no inquiry, review, investigation or enforcement proceedings by, or complaint or reference to, any Third Party against or in respect of any member of the Wider Home Retail Group having been threatened, announced or instituted by or against, or remaining outstanding in respect of, any member of the Wider Home Retail Group which, in any such case, might reasonably be expected to have a material adverse effect on the Wider Home Retail Group taken as a whole or in the context of the Acquisition;
- (iii) no contingent or other liability having arisen, increased or become apparent which might be likely adversely to affect the business, assets, financial or trading position, profits, prospects or operational performance of any member of the Wider Home Retail Group to an extent which is material to the Wider Home Retail Group taken as a whole or in the context of the Acquisition; and
- (iv) no steps having been taken and no omissions having been made which are likely to result in the withdrawal, cancellation, termination or modification of any licence held by any member of the Wider Home Retail Group, which is necessary for the proper carrying on of its business and the withdrawal, cancellation, termination or modification of which is material and likely to have a material adverse effect on the Wider Home Retail Group taken as a whole or in the context of the Acquisition;

(o) since 28 February 2015 and except as Fairly Disclosed, Sainsbury's not having discovered:

- (i) that any financial, business or other information concerning the Wider Home Retail Group publicly announced or disclosed to any member of the Wider Sainsbury's Group at any time by or on behalf of any member of the Wider Home Retail Group or to any of their advisers is misleading, contains a misrepresentation of fact or omits to state a fact necessary to make that information not misleading and which is, in any case, adverse to and material in the context of the Wider Home Retail Group taken as a whole or the Acquisition;
- (ii) that any member of the Wider Home Retail Group is subject to any liability, contingent or otherwise, and which is adverse to and material in the context of the Wider Home Retail Group or the Acquisition; or
- (iii) any information which affects the import of any information disclosed to Sainsbury's at any time by or on behalf of any member of the Wider Home Retail Group which is material in the context of the Wider Home Retail Group or in the context of the Acquisition;

## **Environmental liabilities**

(p) except as Fairly Disclosed, Sainsbury's not having discovered that:

- (i) any past or present member of the Wider Home Retail Group has not complied with any applicable legislation or regulations, notices or other requirements of any jurisdiction or any Third Party or any Authorisations relating to the use, treatment, storage, carriage, disposal, discharge, spillage, release, leak or emission of any waste or hazardous substance or greenhouse gas, or any substance likely to impair the environment (including property) or harm the health of humans, animals or other living organisms or ecosystems or otherwise relating to environmental matters or the health and safety of humans, which non-compliance would be likely to give rise to any liability including any penalty for non-compliance (whether actual or contingent) on the part of any member of the Wider Home Retail Group in each case which is material in the context of the Wider Home Retail Group taken as a whole or in the context of the Acquisition;
- (ii) there has been a disposal, discharge, spillage, accumulation, leak, emission, release or the migration, production, supply, treatment, storage, transport or use of any waste or hazardous substance or greenhouse gas or any substance likely to impair the environment (including any property) or harm human health which (whether or not giving rise to non-compliance with any law or regulation) would be likely to give rise to any liability (whether actual or contingent) on the part of any member of the Wider Home Retail Group in each case which is material in the context of the Wider Home Retail Group taken as a whole or in the context of the Acquisition;
- (iii) there is or is likely to be any obligation or liability (whether actual or contingent) or requirement to make good, remediate, repair, re-instate or clean up any property, asset currently or previously owned, occupied or made use of by any past or present member of the Wider Home Retail Group (or on its behalf), or in which any such member may have or previously have had or be deemed to have had an interest, or other elements of the environment (including any controlled waters) under any environmental legislation, common law, regulation, notice, circular, Authorisation, other legally binding requirement or order of any Third Party or to contribute to the cost thereof or associated therewith or indemnify any person in relation thereto in any such case to an extent which is material in the context of the Wider Home Retail Group taken as a whole or in the context of the Acquisition;
- (iv) circumstances exist (whether as a result of the Acquisition or otherwise):
  - (A) which would be likely to lead to any Third Party instituting; or
  - (B) whereby any member of the Wider Sainsbury's Group or any present or past member of the Wider Home Retail Group would be likely to be required to institute,  
  
an environmental audit or take any other steps which would in any such case be likely to result in any liability (whether actual or contingent) to improve, modify existing or install new plant, machinery or equipment or carry out changes in the processes currently carried out or make good, remediate, repair, reinstate or clean up any land or other asset currently or previously owned, occupied or made use of by any past or present member of the Wider Home Retail Group (or on its behalf) or by any person for which a member of the Wider Home Retail Group is or has been responsible, or in which any such member may have or previously have had or be deemed to have had an interest, which in any case is material in the context of the Wider Home Retail Group taken as a whole or in the context of the Acquisition; or
- (v) circumstances exist whereby a person or class of persons would be likely to have any claim or claims in respect of any product or process of manufacture or materials used therein currently or previously manufactured, sold or carried out by any past or present member of the Wider Home Retail Group which claim or claims would be likely adversely to affect any member of the Wider Home Retail Group and which is material in the context of the Wider Home Retail Group taken as a whole or in the context of the Acquisition;

## **Intellectual property**

- (q) no circumstance having arisen or event having occurred in relation to any intellectual property owned or used by any member of the Wider Home Retail Group which would have a material adverse effect

on the Wider Home Retail Group taken as a whole or is otherwise material in the context of the Acquisition, including:

- (i) any member of the Wider Home Retail Group losing its title to any intellectual property, or any intellectual property owned by the Wider Home Retail Group being revoked, cancelled or declared invalid;
- (ii) any claim being asserted in writing or threatened in writing by any person challenging the ownership of any member of the Wider Home Retail Group to, or the validity or effectiveness of, any of its intellectual property; or
- (iii) any agreement regarding the use of any intellectual property licensed to or by any member of the Wider Home Retail Group being terminated or varied;

#### **Anti-corruption and sanctions**

(r) except as Fairly Disclosed, Sainsbury's not having discovered that:

- (i) any past or present member, director, officer or employee of the Wider Home Retail Group or any person that performs or has performed services for or on behalf of any such company is or has at any time engaged in any activity, practice or conduct (or omitted to take any action) in contravention of the UK Bribery Act 2010, the US Foreign Corrupt Practices Act of 1977, as amended or any other applicable anti-corruption legislation;
- (ii) any past or present member, director, officer or employee of the Wider Home Retail Group or any person that performs or has performed services for or on behalf of any such company for whom the Wider Home Retail Group may be liable or responsible has engaged in any activity or business with, or made any investments in, or made any funds or assets available to, or received any funds or assets from any government, entity or individual covered by any of the economic sanctions administered by the United Nations or the European Union (or any of their respective member states) or the United States Office of Foreign Assets Control or any other governmental or supranational body or authority in any jurisdiction; and

#### **No criminal property**

(s) except as Fairly Disclosed, Sainsbury's not having discovered that any asset of any member of the Wider Home Retail Group constitutes criminal property as defined by section 340(3) of the Proceeds of Crime Act 2002 (but disregarding paragraph (b) of that definition).

## **2 Waiver and invocation of the Conditions**

Subject to the requirements of the Panel, Sainsbury's reserves the right to waive, in whole or in part, all or any of the Conditions except for Conditions 1(b) to 1(d) inclusive, which cannot be waived. Conditions 1(b)(i) and 1(b)(ii) inclusive must be fulfilled by, and Conditions 1(e) to 1(s) inclusive must be fulfilled or (if capable of waiver) waived by, no later than 11.59 p.m. on the date immediately preceding the date of the Court hearing to sanction the Scheme. The Acquisition will lapse unless the Scheme and the Newco Reduction of Capital become unconditional and Effective and all other Conditions are fulfilled or (if capable of waiver) waived by 11.59 p.m. on the Long Stop Date.

Sainsbury's shall be under no obligation to waive (if capable of waiver) or treat as fulfilled any of the Conditions by a date earlier than the latest date specified above for the fulfilment or waiver thereof, notwithstanding that any other Conditions may at any earlier date have been waived or fulfilled and that there are at such earlier date no circumstances indicating that any of such Conditions may not be capable of fulfilment.

If Sainsbury's is required by the Panel to make an offer for Home Retail Group Shares under the provisions of Rule 9 of the Takeover Code, Sainsbury's may make such alterations to the Conditions and further terms of the Acquisition as are necessary to comply with the provisions of that Rule.

## **3 Implementation by way of a Takeover Offer**

Sainsbury's may implement the Acquisition by making, directly or indirectly through a subsidiary or nominee of Sainsbury's, or any member of the Sainsbury's Group, a Takeover Offer for the entire issued and to be issued share capital of Home Retail Group plc not already held by Sainsbury's as an alternative

to the Scheme (with the consent of the Panel and subject to the Co-operation Agreement). In such an event, the Takeover Offer will be implemented on substantially the same terms as set out in the Original Announcement, including an acceptance condition of 90 per cent. of the shares to which such Takeover Offer relates (or such lesser percentage (being more than 50 per cent.) as Sainsbury's may decide with the consent of the Panel), and the Capital Return will be structured in a manner to be determined at such time.

#### **4 Further terms of the Acquisition**

The Acquisition will lapse if there is a Phase 2 CMA Reference before the later of the date of the Court Meeting and the date of the General Meeting. In such event, Home Retail Group plc will not be bound by the terms of the Scheme.

If any dividend or other distribution is announced, declared, made, paid or becomes payable by Home Retail Group plc or Newco in respect of the Home Retail Group Shares or Newco Shares on or after the date of the Original Announcement and prior to the Completion Date, other than or in excess of the Permitted Home Retail Group Payments, Sainsbury's reserves the right to reduce the value of the Sainsbury's Offer Consideration (including, for the avoidance of doubt, by reducing the cash element of the Sainsbury's Offer Consideration and/or adjusting the Exchange Ratio) by the amount of all or part of the dividend or other distribution, or all or part of the amount in excess of the Permitted Home Retail Group Payments, that has been announced, declared, made, paid or become payable. In calculating the amount of any such reduction, the value of New Sainsbury's Shares will be calculated by reference to the Closing Price of Sainsbury's Shares on the last trading day before Sainsbury's announcement of a reduction in the Sainsbury's Offer Consideration. If Sainsbury's exercises such right to reduce the value of the Sainsbury's Offer Consideration by the amount of all or part of any dividend or other distribution that has not been paid, the Home Retail Group Shareholders or Newco Shareholders (as applicable) shall be entitled to receive and retain such dividend or distribution when paid.

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

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

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

The availability of the Acquisition to Home Retail Group Shareholders who are not resident in the UK or who are subject to the laws and/or regulations of another jurisdiction (including the ability of such Home Retail Group Shareholders to vote their Home Retail Group Shares with respect to the Acquisition at the Meetings, or to execute and deliver Forms of Proxy appointing another to vote at the Meetings on their behalf) may be restricted by the laws and/or regulations of those jurisdictions. Therefore any persons who are not resident in the UK or who are subject to the laws and/or regulations of any jurisdiction other than the UK should inform themselves about, and observe, any applicable legal or regulatory requirements.

The New Sainsbury's Shares to be issued pursuant to the Acquisition have not been, and will not be, listed on any stock exchange other than the London Stock Exchange and have not been, and will not be, registered under the US Securities Act or under any laws or with any securities regulatory authority of any state, district or other jurisdiction, of the United States, nor have clearances been, nor will they be, obtained from the securities commission or similar authority of any province or territory of Canada and no prospectus has been, or will be, filed, or registration made, under any securities law of any province or territory of Canada, nor has a prospectus in relation to the New Sainsbury's Shares been, nor will one be, lodged with, or registered by, the Australian Securities and Investments Commission, nor have any steps

been taken, nor will any steps be taken, to enable the New Sainsbury's Shares to be offered in compliance with applicable securities laws of Japan and no regulatory clearances in respect of the New Sainsbury's Shares have been, or will be, applied for in any other jurisdiction. Accordingly, unless an exemption under relevant securities laws is available, the New Sainsbury's Shares are not being, and may not be, offered, sold, resold, delivered or distributed, directly or indirectly, in, into or from the United States or any Restricted Jurisdiction or any resident of any Restricted Jurisdiction. The Newco Shares and the New Sainsbury's Shares to be issued pursuant to the Acquisition are expected to be issued pursuant to the exemption from registration provided by Section 3(a)(10) under the US Securities Act. Neither the SEC nor any US state securities commission has approved or disapproved of the Newco Shares or the New Sainsbury's Shares, or determined if this document is accurate or complete. Any representation to the contrary is a criminal offence.



## PART IV FINANCIAL AND RATINGS INFORMATION

### Part A: Financial information relating to the Home Retail Group

The following sets out financial information in respect of Home Retail Group plc as required by Rule 24.3 of the Takeover Code. The documents referred to below, the contents of which have previously been announced through a Regulatory Information Service, are incorporated into this document by reference pursuant to Rule 24.15 of the Takeover Code:

Financial information	Reference
Audited consolidated accounts for the last two financial years	<p><a href="http://www.homeretailgroup.com/investor-centre/reports-results-and-presentations/">http://www.homeretailgroup.com/investor-centre/reports-results-and-presentations/</a> The audited consolidated accounts of Home Retail Group for the financial year ended 27 February 2016 are set out on pages 63 to 107 (both inclusive) in Home Retail Group's annual report for the financial year ended on 27 February 2016 available from Home Retail Group plc's website (at the link referred to above).</p> <p><a href="http://www.homeretailgroup.com/investor-centre/reports-results-and-presentations/">http://www.homeretailgroup.com/investor-centre/reports-results-and-presentations/</a> The audited consolidated accounts of Home Retail Group for the financial year ended 28 February 2015 are set out on pages 72 to 113 (both inclusive) in Home Retail Group's annual report for the financial year ended on 28 February 2015 available from Home Retail Group plc's website (at the link referred to above).</p>
Home Retail Group Trading Statement	<p><a href="http://www.homeretailgroup.com/investor-centre/reports-results-and-presentations/">http://www.homeretailgroup.com/investor-centre/reports-results-and-presentations/</a> The trading statement for Home Retail Group for the 13 weeks from 28 February 2016 to 28 May 2016 is available from Home Retail Group plc's website (at the link referred to above).</p>

### Part B: Home Retail Group ratings information

There are no current ratings or outlooks publicly accorded to Home Retail Group plc by ratings agencies.

### Part C: Financial information relating to the Sainsbury's Group

The following sets out the financial information in respect of Sainsbury's required by Rule 24.3 of the Takeover Code. The documents referred to below are incorporated into this document by reference pursuant to Rule 24.15 of the Takeover Code:

Financial information	Reference
Audited consolidated accounts for the last two financial years	<p><a href="http://www.j-sainsbury.co.uk/investor-centre/reports/">http://www.j-sainsbury.co.uk/investor-centre/reports/</a> The audited consolidated accounts of Sainsbury's Group for the 52 weeks ended 12 March 2016 are set out on pages 83 to 151 (both inclusive) of Sainsbury's Group's annual report for the 52 weeks ended on 12 March 2016 available from Sainsbury's website (at the link referred to above).</p> <p><a href="http://www.j-sainsbury.co.uk/investor-centre/reports/">http://www.j-sainsbury.co.uk/investor-centre/reports/</a> The audited consolidated accounts of Sainsbury's Group for the 52 weeks ended 14 March 2015 are set out on pages 77 to 141 (both inclusive) of Sainsbury's Group's annual report for the 52 weeks ended on 14 March 2015 available from Sainsbury's website (at the link referred to above).</p>
Sainsbury's Trading Statement	<p><a href="http://www.j-sainsbury.co.uk/investor-centre/reports/">http://www.j-sainsbury.co.uk/investor-centre/reports/</a> The trading statement for Sainsbury's Group for the 12 weeks from 13 March 2016 to 4 June 2016 is available from Sainsbury's website (at the link referred to above).</p>

### Part D: Sainsbury's Group ratings information

There are no current public ratings or outlooks accorded to Sainsbury's by any rating agencies.

### **Part E: Financial information relating to Newco**

Newco was incorporated in England and Wales on 14 April 2016 at the direction of Sainsbury's. The registered office of Newco is 33 Holborn, London EC1N 2HT and its registered number is 10125892. As at the date of this document the issued share capital of Newco was £0.01.

As Newco was incorporated for the purpose of the making and the implementation of the Acquisition, no financial information is available or has been published in respect of Newco. There are no current ratings or outlooks publicly accorded to Newco by rating agencies. Newco has not traded since its date of incorporation, nor has it entered into any obligations, save for obligations relating to the Acquisition.

#### **No incorporation of website information**

Save as expressly referred to herein, neither the content of Home Retail Group's or Sainsbury's websites, nor the content of any website accessible from hyperlinks on Home Retail Group's or Sainsbury's website, is incorporated into, or forms part of, this document.

**PART V**  
**MANDATORY TRANSFER PROVISIONS OF THE NEWCO ARTICLES**

Set out below are the provisions from the Newco Articles which will effect the transfer of the Newco Shares (which will be held by the Home Retail Group Shareholders) to Sainsbury's in consideration for the Sainsbury's Offer Consideration.

**“43. MANDATORY TRANSFER**

43.1 The provisions of this article 43 shall be subject to, and shall come into effect upon, Court confirmation of the Reduction of Capital.

43.2 In this article 43 and in article 44:

43.2.1 “**Attorney**” has the meaning set out in article 43.5;

43.2.2 “**Home Retail Group Shares**” means ordinary shares of 10 pence each in the capital of Home Retail Group plc;

43.2.3 “**Mix and Match Facility**” means the facility provided for in clause 5 of the Scheme;

43.2.4 “**New Member**” has the meaning set out in article 43.3;

43.2.5 “**New Shares**” means Ordinary Shares, issued to the Scheme Shareholders pursuant to the Scheme;

43.2.6 “**Reduction Effective Time**” means the time at which the Registrar of Companies registers the Court order confirming the Reduction of Capital;

43.2.7 “**Reduction of Capital**” means the proposed court-confirmed reduction of capital of the Company under Part 17 of the Act, reducing the nominal value of each of the New Shares to £0.01 and returning in aggregate 27.8 pence per New Share to the holders thereof, as contemplated by the Scheme, with the balance being credited to the reserves of the Company;

43.2.8 “**Scheme**” means the proposed scheme of arrangement between Home Retail Group plc and the Scheme Shareholders under Part 26 of the Act, pursuant to which the New Shares will be issued to the Scheme Shareholders in consideration for the Scheme Shares being cancelled and the issue to the Company of Home Retail Group Shares;

43.2.9 “**Scheme Shares**” means the Home Retail Group Shares which are the subject of the Scheme;

43.2.10 “**Scheme Shareholders**” means holders of Scheme Shares;

43.2.11 “**Sainsbury's**” means J Sainsbury plc;

43.2.12 “**Sainsbury's Offer Consideration**” means the consideration of 55 pence in cash and 0.321 Sainsbury's Shares per New Share (subject to any adjustment in accordance with elections under the Mix and Match Facility, if applicable) or to any revised consideration announced by Sainsbury's and contemplated by the Scheme; and

43.2.13 “**Sainsbury's Shares**” means ordinary shares of 28 $\frac{1}{2}$  pence each in the capital of Sainsbury's.

43.3 With immediate effect from the Reduction Effective Time, the New Shares shall be transferred to Sainsbury's and/or its nominee(s) (and Sainsbury's shall be the beneficial holder(s) of the New Shares from the Reduction Effective Time), in consideration for which Sainsbury's shall deliver the Sainsbury's Offer Consideration to each transferor of such New Shares (each a “**New Member**”) in accordance with Article 43.4 and the Scheme, subject to (i) the provisions of Article 43.8 in relation to fractional entitlements; (ii) elections pursuant to the Mix and Match Facility made validly and satisfied in accordance with clause 5 of the Scheme, and (iii) the provisions of clause 6 of the Scheme regarding overseas shareholders, including Restricted Overseas Shareholders (as defined in the Scheme).

43.4 The Sainsbury's Offer Consideration, subject as set out in Article 43.3, shall be delivered to the New Members (i) as soon as reasonably practicable in relation to the issue and allotment and settlement by means of CREST of New Sainsbury's Shares; (ii) and in relation to all of the Sainsbury's Offer Consideration no later than 14 days after the Reduction Effective Time in accordance with the provisions of the Scheme.

- 43.5 The transfer described in article 43.3 above shall be effected by means of a form of transfer or other instrument or instruction of transfer, or by means of CREST, and, to give effect to such transfer, any person may be appointed by Sainsbury's as agent and attorney (the "**Attorney**") for each New Member to transfer their New Shares and the Attorney shall be irrevocably authorised as agent and attorney on behalf of each New Member to execute and deliver as transferor a form of transfer or other instrument or instruction of transfer, or procure the transfer by means of CREST, of such New Shares, and to take such steps as such agent and attorney may, in his or her absolute discretion, think necessary or desirable to effect such transfer, and every form, instrument or instruction of transfer so executed shall be as effective as if it had been executed by the relevant New Member(s).
- 43.6 Sainsbury's and/or its nominee(s) shall acquire any New Shares fully paid up, with full title guarantee, free from all liens, equities, charges, encumbrances, options, rights of pre-emption and any other third party rights and interests of any nature and together with all rights attaching to them as at the Reduction Effective Time or thereafter, including voting rights and entitlement to receive and retain all dividends and other distributions declared, paid or made by the Company on or after the Reduction Effective Time, except that this shall not include the right to participate in the return of capital arising as a result of the Reduction of Capital.
- 43.7 The Sainsbury's Shares allotted and issued to a New Member pursuant to this article 43 shall be credited as fully paid and shall rank equally in all respects with all other fully paid Sainsbury's Shares in issue at that time (other than as regards any dividend or other distribution payable by reference to a record date preceding the Reduction Effective Time).
- 43.8 No fraction of a Sainsbury's Share shall be allotted or issued to a New Member pursuant to this article 43. Any fraction of a Sainsbury's Share to which a New Member would otherwise have become entitled shall be aggregated with the fractional entitlements of any other New Members whose New Shares are being transferred under this article 43 on the same date and sold in the market and the net proceeds of sale (after the deduction of all expenses and commissions incurred in connection with such sale, including any value added tax payable on the proceeds of sale) shall be paid to the New Members entitled thereto in due proportions, provided that fractional cash entitlements shall be rounded down to the nearest whole penny."

## PART VI ADDITIONAL INFORMATION

### 1. Responsibility statements

- (a) The Home Retail Group Directors, whose names are set out in paragraph 2(a) below, each accept responsibility for the information contained in this document other than the information for which responsibility is taken by others pursuant to paragraph 1(b) below, and in particular: (i) paragraph 6 of Part I and paragraph 11 of Part II; (ii) paragraphs 8 and 12 of this Part VI; and (iii) paragraph 4 of Part II and Appendix I. To the best of the knowledge and belief of the Home Retail Group Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they take responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.
- (b) The Sainsbury's Directors, whose names are set out in paragraph 2(b) below, accept responsibility for the information contained in this document relating to the Sainsbury's Group including, but not limited to, the background to and reasons for the Acquisition, information on Sainsbury's future plans for Home Retail Group, its management, employees, locations and pension arrangements and the financial benefits and effects of the Acquisition for Sainsbury's, the Sainsbury's Directors and their respective close relatives and the related trusts, and persons deemed to be acting in concert with Sainsbury's (as such term is defined in the Takeover Code). To the best of the knowledge and belief of the Sainsbury's Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document for which they take responsibility is in accordance with the facts and does not omit anything likely to affect the import of such information.

### 2. The Home Retail Group Directors and the Sainsbury's Directors

- (a) The Home Retail Group Directors and their respective functions are:

<u>Name</u>	<u>Position held</u>
John Coombe . . . . .	Chairman
John Walden . . . . .	Chief Executive
Richard Ashton . . . . .	Chief Financial Officer
Mike Darcey . . . . .	Senior Independent Director
Ian Durant . . . . .	Independent Non-Executive Director
Cath Keers . . . . .	Independent Non-Executive Director
Jacqueline de Rojas . . . . .	Independent Non-Executive Director

Home Retail Group plc's registered office is at 489-499 Avebury Boulevard, Milton Keynes MK9 2NW, United Kingdom and its telephone number is +44 (0) 1908 296 961.

- (b) The Sainsbury's Directors and their respective functions are:

<u>Name</u>	<u>Position held</u>
David Tyler . . . . .	Chairman
Mike Coupe . . . . .	Chief Executive Officer
John Rogers . . . . .	Chief Financial Officer
Matt Brittin . . . . .	Independent Non-Executive Director
Brian Cassin . . . . .	Independent Non-Executive Director
Mary Harris . . . . .	Independent Non-Executive Director
David Keens . . . . .	Independent Non-Executive Director
John McAdam . . . . .	Senior Independent Non-Executive Director
Susan Rice . . . . .	Independent Non-Executive Director
Jean Tomlin . . . . .	Independent Non-Executive Director

Sainsbury's head office is at 33 Holborn, London EC1N 2HT.



### 3. Persons acting in concert

- (a) In addition to Home Retail Group companies and the Home Retail Group Directors and their close relatives, for the purposes of the Takeover Code, the following persons and persons affiliated with them are deemed to be acting in concert with Home Retail Group plc in respect of the Acquisition:

<u>Name</u>	<u>Type of company</u>	<u>Registered office</u>	<u>Relationship with Home Retail Group plc</u>
Bank of America Merrill Lynch . . . . .	Financial Services	2 King Edward Street London EC1A 1HQ	Financial Adviser and Corporate Broker

- (b) In addition to Sainsbury's Group companies and the Sainsbury's Directors and their close relatives, for the purposes of the Takeover Code, the following persons and persons affiliated with them are deemed to be acting in concert with Sainsbury's in respect of the Acquisition:

<u>Name</u>	<u>Type of company</u>	<u>Registered office</u>	<u>Relationship with Sainsbury's</u>
Morgan Stanley . . . . .	Financial Services	25 Cabot Square Canary Wharf London E14 4QA	Sponsor and Financial Adviser
UBS . . . . .	Financial Services	1 Finsbury Avenue London EC2M 2PP	Sponsor and Financial Adviser
Qatar Holding LLC . . .	Investor	8 <sup>th</sup> Floor Qatar Financial Centre Q-Tel Tower Diplomatic Area Street West Bay Doha, Qatar	Shareholder

### 4. Incorporation and activity of Newco

- (a) Newco was incorporated and registered in England and Wales as a private limited company on 14 April 2016 with registered number 10125892 and having its registered office at 33 Holborn, London EC1N 2HT.
- (b) As at the date of this document Newco has one ordinary share of £0.01 in issue, held by Sainsbury's.
- (c) Newco has not traded prior to the date hereof (except for entering into transactions relating to the Scheme or the Acquisition) or entered into any obligations.

### 5. Irrevocable undertakings

Sainsbury's has received irrevocable undertakings from each of the Home Retail Group Directors in respect of 2,145,121 Home Retail Group Shares (representing, in aggregate, approximately 0.26 per cent. of the ordinary share capital of Home Retail Group plc in issue on 1 July 2016, being the latest practicable date prior to the publication of this document):

- (i) to cast (or procure the casting of) all voting rights attaching to such Home Retail Group Shares in favour of the Scheme at the Court Meeting and in favour of the Special Resolution proposed at the General Meeting; and
- (ii) if the Acquisition is structured as a Takeover Offer, to accept or procure the acceptance of such Takeover Offer in respect of all such Home Retail Group Shares.

The numbers of Home Retail Group Shares set out in the table below reflect an increase in the number of Home Retail Group Shares, subject to the irrevocable undertakings announced on 1 April 2016 following the dealings in Home Retail Group Shares set out in paragraph 6(c)(i) below.

The following holders or controllers of Home Retail Group Shares have given irrevocable undertakings to vote in favour of the Scheme at the Court Meeting and in favour of the Special Resolution proposed at the General Meeting:

Name	Number of Home Retail Group Shares	Percentage of existing issued share capital <sup>(1)</sup>
John Coombe . . . . .	10,000	<0.01
John Walden . . . . .	725,658	0.09
Richard Ashton . . . . .	1,227,039	0.15
Mike Darcey . . . . .	63,879	0.01
Ian Durant . . . . .	49,581	0.01
Cath Keers . . . . .	52,562	0.01
Jacqueline de Rojas . . . . .	16,402	<0.01
<b>TOTAL . . . . .</b>	<b>2,145,121</b>	<b>0.26</b>

(1) Percentage calculated based on Home Retail Group plc's issued ordinary share capital on 1 July 2016, being the latest practicable date prior to the publication of this document.

The irrevocable undertakings given by the Home Retail Group Directors will cease to be binding if:

- (i) Sainsbury's announces, with the consent of the Panel, that it does not intend to proceed with the Acquisition and no new, revised or replacement Scheme or Takeover Offer is announced by Sainsbury's in accordance with Rule 2.7 of the Takeover Code; or
- (ii) the Scheme or the Takeover Offer does not become Effective or does not Complete (as applicable), lapses or is withdrawn in accordance with its terms, save in circumstances where the Scheme or the Takeover Offer (as applicable) does not become Effective or does not Complete (as applicable), lapses or is withdrawn and Sainsbury's publicly confirms its election to implement the Acquisition by way of a Scheme (if originally a Takeover Offer) or a Takeover Offer (if originally a Scheme) in each case in accordance with the terms of the Co-operation Agreement.

## 6. Interests and dealings

### (a) Definitions

For the purposes of this paragraph 6 of this Part VI:

**"acting in concert"** with Sainsbury's or Home Retail Group plc, as the case may be, means any such person acting or deemed to be acting in concert with Sainsbury's or Home Retail Group plc, as the case may be, for the purposes of the Takeover Code;

**"a person has an interest"** or is **"interested"** in relevant securities if he has long economic exposure, whether absolute or conditional, to changes in the price of those securities and in particular includes if a person:

- (A) owns them;
- (B) has the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to relevant securities or has general control of them;
- (C) by virtue of any agreement to purchase, option or derivative has the right or option to acquire relevant securities or call for their delivery or is under an obligation to take delivery of them, whether the right, option or obligation is conditional or absolute and whether it is in the money or otherwise; or
- (D) is party to any derivative whose value is determined by reference to their price and which results, or may result, in his or her having a long position in them;

**"arrangement"** includes indemnity or option arrangements, and any agreement or understanding, formal or informal, of whatever nature, relating to relevant securities which may be an inducement to deal or refrain from dealing;

**“dealing”** or **“dealt”** includes:

- (A) acquiring or disposing of relevant securities, of the right (whether conditional or absolute) to exercise or direct the exercise of the voting rights attaching to relevant securities, or of general control of relevant securities;
- (B) taking, granting, acquiring, disposing of, entering into, closing out, terminating, exercising (by either party) or varying an option (including a traded option contract) in respect of any relevant securities;
- (C) subscribing or agreeing to subscribe for relevant securities;
- (D) exercising or converting, whether in respect of new or existing securities, any relevant securities carrying conversion or subscription rights;
- (E) acquiring, disposing of, entering into, closing out, exercising (by either party) any rights under, or varying, a derivative referenced, directly or indirectly, to relevant securities;
- (F) entering into, terminating or varying the terms of any agreement to purchase or sell relevant securities; and
- (G) any other action resulting, or which may result, in an increase or decrease in the number of relevant securities in which a person is interested or in respect of which he has a short position;

**“derivative”** includes any financial product whose value, in whole or in part, is determined, directly or indirectly by reference to the price of an underlying security;

**“disclosure date”** means 1 July 2016, or, to the extent disclosures in this paragraph 6 of Part VI relate to the interests and/or dealings of Morgan Stanley or UBS, 30 June 2016, being the latest practicable date prior to the publication of this document;

**“disclosure period”** means the period commencing on 5 January 2015 (being the date 12 months prior to the commencement of the Offer Period) and ending on the disclosure date;

**“relevant securities”** means:

- (A) Home Retail Group Shares and any other securities of Home Retail Group plc conferring voting rights;
- (B) equity share capital of Home Retail Group plc or, as the context requires, Sainsbury’s;
- (C) securities of Sainsbury’s which carry substantially the same rights as the New Sainsbury’s Shares; or
- (D) securities of Home Retail Group plc or, as the context requires, Sainsbury’s, carrying conversion or subscription rights into any of the foregoing; and

**“short position”** means any short position (whether conditional or absolute and whether in the money or otherwise) including any short position under a derivative, any agreement to sell or any delivery obligation or right to require another person to purchase or take delivery.

(b) Interests in relevant securities in Home Retail Group plc

**Home Retail Group plc**

(i) As at the disclosure date, the interests of the Home Retail Group Directors, close relatives, related trusts and companies in relevant securities in Home Retail Group plc were as follows:

Director	Number of Home Retail Group Shares	Percentage of existing issued share capital
John Coombe <sup>(1)</sup>	160,299	0.02
John Walden <sup>(2)</sup>	725,658	0.09
Richard Ashton <sup>(3)</sup>	1,228,039	0.15
Mike Darcey <sup>(4)</sup>	63,879	0.01
Ian Durant <sup>(5)</sup>	49,581	0.01
Cath Keers <sup>(6)</sup>	52,562	0.01
Jacqueline de Rojas <sup>(7)</sup>	30,253	<0.01

- (1) Of this holding, 10,000 shares are beneficially owned by John Coombe and registered in the name of Equiniti Nominee, 149,799 shares are beneficially owned by Gail Coombe, a close relative of John Coombe, and registered in her name, and 500 shares are held by Victoria Louise Coombe, a close relative of John Coombe.
- (2) All of this holding is beneficially owned by John Walden, 649,983 shares are registered in the name of BBHISL Nominees Limited, 120722 Account, and 75,675 are registered in his name.
- (3) All of this holding is beneficially owned by Richard Ashton and registered in his name, save for 1,000 shares held by Mary Elizabeth Ashton, a close relative of Richard Ashton and 49 shares owned beneficially by Richard Ashton and registered in the name of Capita IRG Trustees Limited, trustee of the Home Retail Group Share Incentive Plan.
- (4) All of this holding is beneficially owned by Mike Darcey and registered in his name.
- (5) All of this holding is beneficially owned by Ian Durant and registered in the name of HSBC Global Custody Nominee (UK) Limited.
- (6) All of this holding is beneficially owned by Cath Keers and registered in her name.
- (7) Of this holding, 16,402 shares are beneficially owned by Jacqueline de Rojas and registered in the name of Jacqueline Andrews, and 13,851 shares are beneficially owned by Roger Andrews, a close relative of Jacqueline de Rojas, and registered in his name.

(ii) As at the disclosure date, the Home Retail Group Directors, members of their immediate families, related trusts and connected persons held the following outstanding options and awards over Home Retail Group Shares under the Home Retail Group Share Plans:

**Directors' share awards: the Home Retail Group UK Tax Qualified Sharesave Plan**

As at the disclosure date, the following options to acquire Home Retail Group Shares had been granted and remained outstanding under the Home Retail Group UK Tax Qualified Sharesave Plan:

Director	Date granted	Number of Shares over which options granted	Exercise price (pence)	Date from which exercisable	Expiry date
Richard Ashton	1 July 2015	6,382	141.0	1 September 2018	1 March 2019
John Walden	3 July 2013	7,258	124.0	1 September 2016	1 March 2017

**Directors' share awards: the Home Retail Group Performance Share Plan ("PSP")**

In addition to the interests noted above, as at the disclosure date, the following awards had been granted and remained outstanding under the PSP:

<u>Director</u>	<u>Date awarded</u>	<u>Number of Shares</u>	<u>Vesting date</u>
John Walden . . . . .	21 May 2014	663,670	21 May 2017
John Walden . . . . .	21 May 2015	779,264	21 May 2018
John Walden . . . . .	19 May 2016	832,461	19 May 2019
Richard Ashton . . . . .	21 May 2014	490,094	21 May 2017
Richard Ashton . . . . .	21 May 2015	575,457	21 May 2018
Richard Ashton . . . . .	19 May 2016	615,271	19 May 2019

**Directors' share options under the Tax Qualified Share Option Plan**

As at the disclosure date, the following options to acquire Home Retail Group Shares had been granted and remained outstanding under the Home Retail Group HMRC tax-qualifying amendment to the PSP:

<u>Director</u>	<u>Date awarded</u>	<u>Number of Shares over which options granted</u>	<u>Exercise price (pence)</u>	<u>Date from which exercisable</u>	<u>Expiry date</u>
John Walden . . . . .	21 May 2015	6,089	169.4	21 May 2018	22 May 2018
John Walden . . . . .	19 May 2016	12,143	162.1	19 May 2019	19 May 2019
Richard Ashton . . . . .	21 May 2014	15,871	189.0	21 May 2017	23 May 2017

Note:

These are HMRC tax qualified options linked to the PSP award. If these options are exercised, the PSP award described in the paragraph headed "Directors' share awards: the Home Retail Group Performance Share Plan (PSP)" is scaled back by the same gross amount.

**Directors' share awards: the Home Retail Group Deferred Bonus Plan**

In addition to the interests noted above, as at the disclosure date, the following awards had been granted and remained outstanding under the Home Retail Group Deferred Bonus Plan:

<u>Director</u>	<u>Date awarded</u>	<u>Number of Shares</u>	<u>Vesting date</u>
John Walden . . . . .	29 May 2015	70,079	29 May 2018
John Walden . . . . .	27 May 2016	65,838	27 May 2019
Richard Ashton . . . . .	29 May 2015	51,750	29 May 2018
Richard Ashton . . . . .	27 May 2016	48,618	27 May 2019

**Sainsbury's**

(iii) As at the disclosure date, the interests of persons acting in concert with Sainsbury's in relevant securities in Home Retail Group plc were as follows:

<u>Name of party</u>	<u>Number of Home Retail Group Shares</u>	<u>Percentage of existing issued share capital</u>
Close relative of David Tyler . . . . .	355	0.00



(c) Dealings in relevant securities in Home Retail Group plc

**Home Retail Group plc**

- (i) During the Offer Period, the following dealings in relevant securities in Home Retail Group plc by Home Retail Group Directors, members of their immediate families, related trusts and their connected persons have taken place:

<u>Name of Director</u>	<u>Dates</u>	<u>Nature of Dealings</u>	<u>Number of Home Retail Group Shares</u>	<u>Price (pence)</u>
John Walden . . . . .	27 May 2016	Award under Deferred Bonus Plan	65,838	163.6
Richard Ashton . . . . .	27 May 2016	Award under Deferred Bonus Plan	48,618	163.6
John Walden . . . . .	23 May 2016	Vesting of Home Retail Group Shares under the PSP	143,114	163.5
John Walden . . . . .	23 May 2016	Sale	67,439	163.5
Richard Ashton . . . . .	23 May 2016	Vesting of Home Retail Group Shares under the PSP	124,899	163.5
Richard Ashton . . . . .	23 May 2016	Sale	58,856	163.5
John Walden . . . . .	19 May 2016	Grant of right to subscribe for Home Retail Group Shares	832,461	162.5
Richard Ashton . . . . .	19 May 2016	Grant of right to subscribe for Home Retail Group Shares	615,271	162.5
John Coombe . . . . .	27 April 2016	Purchase	7,996	171.1
Mike Darcey . . . . .	27 April 2016	Purchase	4,160	171.1
Ian Durant . . . . .	27 April 2016	Purchase	4,160	171.1
Cath Keers . . . . .	27 April 2016	Purchase	4,355	171.1
Jacqueline de Rojas . . . . .	27 April 2016	Purchase	4,160	171.1

(d) Interests in relevant securities in Sainsbury's

**Home Retail Group plc**

- (i) As at the disclosure date, the interests of the Home Retail Group Directors, close relatives, related trusts and companies and persons acting in concert with Home Retail Group plc in relevant securities in Sainsbury's were as follows (including shares held in the Sainsbury's Share Incentive Plan):

<u>Name of party</u>	<u>Number of Sainsbury's Shares</u>	<u>Percentage of existing issued share capital</u>
Isabel Durant, a close relative of Ian Durant . . . . .	3,100	0.00

## Sainsbury's

- (ii) As at the disclosure date, the interests of the Sainsbury's Directors, close relatives, related trusts and companies in relevant securities in Sainsbury's were as follows (including shares held in the Sainsbury's Share Incentive Plan):

Director	Number of Sainsbury's Shares	Percentage of existing issued share capital
David Tyler <sup>(1)</sup>	55,684	0.00
Mike Coupe	1,143,027	0.06
John Rogers	659,725	0.03
Matt Brittin	1,000	0.00
Brian Cassin	Nil	Nil
Mary Harris	13,458	0.00
David Keens	100,000	0.01
John McAdam	1,000	0.00
Susan Rice	1,000	0.00
Jean Tomlin	1,315	0.00

(1) Of this holding, 5,684 shares are beneficially owned by close relatives of David Tyler.

- (iii) As at the disclosure date, the interests of persons acting in concert with Sainsbury's in relevant securities in Sainsbury's were as follows:

Name of party	Number of Sainsbury's Shares	Percentage of existing issued share capital
Qatar Holding LLC (wholly owned by Qatar Investment Authority)	481,746,132	25.02

- (iv) As at the disclosure date, the Sainsbury's Directors held the following outstanding options and awards over Sainsbury's Shares under the Sainsbury's employee share plans:

Director	Plan	Date awarded	Number of Sainsbury's Shares under option	Exercise price (pence)	Date from which exercisable	Expiry date
Mike Coupe	Sainsbury's Long Term Incentive Plan ("LTIP")	15 May 2014	*599,740	Nil	50% 15 May 2017 50% 15 May 2018	15 May 2019
		14 May 2015	*828,880	Nil	50% 14 May 2018 50% 14 May 2019	14 May 2020
		12 May 2016	*876,936	Nil	50% 12 May 2019 50% 12 May 2020	12 May 2021
	Deferred Share Award ("DSA")	14 May 2015	165,907	Nil	17 March 2017	17 March 2025
	DSA	12 May 2016	304,121	Nil	16 March 2018	16 March 2026
	Sainsbury's 1980 savings-Related Share Option Plan ("Sharesave")	11 December 2013	4,518	332	01 March 2019	01 September 2019
John Rogers	LTIP	15 May 2014	*359,344	Nil	50% 15 May 2017 50% 15 May 2018	15 May 2019
		14 May 2015	*442,068	Nil	50% 14 May 2018 50% 14 May 2019	14 May 2020
		12 May 2016	*517,112	Nil	50% 12 May 2019 50% 12 May 2020	12 May 2021
	DSA	14 May 2015	101,665	Nil	17 March 2017	17 March 2025
	DSA	12 May 2016	183,410	Nil	16 March 2018	16 March 2026
	Sharesave	9 December 2011	6,302	238	01 March 2017	01 September 2017

\* Maximum number that could be received based on a performance multiplier of up to four times.

(e) Dealings in relevant securities of Sainsbury's

**Sainsbury's**

(i) During the disclosure period, the following dealings in relevant securities in Sainsbury's by Sainsbury's Directors and persons acting in concert with Sainsbury's have taken place:

(A) Sainsbury's Directors

Name of party	Date(s)	Nature of Dealings	Number of Sainsbury's Shares	Price (£)
Mary Harris . . . . .	4 January 2015	Purchase of Sainsbury's Shares under Sainsbury's Dividend Reinvestment Plan	206	2.4422
John Rogers . . . . .	29 January 2015	Purchase of Sainsbury's Shares under Sainsbury's Share Incentive Plan ("SIP")	44	2.619
John Rogers . . . . .	26 February 2015	Purchase of Sainsbury's Shares under SIP	42	2.745
John Rogers . . . . .	26 March 2015	Purchase of Sainsbury's Shares under SIP	43	2.6615
John Rogers . . . . .	23 April 2015	Purchase of Sainsbury's Shares under SIP	43	2.651
Mike Coupe . . . . .	6 May 2015	Exercise of option under DSA 2013	124,235	Nil
Mike Coupe . . . . .	6 May 2015	Sale of Sainsbury's Shares sufficient to fund tax	58,508	2.645
John Rogers . . . . .	6 May 2015	Exercise of option under DSA	110,191	Nil
John Rogers . . . . .	6 May 2015	Sale of Sainsbury's Shares sufficient to fund tax	51,894	2.645
Mike Coupe . . . . .	14 May 2015	Options granted under DSA	165,907	Nil
Mike Coupe . . . . .	14 May 2015	Options granted under LTIP	828,880*	Nil
John Rogers . . . . .	14 May 2015	Options granted under DSA	101,665	Nil
John Rogers . . . . .	14 May 2015	Options granted under LTIP	442,068*	Nil
John Rogers . . . . .	21 May 2015	Purchase of Sainsbury's Shares under SIP	44	2.631
Mike Coupe . . . . .	10 June 2015	Exercise under LTIP	79,957	Nil
Mike Coupe . . . . .	10 June 2015	Sale of Sainsbury's Shares sufficient to fund tax	37,656	2.609
John Rogers . . . . .	18 June 2015	Purchase of Sainsbury's Shares under SIP	44	2.628
John Rogers . . . . .	16 July 2015	Purchase of Sainsbury's Shares under SIP	43	2.667
John Rogers . . . . .	13 August 2015	Purchase of Sainsbury's Shares under SIP	45	2.537
John Rogers . . . . .	10 September 2015	Purchase of Sainsbury's Shares under SIP	48	2.412
John Rogers . . . . .	8 October 2015	Purchase of Sainsbury's Shares under SIP	42	2.412
John Rogers . . . . .	5 November 2015	Purchase of Sainsbury's Shares under SIP	42	2.769
John Rogers . . . . .	3 December 2015	Purchase of Sainsbury's Shares under SIP	45	2.553
John Rogers . . . . .	4 January 2016	Purchase of Sainsbury's Shares under SIP	45	2.552
John Rogers . . . . .	28 January 2016	Purchase of Sainsbury's Shares under SIP	48	2.3715
John Rogers . . . . .	25 February 2016	Purchase of Sainsbury's Shares under SIP	46	2.518
John Rogers . . . . .	24 March 2016	Purchase of Sainsbury's Shares under SIP	42	2.755
John Rogers . . . . .	21 April 2016	Purchase of Sainsbury's Shares under SIP	39	2.9135
Mike Coupe . . . . .	5 May 2016	Exercise of option under DSA	140,839	Nil
Mike Coupe . . . . .	5 May 2016	Sale of Sainsbury's Shares sufficient to fund tax	66,327	2.687**
John Rogers . . . . .	5 May 2016	Exercise of option under DSA	124,762	Nil
John Rogers . . . . .	5 May 2016	Sale of Sainsbury's Shares sufficient to fund tax	58,756	2.687**
John Rogers . . . . .	5 May 2016	Exercise under LTIP	62,975	Nil
John Rogers . . . . .	5 May 2016	Sale of Sainsbury's Shares sufficient to fund tax	29,658	2.687**
Mike Coupe . . . . .	12 May 2016	Options granted under DSA	304,121	Nil
Mike Coupe . . . . .	12 May 2016	Options granted under LTIP	876,936*	Nil
John Rogers . . . . .	12 May 2016	Options granted under DSA	183,410	Nil
John Rogers . . . . .	12 May 2016	Options granted under LTIP	517,112*	Nil
John Rogers . . . . .	19 May 2016	Purchase of Sainsbury's Shares under SIP	46	2.5175
John Rogers . . . . .	16 June 2016	Purchase of Sainsbury's Shares under SIP	50	2.302

\* Maximum number that could be received based on performance multiplier of up to four times.

\*\* Average price for Sainsbury's Shares sold to fund tax.

(B) Persons acting in concert with Sainsbury's

<u>Name of party</u>	<u>Date(s)</u>	<u>Nature of Dealings</u>	<u>Number of Sainsbury's Shares</u>	<u>High Price (£)</u>	<u>Low Price (£)</u>
Close relative of David Tyler . . . . .	2 July 2015	Sale	975	Unable to ascertain	Unable to ascertain
Close relative of David Tyler . . . . .	30 June 2015	Sale	3,500	£2.79	£2.79

(f) General

Save as disclosed in this paragraph 6 of this Part VI, as at the disclosure date:

- (i) neither Sainsbury's, nor any other member of the Sainsbury's Group, nor any of the Sainsbury's Directors, nor (in the case of the Sainsbury's Directors) any close relatives or related trusts or companies, nor any person acting in concert with Sainsbury's, nor any person with whom Sainsbury's or any person acting in concert with Sainsbury's had a dealing arrangement (save for the irrevocable undertakings described at paragraph 5 of this Part VI), was interested in, directly or indirectly, nor had any right to subscribe for, or had any short position in relation to, any relevant securities of any member of the Sainsbury's Group, nor had any such person dealt in any relevant securities of Sainsbury's during the disclosure period;
- (ii) neither Sainsbury's, nor any other member of the Sainsbury's Group, nor any of the Sainsbury's Directors, nor (in the case of the Sainsbury's Directors) any close relatives or related trusts or companies, nor any person acting in concert with Sainsbury's, nor any person with whom Sainsbury's or any person acting in concert with Sainsbury's had a dealing arrangement (save for the irrevocable undertakings described at paragraph 5 of this Part VI), was interested in, directly or indirectly, nor had any right to subscribe for, or had any short position in relation to, any relevant securities of Home Retail Group plc, nor had any such person dealt in any relevant securities of Home Retail Group plc during the disclosure period;
- (iii) neither Home Retail Group plc, nor any of the Home Retail Group Directors, nor (in the case of the Home Retail Group Directors) any close relatives or related trusts or companies or (so far as the Home Retail Group Directors are aware having made due and careful enquiry) other connected persons, nor any person acting in concert with Home Retail Group plc, nor any person with whom Home Retail Group plc or any person acting in concert with Home Retail Group plc had a dealing arrangement (save for the irrevocable undertakings described at paragraph 5 of this Part VI), was interested in, directly or indirectly, nor had any right to subscribe for, or any short position in relation to, any relevant securities of Home Retail Group plc, and nor had any such person dealt in any relevant securities of Home Retail Group plc since the beginning of the Offer Period;
- (iv) neither Home Retail Group plc, nor any of the Home Retail Group Directors, nor (in the case of the Home Retail Group Directors) any close relatives or related trusts or companies or (so far as the Home Retail Group Directors are aware having made due and careful enquiry) other connected persons, nor any person acting in concert with Home Retail Group plc, nor any person with whom Home Retail Group plc or any person acting in concert with Home Retail Group plc had a dealing arrangement, was interested in, directly or indirectly, nor had any right to subscribe for, or any short position in relation to, any relevant securities of any member of the Sainsbury's Group and nor had any such person dealt in any relevant securities of the Sainsbury's Group since the beginning of the Offer Period;
- (v) neither Home Retail Group plc, Sainsbury's nor any member of the Sainsbury's Group, nor any person acting in concert with Home Retail Group plc or with Sainsbury's, has borrowed or lent (including for these purposes any financial collateral arrangements) any relevant securities in Home Retail Group plc or Sainsbury's (save for any borrowed shares which have been either on-lent or sold);
- (vi) save for the irrevocable undertakings given by Home Retail Group Directors as described in paragraph 5 of this Part VI, there is no arrangement of the kind referred to in Note 9 on the definition of "acting in concert" set out in the Takeover Code relating to relevant securities in Home Retail Group plc which exists between Sainsbury's, any member of the Sainsbury's Group or any person acting in concert with Sainsbury's or any member of the Sainsbury's Group and any other person, nor

between Home Retail Group plc or any person acting in concert with Home Retail Group plc and any other person;

(vii) Home Retail Group plc has not redeemed or purchased any relevant securities of Home Retail Group plc during the Offer Period; and

(viii) Sainsbury's has not redeemed or purchased any relevant securities of Sainsbury's during the disclosure period.

## **7. Significant change in financial or trading position of Home Retail Group plc**

The Home Retail Group Directors are not aware of any significant change in the financial or trading position of the Home Retail Group since 27 February 2016, being the end of the period for which the Home Retail Group's latest audited financial statements were published.

## **8. Significant change in financial or trading position of Sainsbury's**

The Sainsbury's Directors are not aware of any significant change in the financial or trading position of Sainsbury's which has occurred since 12 March 2016, being the date to which the latest audited consolidated financial statements of Sainsbury's were prepared.

## **9. Middle market quotations**

Set out below are the closing middle market quotations of Home Retail Group Shares and Sainsbury's Shares as derived from the Daily Official List on:

- (i) the first business day of each of the six months immediately prior to the date of this document;
- (ii) 4 January 2016 (being the last business day before the commencement of the Offer Period);
- (iii) 17 March 2016 (being the last business day before the Original Announcement);
- (iv) 31 March 2016 (being the last business day before the Announcement); and
- (v) 1 July 2016 (being the latest practicable date prior to the publication of this document):

<u>Date</u>	<u>Home Retail Group Share (pence)</u>	<u>Sainsbury's Share (pence)</u>
4 January 2016 . . . . .	98.7	255.3
1 February 2016 . . . . .	152.9	244.6
1 March 2016 . . . . .	178.0	259.4
17 March 2016 . . . . .	181.2	281.5
31 March 2016 . . . . .	165.8	276.3
1 April 2016 . . . . .	166.0	276.6
3 May 2016 . . . . .	169.6	285.7
1 June 2016 . . . . .	162.8	256.9
1 July 2016 . . . . .	153.1	236.1

## **10. Service contracts and letters of appointment of the Home Retail Group Directors**

Save for the service contracts described below, there are no existing or proposed service contracts between any Director (or proposed director of the Company) and the Company and its subsidiary undertakings.

- (a) The Home Retail Group Executive Directors have entered into service agreements with the Home Retail Group as summarised below:

John Walden and Richard Ashton are each engaged under a service agreement pursuant to which they are entitled to a base salary of £676,500 and £500,000 respectively. Their salaries were increased from £663,000 and £489,600 respectively following an annual review within the ordinary course of business, to take effect from the financial year commencing 28 February 2016.

Details of the share awards under the Home Retail Group Share Plans held by the Home Retail Group Executive Directors are set out at paragraph 6 of this Part VI of this document. The effects of the transaction on the share and deferred bonus plans are described in paragraph 13 of Part II of this document.



Details of the appointment of the Home Retail Group Executive Directors are shown in the table below:

<u>Name</u>	<u>Date of appointment</u>	<u>Date of service contract</u>	<u>Notice period from Company (months)</u>
John Walden . . . . .	14 March 2014	15 January 2014	12
Richard Ashton . . . . .	5 July 2006	1 March 2005	12

John Walden and Richard Ashton are eligible to participate in an annual bonus plan, a performance-share plan, a share-save plan and a deferred bonus plan.

John Walden receives a pension allowance of 30 per cent. of basic salary part of which he elects to be paid as pension with the balance paid in cash. Richard Ashton receives a pension allowance of 25 per cent. of basic salary all of which he elects to receive in cash. They are provided with life assurance cover, private medical insurance for themselves and their families and a company car. In addition, Mr Walden is provided with a driver for work-related travel, and is reimbursed for flights between the US and UK to a maximum of £15,000 per year. Mr Walden and Mr Ashton are eligible to be reimbursed for subscriptions for two organisations where membership is required for, or related to, their employment.

Each Home Retail Group Executive Director's employment is terminable on 12 months' notice or by payment of a cash sum in lieu of notice equal to the director's salary and contractual benefits (including pension). The Home Retail Group plc's redundancy policy applies to the Home Retail Group Executive Directors in the same way as for other employees. Each Home Retail Group Executive Director's employment will terminate for redundancy 90 days after the Completion Date (or on such earlier date agreed with Sainsbury's) unless (i) Mr Walden gives 28 days' notice to terminate his employment early to accept an offer of alternative employment that is based outside the UK and which is conditional on earlier termination of his current employment; (ii) Mr Ashton accepts a role with Sainsbury's which he considers is suitable for him. On any termination of their employment for redundancy, they would receive a redundancy payment of two weeks' pay for each completed year of service, with notice being paid in a lump sum in lieu of notice and a pro-rated bonus (depending on performance) for the performance year up to Completion. In addition, Mr Walden will be paid a bonus of up to £110,000 in respect of the period from the Completion Date to his termination date (pro-rated if the period is less than 90 days and depending on performance). No maximum figure has been determined for that period for Mr Ashton. Outplacement counselling (or, for Mr Walden, relocation services) would be provided on such termination, or a cash lump sum to compensate for alternative arrangements, up to a maximum of £20,000 plus VAT. If asked to sign a settlement agreement on such termination, a contribution to legal fees of up to £25,000 plus VAT would be paid. The Home Retail Group Executive Directors would also be paid for any accrued but untaken holiday at their termination date.

- (b) The Home Retail Group Non-Executive Directors have entered into letters of appointment with the Home Retail Group as summarised below:

Home Retail Group Non-Executive Directors are appointed by the full Board, following recommendations from the Nomination Committee.

The Home Retail Group Non-Executive Directors, including the Chairman, are appointed by letters of appointment. Home Retail Group Non-Executive Directors are initially appointed for a three-year term and are typically expected to serve up to a maximum of three three-year terms, subject to review by the Board every three years. The appointment of a non-executive director may be terminated with one month's notice by either the Home Retail Group or the individual. The Chairman is subject to a notice period of three months.

None of the appointment letters for Home Retail Group Non-Executive Directors contain provisions for specific payment in the event of termination for whatever cause.

<u>Name</u>	<u>Date of appointment</u>
John Coombe . . . . .	5 July 2006 (appointed Chairman on 4 July 2012)
Mike Darcey . . . . .	20 April 2010
Ian Durant . . . . .	6 July 2011
Cath Keers . . . . .	1 September 2011
Jacqueline de Rojas . . . . .	4 December 2012

The Chairman is entitled to an annual fee of £250,000, of which £200,000 is paid in monthly instalments in cash and £50,000 is paid in two instalments, the net amount of which is used to buy shares in the Company. The other Home Retail Group Non-Executive Directors receive a base annual fee of £77,000, of which £50,000 is paid in monthly instalments in cash and £27,000 is paid in two instalments, the net amount of which is used to buy shares in the Company. Mr Darcey receives an additional fee of £10,000 per year in respect of his role as senior independent director. Mr Durant receives an additional fee of £22,500 per year in respect of his role as audit committee chairman and Ms Keers receives an additional fee of £15,000 per year for chairing the remuneration committee.

The Home Retail Group Non-Executive Directors are entitled to reimbursement of reasonable expenses. They are not entitled to receive any compensation on termination of their appointment, other than for payment for their notice period. They are not entitled to participate in the Home Retail Group's share, bonus or pension schemes.

- (c) Save as disclosed above, no Home Retail Group Director participates in any commission or profit sharing arrangements.
- (d) Save as disclosed above, there are no service contracts between any Home Retail Group Director or proposed director of Home Retail Group plc and any member of the Home Retail Group, and no such contract has been entered into or amended within the six months preceding the date of this document.

## 11. Material contracts – Home Retail Group plc

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by Home Retail Group plc or another member of the Home Retail Group: (a) within the two years immediately preceding the date of this document which are, or may be, material to Home Retail Group plc or any member of the Home Retail Group, or (b) at any time and contain provisions under which Home Retail Group plc or any member of the Home Retail Group has an obligation or entitlement which is, or may be, material to Home Retail Group plc or any member of the Home Retail Group as at the date of this document:

### *Homebase Sale*

On 18 January 2016, Home Retail Group plc announced that it and a wholly-owned subsidiary of it, Home Retail Group (UK) Limited (the “**Seller**”), had entered into a share purchase agreement with Bunnings (UK & I) Holdings Limited (the “**Purchaser**”) and Bunnings Group Limited (the “**Purchaser Guarantor**”) with respect to the sale of the Homebase Group for the Consideration, being the bid amount of £340,000,000 (the “**Bid Amount**”) after certain adjustments at the completion of the Homebase Sale (the “**Homebase Sale Completion**”) to enable the Homebase Sale to be made on a cash-free and debt-free basis (the “**Consideration**”) (the “**Homebase Share Purchase Agreement**”). The adjustments to the Bid Amount are set out in further detail in paragraph (a)(i) below. Homebase Sale Completion, which was conditional upon, *inter alia*, the approval of Home Retail Group Shareholders (which was obtained on 25 February 2016), took place on 27 February 2016.

In connection with the sale of Homebase, in addition to the Homebase Share Purchase Agreement, the Home Retail Group entered into the Homebase Transitional Services Agreement and the Homebase Tax Deed of Covenant, each as more fully described below (together, the “**Homebase Sale Agreements**”). Each of these agreements is governed by English law and the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the relevant agreement.

The following is a summary of the principal terms of the Homebase Sale Agreements.

**(a) Homebase Share Purchase Agreement**

The principal terms of the Homebase Share Purchase Agreement are as follows:

- (i) **Consideration:** The Consideration payable for the purchase of the shares of Homebase was the Bid Amount, subject to an adjustment mechanism based on the amounts of net working capital, debt and cash in the Homebase Group at Homebase Sale Completion, any interest accrued on the Bid Amount between a period end date and Homebase Sale Completion and any adjustment required to net off any cash left in the Homebase Group. The potential adjustments will be made in the following circumstances:

- (A) if the working capital of the Homebase Group is less negative than a negative working capital balance of £58,633,000, the Bid Amount will be adjusted downwards, and if the working capital of the Homebase Group is more negative than a negative working capital balance of £58,633,000, the Bid Amount will be adjusted upwards, in each case by the less negative or more negative difference versus the negative working capital balance of £58,633,000; and
- (B) if and to the extent that the aggregate amount of cash in the Homebase Group exceeds the amount of indebtedness attributable to the Homebase Group on the most recent period end date prior to Homebase Sale Completion, the Bid Amount will be adjusted upwards by such amount, and if the aggregate amount of cash in the Homebase Group is less than the amount of indebtedness attributable to the Homebase Group on the most recent period end date prior to Homebase Sale Completion, the Bid Amount will be adjusted downwards by such amount.

Within 25 business days after Homebase Sale Completion, the Purchaser shall prepare a draft closing statement of the Homebase Group. Home Retail Group plc and the Seller have the right to object to the determination of working capital, debt and/or cash together with any other adjustment. To the extent that Home Retail Group plc and the Purchaser are unable to resolve any disagreement, a final determination will be made by an independent accounting firm.

- (ii) **Warranties and indemnities:** The Homebase Share Purchase Agreement contains warranties given by the Seller in favour of the Purchaser, with respect to Homebase, that are customary for a transaction of this nature and size. The warranties given by the Seller relate to the following: the shares of Homebase and Hampden Group Limited and its subsidiaries, constitutional documents, corporate registers and minutes books, accounts, financial obligations, real estate and other assets, intellectual property rights and information technology, contracts, distribution, agency, marketing and sales agreements, joint ventures, employees and employee benefits, pensions, legal compliance, the environment, litigation, insurance, tax, important business since 31 October 2015, disclosure of information, authority and capacity and solvency.

In addition to the warranties referred to above, the Seller has agreed to indemnify the Purchaser for specific liabilities, including in relation to the following:

- (A) the pre-sale group reorganisation (insofar as the reorganisation relates to the separation of the Homebase Group from the Home Retail Group);
- (B) environmental liabilities, insofar as they relate to any hazardous substance at the properties of the Homebase Group prior to Homebase Sale Completion;
- (C) liabilities arising as a result of employees transferring to or from the Purchaser's group in connection with the Homebase Sale;
- (D) any funding deficit of the Hampden Group Pension Scheme in excess of £1.5 million calculated at Homebase Sale Completion on an IAS 19 basis, in a manner consistent with that employed in the accounts, using consistent principles, accounting, market-driven and actuarial assumptions; and
- (E) any exercise of power on behalf of the Pensions Regulator under the Pensions Act 2004, or any amount arising under section 75 of the Pensions Act 1995, in relation to the Home Retail Group Pension Scheme.

The maximum aggregate liability of the Home Retail Group and the Seller for all claims under the warranties is 25 per cent. of the Consideration, except in relation to claims for a breach of title or capacity warranty, which shall be capped at total Consideration.

Claims under the Homebase Tax Deed of Covenant and the indemnities are capped at total Consideration, except that the indemnities referred to in paragraphs (A) and (E) above are uncapped.

**(b) Homebase Transitional Services Agreement**

(i) **Scope of the Homebase Transitional Services Agreement:** On 17 January 2016, the Seller and Homebase Limited entered into the Homebase Transitional Services Agreement, as detailed below. The Homebase Transitional Services Agreement governs the provision of:

- (A) certain services, including information systems, home delivery, distribution, customer contact centre, product sourcing, property, facilities, transport, legal, human resources and tax, that the Seller is to provide (or procure the provision of) to Homebase Limited and its affiliates to assist the transition of the Homebase Group into the Purchaser's ownership (the "**Home Retail Group Services**"); and
- (B) certain reverse services, including information systems, finance and home delivery services, along with the right to continue the operation of certain Argos concessions in Homebase stores, that Homebase Limited is to provide (or procure the provision of) to the Seller and its affiliates to ensure an orderly separation of the Argos and Habitat businesses from Homebase (the "**Reverse Services**", and the Home Retail Group Services and the Reverse Services together being the "**Services**").

Each of the Services commenced on the date of Homebase Sale Completion, which was 27 February 2016.

(ii) **Charges for the Services:**

- (A) In respect of each of the Home Retail Group Services, Homebase Limited shall pay to the Seller either: (a) a fixed monthly fee; and/or (b) a variable monthly fee; and/or (c) the Seller's costs in providing the relevant Home Retail Group Service, save that a small number of Home Retail Group Services will be provided without charge.
- (B) In respect of the Reverse Services, the Seller shall pay to Homebase either: (a) the costs incurred by Homebase in providing the Reverse Services; or (b) a variable monthly fee, save that the Reverse Services provided in relation to the operation of the Argos concessions are provided without charge for the first 18 months following Homebase Sale Completion.

Provisions are included in the Homebase Transitional Services Agreement for potential increases and decreases in the fees payable by each party.

(iii) **Limitation of liability:** Subject to agreed carve-outs and exclusions, the Seller's aggregate liability under or in connection with the Homebase Transitional Services Agreement or the provision of the Home Retail Group Services is limited to £60 million, and Homebase Limited's aggregate liability under or in connection with the Homebase Transitional Services Agreement or the provision of the Reverse Services is limited to £2 million.

(iv) **Term and Termination:**

- (A) Each Home Retail Group Service is to be provided on an ongoing basis with minimum terms of up to 18 months. Each Reverse Service is to be provided on an ongoing basis, with a minimum specified term.
- (B) Either party may terminate any Service for convenience following the minimum term for that Service, subject to a specified period of notice and, where provided in relation to a Home Retail Group Service, payment of a termination fee by Homebase Limited.

**(c) Homebase Tax Deed of Covenant**

The Seller has entered into a customary tax deed of covenant with the Purchaser in relation to the Homebase Sale, which came into effect at Homebase Sale Completion. Under this deed, the Seller has agreed to pay the Purchaser an amount equal to (very broadly) any tax liabilities of Homebase that are attributable to:

- (i) the period up to and including the date of Homebase Sale Completion (i.e. 27 February 2016); or
- (ii) the pre-sale group reorganisation.

This obligation is subject to customary limitations and exclusions. The maximum aggregate liability for the Seller for general claims under the Homebase Tax Deed of Covenant is capped at an amount

equal to the total Consideration. For claims relating to tax liabilities attributable to the pre-sale group reorganisation, the liability of the Seller is uncapped.

The Homebase Tax Deed of Covenant also contains provisions relating to, among other things, notification of claims and conduct of disputes, secondary liabilities, the allocation of pre-completion tax reliefs and refunds, the administration of group relief, VAT and the conduct of Homebase's pre-completion tax affairs and computations.

#### *Offer-related arrangements*

##### **(d) Co-operation Agreement**

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

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

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

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

The Co-operation Agreement also contains provisions that will apply in respect of Home Retail Group Share Plans and certain other arrangements for the benefit of employees (see paragraph 13 of Part II).

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

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

##### **(e) Confidentiality Agreement**

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



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

**(f) Clean team confidentiality agreement**

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

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

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

**12. Material contracts – Sainsbury's**

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by Sainsbury's and its subsidiaries since 5 January 2014 (being the date two years prior to the commencement of the Offer Period) and are or may be material:

**(a) Co-operation Agreement**

Sainsbury's and Home Retail Group plc have entered into a co-operation agreement, dated 1 April 2016, with respect to the implementation of the Acquisition, a summary of which is set out in paragraph 11(d) above.

**(b) Confidentiality Agreement**

Sainsbury's and Home Retail Group plc have entered into a confidentiality agreement, dated 3 February 2016, in relation to the Acquisition, a summary of which is set out in paragraph 11(e) above.

**(c) Clean team confidentiality agreement**

Sainsbury's and Home Retail Group plc have entered into a clean team confidentiality agreement, dated 14 April 2016, in relation to the sharing of information for CMA filing purposes in connection with the Acquisition, a summary of which is set out in paragraph 11(f) above.

**(d) Sponsors' Agreement**

On 5 July 2016, Sainsbury's, Morgan Stanley and UBS (together the "**Joint Sponsors**") entered into a sponsors' agreement, pursuant to which Sainsbury's appointed Morgan Stanley and UBS as joint sponsors in connection with the applications for Admission and the publication of the Sainsbury's Prospectus (the "**Sponsors' Agreement**"). Under the terms of the Sponsors' Agreement, Sainsbury's has agreed to provide the Joint Sponsors with certain customary indemnities, undertakings, representations and warranties. The indemnities provided by Sainsbury's indemnify the Joint Sponsors and their associates against, *inter alia*, claims made against them or losses incurred by them in connection with the Acquisition, Admission or the arrangements contemplated by the Sainsbury's Prospectus and other relevant documents, subject to certain exceptions. In addition, the Sponsors' Agreement provides that the Joint Sponsors may, in their absolute discretion (acting in good faith) and after prior consultation with Sainsbury's, terminate the Sponsors' Agreement before Admission in certain specified circumstances which are customary for an agreement of this nature.

**(e) Master Services Agreement**

On 23 December 2013, Sainsbury's Bank entered into an agreement with Certegy Card Services Limited ("**Certegy**") (as amended on 24 December 2015, the "**Master Services Agreement**"). The Master Services Agreement is in the process of being updated to reflect the agreed terms in respect of the release of the next sets of deliverables by Certegy. These updates are expected to be finalised during 2016. Under the terms of the Master Services Agreement, Certegy agreed to provide certain services to enable Sainsbury's Bank to migrate from its current operating model to a new integrated banking platform.

As part of the Master Services Agreement, Sainsbury's Bank agreed to enter into a brand licence regulating Certegy's use of Sainsbury's branding in carrying out the respective activities under the agreement. Certegy also agreed to enter into a number of sub-contracts in relation to the provision of the services.

Under the terms of the Master Services Agreement, Certegy agreed to provide the following services, and any related documents and software to support that service, in accordance with certain milestones agreed between the parties:

- (i) web services;
- (ii) customer service software;
- (iii) business process outsourced services, such as out-of-hours lost and stolen cards service, manual credit risk underwriting and fraud monitoring and case management;
- (iv) the provision of infrastructure required by Certegy to provide the other services;
- (v) the provision of software in order to deliver the integrated banking platform;
- (vi) the management of IT hardware and software forming part of or all of the other services;
- (vii) the provision of data warehouse and supporting utilities;
- (viii) the provision of applications that support and enable the provision of credit cards to customers, the processing of card transactions and the provision of loans and savings products;
- (ix) disaster recovery, back-up and business continuity services;
- (x) implementation of the agreed exit plan, whereby the services are terminated and transitioned to a new provider; and
- (xi) software maintenance and technical support.

Throughout the term of the Master Services Agreement, Certegy will charge and invoice Sainsbury's Bank in respect of the defined product services, together with all connected supporting services, in accordance with a contractually defined charging schedule.

The initial termination date of the Master Services Agreement is 22 December 2028, after which it will first be automatically extended for five years and subsequently it will be automatically extended for an indefinite period, in either case unless Sainsbury's Bank gives six months' written notice, or the Master Services Agreement is terminated in accordance with the termination rights summarised below. At any other time Sainsbury's Bank is entitled to terminate the entire Master Services Agreement in whole or in part by giving 12 months' written notice to Certegy.

Sainsbury's Bank is entitled to terminate the Master Services Agreement, either in its entirety or only in respect of any part of the services, on immediate written notice on the occurrence of one of a number of events, including persistent or material breach, Certegy being subject to an insolvency event, or if Certegy, its agents or subcontractors commits a material breach in respect of any intellectual property rights owned or licensed to the Sainsbury's Bank group.

Certegy is entitled to terminate the Master Services Agreement on three months' written notice if Sainsbury's Bank fails to pay for the services within 15 days of receiving notice that an invoice is more than one month overdue (such notice to be paid within 15 days of the invoice becoming overdue by one month).

The Master Services Agreement contains customary warranties from Certegy to Sainsbury's Bank relating to the provision of the services.

Certegy agreed to indemnify Sainsbury's Bank against certain damages, claims and losses. Sainsbury's Bank agreed to indemnify Certegy against claims made in connection with intellectual property rights provided by Sainsbury's Bank under the terms of the agreement.

These warranties and indemnities are subject to customary limitations.

The Master Services Agreement is governed by English law, and each of the parties submits to the jurisdiction of the English Courts in relation to any claim or dispute which arises in connection with the Master Services Agreement, subject to an agreed initial expert determination procedure.

**(f) Pharmacy Business Disposal Agreement**

On 29 July 2015, Sainsbury's Supermarkets Limited entered into an agreement with Lloyds Pharmacy Limited ("**Lloyds**") for the sale and purchase of the pharmacy business owned and operated by Sainsbury's Supermarkets Limited at a number of its supermarkets and a number of hospitals as a going concern (the "**Business**") (the "**Pharmacy Business Disposal Agreement**"). Sainsbury's Supermarkets Limited also agreed to grant, and Lloyds agreed to accept the grant of, a lease or a sub-lease for each of the several properties used in the Business.

Closing is subject to the delivery of customary deliverables due at closing and is expected to take place on 31 August 2016.

The consideration for the disposal of the Business was the assumption of certain liabilities plus £125,000,000, subject to a post-closing working capital adjustment.

Either party is entitled to terminate by written notice if the other party fails to comply with any material obligation in relation to closing obligations or payment of the consideration, without liability on its part.

The Pharmacy Business Disposal Agreement is subject to customary warranties for the disposal of the Business, in relation to capacity and existence, preparation of accounts, business properties and ownership of assets, data protection, material contracts, employees and related warranties, legal compliance, material litigation, insurance and tax. These warranties are subject to customary limitations, including:

- (i) matters disclosed in writing at the date of the Pharmacy Business Disposal Agreement;
- (ii) a four-year time limit for bringing a claim in relation to tax warranties and Sainsbury's Supermarkets Limited obligations in relation to the conduct of the Business between signing and closing, and an 18-month time limit for bringing any other warranty claim;
- (iii) a minimum threshold in respect of a warranty claim or series of warranty claims of £100,000 other than in relation to employment matters, and £15,000 for warranties in relation to employment matters, and Sainsbury's Supermarkets Limited is not liable for any warranty claims unless the aggregate amount of all warranty claims exceeds one per cent. of the headline price; and
- (iv) a maximum threshold for all warranty claims of an amount equal to 35 per cent. of the headline price.

Lloyds has agreed to indemnify each member of the Sainsbury's Group against the liabilities assumed by Lloyds under the Pharmacy Business Disposal Agreement and any other liability which arises in connection with the conduct of the Business incurred after closing and against any losses which may arise in connection with such liabilities.

Sainsbury's Supermarkets Limited has agreed to indemnify Lloyds against any liabilities not transferred to Lloyds under the terms of the Pharmacy Business Disposal Agreement and any losses which arise in connection with such liabilities.

The above indemnities are subject to limitations. There is no financial cap on the potential amount payable under the indemnities.

The Pharmacy Business Disposal Agreement is governed by English law, and the Courts of England have exclusive jurisdiction to settle any disputes arising in connection with the agreement.

**(g) Facilities**

**(i) Revolving credit facility**

On 18 March 2016, Sainsbury's entered into an amendment and restatement agreement (the "**Amendment and Restatement Agreement**") in respect of a £1,150,000,000 credit facility agreement, originally dated 5 May 2015, between, among others, Sainsbury's as borrower, Sainsbury's Supermarkets Limited as guarantor, HSBC Bank plc as facility agent, HSBC Corporate Trustee Company (UK) Limited as security agent and a syndicate of lenders named therein as original lenders (the "**Revolving Credit Facility**").

The Revolving Credit Facility provides a multicurrency revolving credit facility of £500,000,000 ("**Facility A**") and a multicurrency revolving credit facility of £650,000,000 ("**Facility B**"). The final maturity date of Facility A is 5 May 2019 and the final maturity date of Facility B is five years from the date of the Revolving Credit Facility. The Facility A final maturity date may be extended by a year at the request of Sainsbury's, subject to certain conditions set out in the Revolving Credit Facility.

The Revolving Credit Facility may be drawn in sterling, euro, US dollar or other currencies (subject to certain conditions specified therein) and is made available for general corporate purposes including, without limitation, the repayment of any financial indebtedness.

The rate of interest payable on loans made under the Revolving Credit Facility is the aggregate of the applicable margin plus LIBOR (or EURIBOR in relation to any loan denominated in euro). A facility agent's fee, security agent's fee, commitment fees and utilisation fees are also payable under the terms of the Revolving Credit Facility. The margin is between 0.45 per cent. and 1.05 per cent. for Facility A, and 0.60 per cent. and 1.20 per cent. for Facility B.

The Revolving Credit Facility contains customary representations, covenants, indemnities and events of default, each with appropriate carve-outs and materiality thresholds by Sainsbury's in favour of the lenders. Certain amendments were made to the Revolving Credit Facility pursuant to the Amendment and Restatement Agreement:

- (a) to accommodate the Acquisition; and
- (b) in order for the financial advisers to Sainsbury's in connection with the Acquisition cash confirmation process to be satisfied that the Facility A is made available on a certain funds basis for the requisite period.

The secured parties under the Revolving Credit Facility receive the benefit of security including mortgages or equivalent local law security over certain properties held by Sainsbury's Supermarkets Limited. The security provided in respect of the Revolving Credit Facility relates to a separate pool of assets from those secured in connection with the Term Facility and Green Loan Facility described at paragraphs (ii) and (iii) below.

**(ii) Amended and restated term facility agreement**

On 5 May 2015, Sainsbury's entered into an amendment and restatement agreement in respect of a facility agreement, originally dated 26 September 2011, between, among others, Sainsbury's as borrower, Sainsbury's Supermarkets Limited as guarantor and RI-GD Investments as original lender and security agent (the "**Term Facility**").

The Term Facility made available a term loan facility in an aggregate amount equal to €50,000,000 which is fully drawn. The final maturity date of the Term Facility is the date falling 60 months from the utilisation date of the loan under the Term Facility (the "**Term Facility Loan**"). The Term Facility Loan is made available for general corporate purposes.

The rate of interest payable on the Term Facility Loan is the aggregate of the applicable margin plus EURIBOR. The margin is 1.85 per cent. per annum, and (in certain specified circumstances) there is an additional margin of 0.15 per cent.

The Term Facility contains customary representations, covenants, indemnities and events of default, each with appropriate carve-outs and materiality thresholds. The secured parties under the Term Facility receive the benefit of security, including mortgages (or equivalent local security) over certain properties held by Sainsbury's Supermarkets Limited. The security provided in respect of the Term Facility and the Green Loan Facility described below relates to a separate pool of assets from those secured in connection with the Revolving Credit Facility described at paragraph (i) above.

Certain amendments were made to the Term Facility pursuant to a consent request dated 14 March 2016 in order to permit the Acquisition.

(iii) *Amended and restated £200 million green loan*

On 5 May 2015, Sainsbury's entered into an amendment and restatement agreement in respect of a facility agreement, originally dated 17 July 2014, between, among others, Sainsbury's as borrower, Sainsbury's Supermarkets Limited as guarantor and RI-GD Investments as original lender, facility agent and security agent (the "**Green Loan Facility**").

The Green Loan Facility made available a term loan facility in an aggregate amount equal to £200,000,000 which is fully drawn. The final maturity date of the Green Loan Facility is the date falling five years from the utilisation date of the loan under the Green Loan Facility (the "**Green Loan Facility Loan**"). The Green Loan Facility Loan is made available for general corporate purposes, it being acknowledged that the loan is expected to be used for purposes consistent with Sainsbury's framework to provide for investment in energy efficiency, renewable energy, water reduction, water management or carbon reduction projects when building, developing, refurbishing or modifying stores, depots or other premises.

The rate of interest payable on the Green Loan Facility Loan is the aggregate of the applicable margin plus LIBOR. The margin is 1.5 per cent. per annum.

The Green Loan Facility contains customary representations, covenants, indemnities and events of default, each with appropriate carve-outs and materiality thresholds. The secured parties under the Green Loan Facility receive the benefit of security including mortgages (or equivalent local security) over certain properties held by Sainsbury's Supermarkets Limited. The security provided in respect of the Green Loan Facility and the Term Facility described in this paragraph (iii) and paragraph (ii) above relates to a different pool of assets from those secured in connection with the Revolving Credit Facility described at paragraph (i) above.

Certain amendments were made to the Green Loan Facility pursuant to a consent request dated 14 March 2016 in order to permit the Acquisition.

(h) **Convertible and hybrid bonds**

(i) *£250,000,000 Perpetual Capital Securities*

On 30 July 2015, Sainsbury's issued £250,000,000 Perpetual Capital Securities (the "**Perpetual Capital Securities**"). The Perpetual Capital Securities are perpetual securities and have no fixed redemption date. Up to (but excluding) 30 July 2020 (the "**Perpetual Capital Securities First Reset Date**"), the Perpetual Capital Securities bear interest on their principal amount at a rate of 6.500 per cent. per annum, payable annually in arrears on 30 July in each year. Thereafter, unless previously redeemed, the Perpetual Capital Securities will bear interest at a rate which shall be 9.727 per cent. per annum above the relevant five year swap rate, payable annually in arrears on 30 July in each year. The Perpetual Capital Securities are subordinated obligations of Sainsbury's, and Sainsbury's may (subject to certain customary exceptions) elect to defer any payment of scheduled interest at its discretion.

The Perpetual Capital Securities may be redeemed at the option of Sainsbury's in whole (but not in part) at their principal amount together with accrued but unpaid interest and any outstanding arrears of interest on the Perpetual Capital Securities First Reset Date or any fifth anniversary thereafter.

(ii) *£450,000,000 1.25 per cent. Convertible Bonds due 2019*

On 21 November 2014, Sainsbury's issued £450,000,000 1.25 per cent. Convertible Bonds due 2019 (the "**November 2014 Bonds**"). The November 2014 Bonds are unsubordinated obligations of Sainsbury's, and bear interest on their principal amount at a rate of 1.25 per cent. per annum, payable semi-annually in arrears on 21 May and 21 November in each year. Unless previously redeemed or purchased and cancelled, the November 2014 Bonds will be convertible, at the option of the bondholders, into new and/or existing ordinary shares of Sainsbury's, on the basis of the conversion price determined in accordance with the conditions of the November 2014 Bonds.

The November 2014 Bonds may be redeemed at the option of Sainsbury's in whole (but not in part) at their principal amount together with accrued but unpaid interest and any outstanding arrears of interest if: (i) conversion rights shall have been exercised and/or purchases and/or redemptions effected in respect of 85 per cent. or more in principal amount of the November 2014 Bonds that were



originally issued; or (ii) if the prevailing share price equals or exceeds 130 per cent. of the conversion price.

(iii) *£250,000,000 Subordinated Perpetual Convertible Bonds*

On 30 July 2015, Sainsbury's issued £250,000,000 Subordinated Perpetual Convertible Bonds (the "**July 2015 Bonds**"). The July 2015 Bonds are perpetual bonds and have no fixed redemption date. Up to (but excluding) 30 July 2021 (the "**Perpetual Capital Bonds First Reset Date**"), the July 2015 Bonds bear interest on their principal amount at a rate of 2.875 per cent. per annum, payable semi-annually in arrears on 30 January and 30 July in each year. Thereafter, unless previously redeemed or converted, the July 2015 Bonds will bear interest at a rate which shall be 9.727 per cent. per annum above the relevant five year swap rate, payable semi-annually in arrears on 30 January and 30 July in each year. The July 2015 Bonds are subordinated obligations of Sainsbury's, and Sainsbury's may (subject to certain customary exceptions) elect to defer any payment of scheduled interest at its discretion.

Unless previously redeemed or purchased and cancelled, the July 2015 Bonds will be convertible, at the option of the bondholders, into new and/or existing ordinary shares of Sainsbury's, on the basis of the conversion price determined in accordance with the conditions of the July 2015 Bonds.

The July 2015 Bonds may be redeemed at the option of Sainsbury's in whole (but not in part) at their principal amount together with accrued but unpaid interest and any outstanding arrears of interest: (i) on the Perpetual Capital Bonds First Reset Date or any fifth anniversary thereafter; or (ii) at any time, if conversion rights shall have been exercised and/or purchases and/or redemptions effected in respect of 85 per cent. or more in principal amount of the July 2015 Bonds that were originally issued.

### 13. Sources and bases of information

- (a) The aggregate Acquisition value (including the Capital Return) of £1.4 billion, as at 1 April 2016, is based on a value of 276.3 pence per Sainsbury's Share, being the Closing Price on 31 March 2016, being the latest practicable date prior to the Announcement, on the basis of the number of Home Retail Group Shares in issue referred to in paragraph (f) below.
- (b) The aggregate Acquisition value (including the Capital Return) of £1.3 billion, as at 5 July 2016, is based on a value of 236.1 per Sainsbury's Share, being the Closing Price on 1 July 2016, being the latest practicable date prior to the publication of this document, and on the basis of the number of Home Retail Group Shares in issue referred to in paragraph (f) below.
- (c) Unless otherwise stated, the financial information relating to Home Retail Group plc is extracted or derived (without any adjustment) from the annual report and audited accounts of Home Retail Group plc for the financial year to 27 February 2016, prepared in accordance with IFRS.
- (d) Unless otherwise stated, the financial information relating to Sainsbury's is extracted from or derived (without adjustment) from the annual report and audited consolidated financial statements of Sainsbury's for the 52-week period ended 12 March 2016, prepared in accordance with IFRS.
- (e) Unless otherwise stated, closing prices are taken from the London Stock Exchange Daily Official List. Unless otherwise stated, all closing prices are closing middle market prices derived from these sources for the relevant dates.
- (f) The calculations regarding the existing issued share capital of Home Retail Group plc are based on 813,445,001 Home Retail Group Shares in issue on 1 July 2016, being the latest practicable date prior to the publication of this document.
- (g) The calculations regarding the existing issued share capital of Sainsbury's are based on 1,925,529,752 Sainsbury's Shares (none of which are own shares or are held in treasury) in issue as at 1 July 2016, being the latest practicable date prior to the publication of this document.
- (h) The synergy numbers are unaudited and are based on analysis by Sainsbury's management and on Sainsbury's and Home Retail Group plc's internal records.

## 14. Fees and expenses

### (a) Home Retail Group plc

The aggregate fees and expenses expected to be incurred by Home Retail Group plc in connection with the Acquisition (excluding any applicable VAT) are expected to be approximately:

<u>Category</u>	<u>Amount – £m</u>
Financial and corporate broking advice . . . . .	11.2
Legal advice . . . . .	4.5 <sup>(1)</sup>
Accounting advice . . . . .	0.1
Public relations advice . . . . .	2.0
Other professional services . . . . .	0.6
Other costs and expenses . . . . .	0.4
<b>Total . . . . .</b>	<b>18.8</b>

(1) These services are charged by reference to hourly or daily rates. Amounts included here reflect the time incurred up to the latest practicable date prior to the publication of this document and an estimate of further time required.

### (b) Sainsbury's

The aggregate fees and expenses expected to be incurred by Sainsbury's in connection with the Acquisition (excluding any applicable VAT and stamp duty) are expected to be approximately:

<u>Category</u>	<u>Amount – £m</u>
Financing arrangements . . . . .	2.1
Financial and corporate broking advice . . . . .	14.6
Legal advice . . . . .	between 5.7 and 6.3 <sup>(1)</sup>
Accounting advice . . . . .	4.8
Public relations advice . . . . .	0.6
Other professional services . . . . .	1.0
Other costs and expenses . . . . .	1.2
<b>Total . . . . .</b>	<b>between 30.0 and 30.6</b>

(1) These services are charged by reference to hourly or daily rates. Amounts included here reflect the time incurred up to the latest practicable date prior to the publication of this document and an estimate of the further time required, and include a £300,000 discretionary element.

## 15. General

- (a) Each of Morgan Stanley and UBS has given and not withdrawn its written consent to the issue of this document with the inclusion of the references to its name in the form and context in which it appears.
- (b) Bank of America Merrill Lynch has given and not withdrawn its written consent to the issue of this document with the inclusion of the references to its name in the form and context in which they appear.
- (c) Save as disclosed herein, there is no agreement, arrangement or understanding whereby the beneficial ownership of any of the Home Retail Group Shares to be acquired by Sainsbury's pursuant to the Acquisition will be transferred to any person other than Sainsbury's, save that Sainsbury's reserves the right to transfer any such shares to any other member of the Sainsbury's Group.
- (d) Save as disclosed in this document, no agreement, arrangement or understanding (including compensation arrangement) exists between Sainsbury's or any person acting in concert with it and any of the directors, recent directors, shareholders or recent shareholders of the Company having any connection with or dependence upon the Acquisition.

## **16. Documents available for inspection**

Copies of the following documents will be available for viewing on Home Retail Group plc's website at <http://www.homeretailgroup.com/investor-centre/> and Sainsbury's website at <http://www.j-sainsbury.co.uk/investor-centre/> up to and including Completion:

- (a) this document (including any documents incorporated by reference herein), the Forms of Proxy and the Forms of Election;
- (b) the memorandum and Articles of Home Retail Group plc;
- (c) the memorandum and articles of association of Sainsbury's;
- (d) the memorandum and articles of association of Newco;
- (e) a copy of the written consent from each of Morgan Stanley and UBS referred to at paragraph 15(a) of this Part VI;
- (f) a copy of the written consent from Bank of America Merrill Lynch referred to at paragraph 15(b) of this Part VI;
- (g) copies of the letters of irrevocable undertaking referred to in paragraph 4 of Part I of this document;
- (h) copies of the material contracts referred to in paragraphs 11 and 12 of this Part VI that were entered into in connection with the Acquisition;
- (i) a copy of the Original Announcement (including, at appendix 3 of the Original Announcement, a copy of the report of Deloitte and the report of Morgan Stanley and UBS on the Quantified Financial Benefits Statement);
- (j) a copy of the Announcement;
- (k) a copy of the Sainsbury's Prospectus;
- (l) a draft copy of the Articles as proposed to be amended at the General Meeting;
- (m) a copy of the audited consolidated accounts of Sainsbury's for the 52 weeks ended 12 March 2016;
- (n) a copy of the audited consolidated accounts of Sainsbury's for the 52 weeks ended 14 March 2015;
- (o) a copy of the Sainsbury's Trading Statement;
- (p) a copy of the audited consolidated accounts of Home Retail Group for the financial year ended 27 February 2016;
- (q) a copy of the audited consolidated accounts of Home Retail Group for the financial year ended 28 February 2015;
- (r) a copy of the Home Retail Group Trading Statement;
- (s) letters of confirmation from Deloitte, Morgan Stanley and UBS referred to in Appendix I to this document; and
- (t) the offer-related agreements referred to in paragraph 11 of this Part VI.

Dated: 5 July 2016

**PART VII**  
**NOTES FOR MAKING ELECTIONS UNDER THE MIX AND MATCH FACILITY**

If you wish to receive 55 pence in cash and 0.321 New Sainsbury's Shares for each Home Retail Group Share that you will hold at the Scheme Record Time, **DO NOT RETURN** a Form of Election or send an Electronic Election.

**If you hold Home Retail Group Shares in certificated form (that is, not in CREST) and you wish to make a Mix and Match Election:**

- You must complete and sign a Form of Election in accordance with the instructions printed thereon and return it to Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. A pre-paid envelope (marked with a green flash), for use in the UK only, is enclosed for your convenience.
- The Election Return Time (being the deadline for making a Mix and Match Election) is 1.00 p.m. on 30 August 2016, as set out in the expected timetable of principal events on pages 6 and 7 of this document.

**If you hold Home Retail Group Shares in uncertificated form (i.e. in CREST) and you wish to make a Mix and Match Election:**

- You must submit your election electronically by taking (or procuring to be taken) the actions set out below to transfer the Home Retail Group Shares in respect of which you wish to make a Mix and Match Election to an escrow balance, using an Electronic Election specifying Capita (in its capacity as a CREST participant under the RA10) as the escrow agent.
- The Election Return Time (being the deadline for making a Mix and Match Election) is 1.00 p.m. on 30 August 2016, as set out in the expected timetable of principal events on pages 6 and 7 of this document.
- If you wish to make a Mix and Match Election by completing a Form of Election, you must first rematerialise your Home Retail Group Shares by completing a CREST stock withdrawal form, and you may request a Form of Election by contacting the Shareholder Helpline on the telephone number set out on page 4 of this document.

**If you are an Overseas Shareholder or hold Home Retail Group Shares on behalf of an Overseas Shareholder:**

- Overseas Shareholders with a registered address in, or who are a citizen, resident or national of, a Restricted Jurisdiction will not be sent the Form of Election and will not be entitled to participate in the Mix and Match Facility.
- You should inform yourself about and should observe any applicable legal or regulatory requirements in the jurisdiction in which you or the Home Retail Group Shareholder(s) on whose behalf you hold Home Retail Group Shares are located. If you are in any doubt about your position, you should consult your professional adviser in the relevant territory. The Mix and Match Facility may not be available to certain Overseas Shareholders.
- By signing and returning the Form of Election or submitting your election electronically, you are deemed to represent that you are not an Overseas Shareholder with a registered address in, or a citizen, resident or national of, a Restricted Jurisdiction.

If you hold Home Retail Group Shares in both certificated and uncertificated form and you wish to make a Mix and Match Election in respect of both such holdings, you must make a separate election in respect of each holding.

If you need further copies of the Form of Election, please telephone the Shareholder Helpline between 9.00 a.m. and 5.30 p.m. (London time) Monday to Friday (except UK public holidays) on +44 (0) 371 664 0437. Calls will be charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Please note that the Shareholder Helpline operators cannot provide advice on the merits of the Scheme or the Acquisition, or give any financial, investment, tax or legal advice.

A Mix and Match Election will only be accepted under the Mix and Match Facility in respect of a whole number of Home Retail Group Shares. Any Mix and Match Election which is made in respect of a number

of Home Retail Group Shares which is not a whole number shall be deemed to be made in respect of the nearest whole number of Home Retail Group Shares when rounded down.

Cash Elections and Share Elections will be satisfied only to the extent that other Home Retail Group Shareholders make equal and opposite Mix and Match Elections. To the extent that Share Elections or Cash Elections cannot be satisfied in full: (i) the number of Home Retail Group Shares in respect of which a Share Election or Cash Election has been made shall be scaled down pro rata in proportion to the number of Home Retail Group Shares in respect of which the relevant Mix and Match Election is made (or as near thereto as Home Retail Group plc, Sainsbury's and Newco in their absolute discretion consider practicable among electors); and (ii) the balance of the Home Retail Group Shares the subject of such Mix and Match Election shall be deemed to be Home Retail Group Shares in respect of which no Mix and Match Election has been made.

Minor adjustments to the entitlements of Home Retail Group Shareholders pursuant to Mix and Match Elections made under the Scheme may be made by Capita under instruction from Home Retail Group plc, Sainsbury's and Newco, on a basis that Home Retail Group plc, Sainsbury's and Newco consider to be fair and reasonable to the extent necessary to satisfy all entitlements pursuant to Mix and Match Elections under the Scheme as nearly as may be practicable. Such adjustments shall be final and binding on Home Retail Group Shareholders.

**You should be aware that if you buy or sell Home Retail Group Shares (which, pursuant to the Scheme, will be cancelled in exchange for Newco Shares) after having made a Mix and Match Election, then the number of Home Retail Group Shares to which your Mix and Match Election applies may be affected, as set out below.**

If a Home Retail Group Shareholder has made a valid election in respect of ALL of his or her Home Retail Group Shares, then:

- (a) the validity of the Cash Election or the Share Election (as the case may be) shall not be affected by any alteration in the number of Home Retail Group Shares held by the Home Retail Group Shareholder at any time prior to the Scheme Record Time; and
- (b) accordingly, the Cash Election or the Share Election (as the case may be) will apply in respect of all of the Home Retail Group Shares which the Home Retail Group Shareholder holds immediately prior to the Scheme Record Time.

If a Home Retail Group Shareholder has made a valid Cash Election or Share Election in respect of a specified number representing part, but not all, of his or her Home Retail Group Shares and immediately prior to the Scheme Record Time the number of Home Retail Group Shares held by the Home Retail Group Shareholder is:

- (a) equal to or in excess of the number of Home Retail Group Shares to which such Mix and Match Election(s) relate, then the validity of the Mix and Match Election(s) made by the Home Retail Group Shareholder shall not be affected by any alteration in the number of Home Retail Group Shares held by the Home Retail Group Shareholder at any time prior to the Scheme Record Time, and any reduction in his or her holding shall be treated first as a disposal of those Home Retail Group Shares in respect of which he did not make such Mix and Match Election; or
- (b) less than the aggregate number of Home Retail Group Shares to which such Mix and Match Election(s) relate, then:
  - (i) if the Home Retail Group Shareholder has made only a valid Cash Election, he shall be treated as having made a Cash Election in respect of his or her entire holding of Home Retail Group Shares;
  - (ii) if the Home Retail Group Shareholder has made only a valid Share Election, he shall be treated as having made a Share Election in respect of his or her entire holding of Home Retail Group Shares;
  - (iii) if the Home Retail Group Shareholder has made both a valid Cash Election and a valid Share Election, then:
    - (A) Share Elections made by the Home Retail Group Shareholder shall be reduced so as to apply to the number of Home Retail Group Shares calculated by multiplying (i) the number of Home Retail Group Shares held by the Home Retail Group Shareholder immediately



prior to the Scheme Record Time by (ii) the fraction calculated by dividing the number of Home Retail Group Shares the subject of the relevant Share Elections above by the aggregate number of Home Retail Group Shares the subject of all of the Share Elections and Cash Elections made by the Home Retail Group Shareholder, rounding down to the nearest whole number of Home Retail Group Shares; and

- (B) the Cash Elections made by the Home Retail Group Shareholder shall be reduced so as to apply to all the Home Retail Group Shares held by the Home Retail Group Shareholder immediately prior to the Scheme Record Time which are not the subject of Share Elections as scaled down pursuant to sub-paragraph (A) above.

#### **Home Retail Group Shares held in uncertificated form (that is, in CREST)**

If you are a CREST personal member, you should refer to your CREST sponsor before taking any action. Your CREST sponsor will be able to confirm details of your participant ID and the member account ID under which your Home Retail Group Shares are held. In addition, only your CREST sponsor will be able to send the Electronic Election to Euroclear in relation to your Home Retail Group Shares.

You should send (or, if you are a CREST personal member, procure that your CREST sponsor sends) an Electronic Election to Euroclear, which must be properly authenticated in accordance with Euroclear's specifications and which must contain, in addition to the other information that is required for an Electronic Election to settle in CREST, the following details:

- (i) the number of Home Retail Group Shares in respect of which you are making a Mix and Match Election (such Home Retail Group Shares to be transferred to an escrow balance);
- (ii) your member account ID;
- (iii) your participant ID;
- (iv) the participant ID of the escrow agent, Capita, in its capacity as a CREST Receiving Agent. This is "RA10";
- (v) the relevant member account ID(s) of the escrow agent, Capita, in its capacity as a CREST Receiving Agent:
  - (a) to make a Share Election, this is "28859SHA";
  - (b) to make a Cash Election, this is "28859CAS"; and
  - (c) to transfer shares held on behalf of certain Overseas Shareholders, this is RESTRICT;
- (vi) the ISIN of the relevant Home Retail Group Shares (this is "GB00B19NKB76");
- (vii) the intended settlement date (this should be as soon as possible and in any event by the Election Return Time);
- (viii) the corporate action number for the transaction: this is allocated by Euroclear and can be found by viewing the relevant corporate action details onscreen in CREST;
- (ix) CREST standard delivery instructions priority of 80; and
- (x) a contact name and telephone number (inserted in the shared note field of the Electronic Election).

After making the Electronic Election, you will not be able to access the Home Retail Group Shares concerned in CREST for any transaction or for charging purposes. If the Scheme is implemented in accordance with its terms, the escrow agent will arrange for the cancellation of the Home Retail Group Shares. You are recommended to refer to the CREST Manual published by Euroclear for further information on the CREST procedure outlined above. An Electronic Election is revocable. Please refer to the CREST Manual for information about how to withdraw an Electronic Election.

If you have sent an Electronic Election to the RESTRICT member account as described above, a valid ESA instruction (a "**Restricted ESA Instruction**") will also need to be sent. Such purported Mix and Match Election will not be treated as valid unless both the Electronic Election and the Restricted ESA Instruction settle in CREST and Sainsbury's and Home Retail Group plc decide, in their absolute discretion, that such purported Mix and Match Election should be accepted. If Sainsbury's and Home Retail Group plc so decide, the Receiving Agent will accept the purported Mix and Match Election on the terms of this document by transmitting in CREST a receiving agent accept ("AEAN") message. Otherwise, the

Receiving Agent will reject the purported Mix and Match Election by transmitting in CREST a receiving agent reject (“AEAD”) message. Each Restricted ESA Instruction must, in order for it to be valid and settle, include the following details:

- (i) the corporate action ISIN number of the Home Retail Group Shares. This is “GB00B19NKB76”;
- (ii) the number of Home Retail Group Shares in uncertificated form relevant to that Restricted ESA Instruction;
- (iii) your participant ID;
- (iv) your member account ID;
- (v) the participant ID of the escrow agent, Capita, in its capacity as CREST Receiving Agent set out in the Restricted Escrow Transfer. This is “RA10”;
- (vi) the member account ID of the escrow agent, Capita, in its capacity as CREST Receiving Agent set out in the Restricted Escrow Transfer. This is RESTRICT;
- (vii) the relevant member account ID(s) of the escrow agent, Capita, in its capacity as a CREST Receiving Agent:
  - (a) to make a Share Election, this is “28859SHA”;
  - (b) to make a Cash Election, this is “28859CAS”;
- (viii) the CREST transaction ID of the Electronic Election message sent to the RESTRICT member account to which the Restricted ESA Instruction relates;
- (ix) the intended settlement date (this should be as soon as possible and in any event by the Election Return Time);
- (x) the corporate action number for the transaction; and
- (xi) input with a standard delivery instruction priority of 80.

You should note that Euroclear does not make available special procedures in CREST for any particular corporate action. Normal system timings and limitations will therefore apply in connection with an Electronic Election and its settlement. You should, therefore, ensure that all necessary action is taken by you (or by your CREST sponsor) to enable an Electronic Election relating to your Home Retail Group Shares to settle prior to the Election Return Time (or such later time (if any) to which the right to make a Mix and Match Election may be extended). In this connection, you are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

## **Withdrawals**

If you have returned a Form of Election and subsequently wish to withdraw or amend that Mix and Match Election, please contact Capita in writing by the Election Return Time, which is currently expected to be 1.00 p.m. on 30 August 2016 (or such other time (if any) to which the right to make a Mix and Match Election may be amended). Please specify clearly whether you would like to withdraw or amend the Mix and Match Election that you have made, and ensure that your request contains an original signature. Any written requests of this nature should be sent to Capita Asset Service, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. It is at Capita’s absolute discretion to require the submission of a new Form of Election if an amendment is requested.

If your Mix and Match Election was made through an Electronic Election, you may withdraw your Mix and Match Election through CREST by sending (or, if you are a CREST sponsored member, procuring that your CREST sponsor sends) an ESA instruction to settle in CREST by no later than 1.00 p.m. on 30 August 2016 in relation to each Mix and Match Election to be withdrawn. Each ESA instruction must, in order for it to be valid and to settle, include the following details:

- (i) the number of Home Retail Group Shares to be withdrawn;
- (ii) the ISIN number of the Home Retail Group Shares, which is “GB00B19NKB76”;
- (iii) your member account ID;
- (iv) your participant ID;

- (v) the participant ID of the escrow agent, Capita, in its capacity as a CREST Receiving Agent. This is “RA10”;
- (vi) the relevant member account ID(s) of the escrow agent, Capita, in its capacity as a CREST Receiving Agent included in the relevant Mix and Match Election (this is either 28859CAS if a Cash Election was made or 28859SHA if a Share Election was made);
- (vii) the CREST transaction ID of the Mix and Match Election to be withdrawn;
- (viii) the intended settlement date for the withdrawal;
- (ix) the corporate action number for the transaction: this is allocated by Euroclear and can be found by viewing the relevant corporate action details on screen in CREST; and
- (x) CREST standard delivery instructions priority of 80.

Any such withdrawal will be conditional upon Capita verifying that the withdrawal request is validly made. Accordingly, Capita will, on behalf of Home Retail Group plc, Sainsbury’s and Newco reject or accept the withdrawal or amendment by transmitting in CREST a receiving agent reject (“AEAD”) or receiving agent accept (“AEAN”) message.

### **Late or incomplete Mix and Match Elections**

If any Form of Election or Electronic Election in respect of a Mix and Match Election is either received after the Election Return Time, which is currently expected to be 1.00 p.m. on 30 August 2016 (or such other time (if any) to which the right to make a Mix and Match Election may be amended), or is received before such time and date but is not valid or complete in all respects at such time and date, such Mix and Match Election shall, for all purposes, be void (unless Home Retail Group plc, Sainsbury’s and Newco, in their absolute discretion, elect to treat as valid, in whole or in part, any such Mix and Match Election).

### **General**

Without prejudice to any other provision of this section or the Form of Election or otherwise, Home Retail Group plc, Newco and Sainsbury’s reserve the right (subject to the terms of the Acquisition and the provisions of the Takeover Code) to treat as valid in whole or in part any Mix and Match Election which is not entirely in order.

No acknowledgements of receipt of any Form of Election, Electronic Election or other documents will be given. All communications, notices, other documents and remittances to be delivered by, or to or sent to or from, holders of Home Retail Group Shares (or their designated agent(s)) or as otherwise directed will be delivered by or to, or sent to or from, such holders of Home Retail Group Shares (or their designated agent(s)) at their own risk.

Home Retail Group plc, Sainsbury’s and their respective agents reserve the right to notify any matter to all or any Home Retail Group Shareholders with registered addresses outside the UK, or to the nominees, trustees or custodians for such Home Retail Group Shareholders, by announcement in the UK or paid advertisement in any daily newspaper published and circulated in the UK or any part thereof, in which case such notice shall be deemed to have been sufficiently given, notwithstanding any failure by any such Home Retail Group Shareholders to receive or see such notice. All references in this document to notice in writing, or the provision of information in writing, by or on behalf of Home Retail Group plc, Sainsbury’s and their respective agents shall be construed accordingly. No such document shall be sent to an address outside the UK where it would or might infringe the laws of that jurisdiction or would or might require Home Retail Group plc or Sainsbury’s to obtain any governmental or other consent or to effect any registration, filing or other formality with which, in the opinion of Home Retail Group plc or Sainsbury’s, it would be unable to comply or which it regards as unduly onerous.

The Forms of Election and all Mix and Match Elections thereunder, and all action taken or made, or deemed to be taken or made, pursuant to any of these terms, shall be governed by and interpreted in accordance with English law.

Execution of a Form of Election or the submission of an Electronic Election by or on behalf of a Home Retail Group Shareholder will constitute his or her agreement that the courts of England are (subject to the paragraph below) to have non-exclusive jurisdiction to settle any dispute which may arise in connection with the creation, validity, effect, interpretation or performance of the Form of Election or the submission

of an Electronic Election, and for such purposes that he or she irrevocably submits to the jurisdiction of the English courts.

Execution of a Form of Election or the submission of an Electronic Election by or on behalf of a Home Retail Group Shareholder will constitute his or her agreement that the agreement in the paragraph above is included for the benefit of Home Retail Group plc, Sainsbury's, Newco and their respective agents and, accordingly, notwithstanding the agreement in the paragraph above, each of Home Retail Group plc, Sainsbury's, Newco and their respective agents shall retain the right to, and may in its absolute discretion, bring proceedings in the courts of any other country which may have jurisdiction, and that the electing Home Retail Group Shareholder irrevocably submits to the jurisdiction of the courts of any such country.

If the Scheme is not implemented in accordance with its terms, any Mix and Match Election made shall cease to be valid.

None of Home Retail Group plc, Sainsbury's, Capita nor any of their respective advisers or any person acting on behalf of any one of them shall have any liability to any person for any loss or alleged loss arising from any decision as to the treatment of Mix and Match Elections on any of the bases set out in this section or otherwise in connection therewith.

### **Unsettled trades**

As at the close of trading on the last day of dealings in Home Retail Group Shares prior to the Effective Date, there may be unsettled, open trades for the sale and purchase of Home Retail Group Shares within CREST. The Home Retail Group Shares that are the subject of such unsettled trades will be treated under the Scheme in the same way as any other Home Retail Group Shares registered in the name of the relevant seller under that trade. Consequently, those Home Retail Group Shares will be cancelled under the Scheme and the seller will receive the Newco Shares and, subsequently, the Sainsbury's Offer Consideration and the Capital Return in accordance with the terms of the Acquisition and any valid Mix and Match Election made by the seller on behalf of the buyer.

### **Helpline**

If you have any questions relating to this document or the completion and return of the Forms of Proxy or the Form of Election, please call the Shareholder Helpline between 9.00 a.m. and 5.30 p.m. (London time) Monday to Friday (except UK public holidays) on +44 (0) 371 664 0437. Calls will be charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Please note that the Shareholder Helpline operators cannot provide advice on the merits of the Scheme or the Acquisition, or give financial, tax, investment or legal advice.

**PART VIII  
THE SCHEME OF ARRANGEMENT**

**IN THE HIGH COURT OF JUSTICE  
CHANCERY DIVISION  
COMPANIES COURT**

**CR-2016-002459**

**IN THE MATTER OF HOME RETAIL GROUP PLC**

**-and-**

**IN THE MATTER OF THE COMPANIES ACT 2006**

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SCHEME OF ARRANGEMENT  
*(under Part 26 of the Companies Act 2006)*

BETWEEN

HOME RETAIL GROUP PLC

AND ITS

SCHEME SHAREHOLDERS  
*(as hereinafter defined)*

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**PRELIMINARY**

(A) In this Scheme, unless inconsistent with the subject or context, the following expressions bear the following meanings:

<b>“business day”</b> . . . . .	a day on which the London Stock Exchange is open for the transaction of business
<b>“certificated” or “in certificated form”</b> . . . . .	not in uncertificated form (that is, not in CREST)
<b>“Closing Price”</b> . . . . .	the closing middle-market price of the relevant share as derived from the Daily Official List of the London Stock Exchange
<b>“Companies Act”</b> . . . . .	the Companies Act 2006 (as amended)
<b>“Company”</b> . . . . .	Home Retail Group plc, incorporated in England and Wales with registered number 05863533
<b>“Court”</b> . . . . .	the High Court of Justice in England and Wales
<b>“Court Meeting”</b> . . . . .	the meeting of the Scheme Shareholders convened by order of the Court pursuant to section 896 of the Companies Act to consider and, if thought fit, approve this Scheme, including any adjournment thereof
<b>“CREST”</b> . . . . .	the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by Euroclear in accordance with the Uncertificated Securities Regulations 2001 (as amended)
<b>“Election”</b> . . . . .	an election made in accordance with Clause 5 in respect of the Mix and Match Facility, including both an Electronic Election and an election made by Form of Election
<b>“Election Return Time”</b> . . . . .	1.00 p.m. on the business day immediately prior to the date of the hearing to sanction this Scheme, or such later date and time (if any) as the Company, Sainsbury’s and Newco may agree and the Company may announce through a Regulatory Information Service



<b>“Electronic Election”</b> . . . . .	an election made in accordance with Clause 5 in respect of the Mix and Match Facility by a Scheme Shareholder who holds Scheme Shares in uncertificated form immediately prior to the Election Return Time
<b>“Euroclear”</b> . . . . .	Euroclear UK & Ireland Limited, incorporated in England and Wales with registered number 02878738
<b>“Excluded Shares”</b> . . . . .	any Shares which are registered in the name of or beneficially owned by any member of the Sainsbury’s Group
<b>“Form of Election”</b> . . . . .	the form of election relating to the Mix and Match Facility sent to Scheme Shareholders who hold their Scheme Shares in certificated form, other than Restricted Overseas Shareholders
<b>“holder”</b> . . . . .	a registered holder, and includes a person entitled by transmission
<b>“Home Retail Group Reduction of Capital”</b> . . . . .	the reduction of capital provided for in Clause 1.1
<b>“members”</b> . . . . .	members of the Company on the register of members at any relevant date or time
<b>“Mix and Match Facility”</b> . . . . .	the facility provided for in Clause 5 under which Scheme Shareholders (other than Restricted Overseas Shareholders) may elect to vary the proportions in which they receive New Sainsbury’s Shares and cash as part of the Sainsbury’s Offer Consideration on the basis of, for every £0.55 in cash 0.233 of a New Sainsbury’s Share, or for every 0.321 of a New Sainsbury’s Share 75.8 pence in cash
<b>“New Sainsbury’s Shares”</b> . . . . .	the Sainsbury’s Shares to be issued by Sainsbury’s, credited as fully paid, as part of the Sainsbury’s Offer Consideration
<b>“Newco”</b> . . . . .	Sainsbury’s Intermediate Holdings Limited, a private limited company incorporated in England and Wales with registered number 10125892
<b>“Newco Articles”</b> . . . . .	the articles of association of Newco at the date of this Scheme, subject to any amendments which may be made following agreement between Newco, Sainsbury’s and the Company
<b>“Newco Reduction Court Order”</b> . . . .	the order of the Court confirming the Newco Reduction of Capital
<b>“Newco Reduction Effective Time”</b> . . .	the time and date at which the Newco Reduction of Capital becomes effective by registration of the Newco Reduction Court Order by the Registrar of Companies
<b>“Newco Reduction of Capital”</b> . . . . .	the reduction of capital of Newco under sections 645 to 649 of the Companies Act, reducing the nominal value of each of the Newco Shares to £0.01 and returning 27.8 pence per Newco Share to the holders thereof at the Newco Reduction Record Time
<b>“Newco Reduction Record Time”</b> . . . .	6.00 p.m. on the business day immediately prior to the date of the hearing to confirm the Newco Reduction of Capital
<b>“Newco Reduction Resolution”</b> . . . . .	the special resolution of the member(s) of Newco approving the Newco Reduction of Capital
<b>“Newco Shareholder”</b> . . . . .	a holder of Newco Shares at any relevant date or time

<b>“Newco Shares”</b> . . . . .	ordinary shares in the capital of Newco to be issued pursuant to this Scheme, the nominal value of which shall be equal to the Closing Price of the Shares on the last day of trading in the Shares on the London Stock Exchange prior to the Scheme Effective Time
<b>“Registrar of Companies”</b> . . . . .	the Registrar of Companies in England and Wales
<b>“Registrars”</b> . . . . .	Capita Asset Services, the registrars of the Company
<b>“Regulatory Information Service”</b> . . .	has the meaning given in the Listing Rules of the Financial Conduct Authority
<b>“Relevant Shares”</b> . . . . .	the shares allotted and issued by Newco pursuant to Clause 2, or by Sainsbury’s pursuant to the Newco Articles (as the case may be)
<b>“Restricted Overseas Shareholder”</b> . .	a Scheme Shareholder whom Sainsbury’s or Newco requires the Company to treat as a Restricted Overseas Shareholder pursuant to Clause 6.1
<b>“Sainsbury’s”</b> . . . . .	J Sainsbury plc, incorporated in England and Wales with registered number 185647
<b>“Sainsbury’s Group”</b> . . . . .	Sainsbury’s and its subsidiaries and subsidiary undertakings
<b>“Sainsbury’s Offer Consideration”</b> . . .	for each Newco Share, 0.321 New Sainsbury’s Shares and 55 pence in cash, subject to the Mix and Match Facility and the provisions regarding fractional entitlements in the Newco Articles
<b>“Sainsbury’s Shares”</b> . . . . .	ordinary shares of 28 <sup>4</sup> / <sub>7</sub> pence each in the capital of Sainsbury’s
<b>“Scheme”</b> . . . . .	this scheme of arrangement in its present form or with or subject to any modification, addition or condition approved or imposed by the Court and agreed to by the Company, Sainsbury’s and Newco
<b>“Scheme Effective Time”</b> . . . . .	the time and date at which this Scheme becomes effective in accordance with Clause 10
<b>“Scheme Record Time”</b> . . . . .	6.00 p.m. on the business day immediately prior to the date of the hearing to confirm the Home Retail Group Reduction of Capital
<b>“Scheme Shareholder”</b> . . . . .	a holder of Scheme Shares at any relevant date or time
<b>“Scheme Shares”</b> . . . . .	(i) the Shares in issue at the date of this Scheme; (ii) any Shares issued after the date of this Scheme and before the Voting Record Time; and (iii) any Shares issued at or after the Voting Record Time and before the Scheme Record Time on terms that the holder thereof shall be bound by this Scheme, or in respect of which the original or any subsequent holders thereof shall have agreed in writing to be bound by this Scheme,  and in each case remaining in issue at the Scheme Record Time, but excluding any Excluded Shares
<b>“Shares”</b> . . . . .	ordinary shares of £0.10 each in the capital of the Company
<b>“Statement of Capital”</b> . . . . .	the statement of capital scheduled to the order of the Court confirming the Home Retail Group Reduction of Capital, and approved by the Court
<b>“subsidiary” and “subsidiary undertaking”</b> . . . . .	have the meanings given in the Companies Act

**“uncertificated” or “in uncertificated form”** . . . . .

recorded on the relevant register as being held in uncertificated form in CREST, and title to which may be transferred by means of CREST

**“Voting Record Time”** . . . . .

6.00 p.m. on the day which is two days before the date of the Court Meeting or, if the Court Meeting is adjourned, 6.00 p.m. on the day which is two days before the date of such adjourned meeting

References to Clauses are to clauses of this Scheme, and references to time are to London time.

- (B) The issued share capital of the Company as at the close of business on 1 July 2016 (being the latest practicable date prior to the date of this Scheme) was £81,344,500.10 divided into 813,445,001 ordinary shares of £0.10 each, all of which were credited as fully paid and none of which were held in treasury. It is proposed that a deferred share of £0.10 in the capital of the Company be issued to Newco for cash before the Scheme Record Time.
- (C) Newco was incorporated on 14 April 2016 under the Companies Act as a private limited company. The issued share capital of Newco at the date of this Scheme is £0.01 divided into one ordinary share of £0.01, which is credited as fully paid. Upon this Scheme becoming effective in accordance with Clause 10, the ordinary share currently in issue shall automatically convert to a deferred share in accordance with the Newco Articles.
- (D) It is proposed that, subject to certain conditions being fulfilled, including this Scheme becoming effective, the capital of Newco be reduced pursuant to a special resolution passed before the date of this Scheme and that, as part of such reduction of capital, 27.8 pence per Newco Share be returned to the holders of Newco Shares at the Newco Reduction Record Time (being the Scheme Shareholders).
- (E) It is proposed that, subject to certain conditions being fulfilled, including this Scheme becoming effective and the Newco Reduction of Capital being confirmed by the Court, and with effect from the Newco Reduction Effective Time, the Newco Shares be transferred to Sainsbury’s and/or its nominee(s) pursuant to the Newco Articles, in consideration for which Sainsbury’s shall deliver the Sainsbury’s Offer Consideration to such Newco Shareholders (being the Scheme Shareholders).
- (F) The provisions of Clauses 3, 4 and 5 are subject to the confirmation by the Court of the Newco Reduction of Capital and accordingly cannot be implemented until a copy of the Newco Reduction Court Order has been delivered to the Registrar of Companies and has been registered.
- (G) There shall be no new issues of shares by, or transfer of shares in, the Company or Newco between the Scheme Record Time and the Newco Reduction Effective Time, other than the issue of new Shares to Newco and/or its nominee(s) pursuant to Clause 1.2 and the issue of Newco Shares to Scheme Shareholders pursuant to Clause 2, such that the Scheme Shareholders at the Scheme Record Time shall be the same as the Newco Shareholders at the Newco Reduction Effective Time.
- (H) Each of Newco and Sainsbury’s has agreed to appear by Counsel at the hearing to sanction this Scheme and to submit to be bound by and to undertake to the Court to be bound by this Scheme and to execute and do, or procure to be executed and done, all such documents, acts and things as may be necessary or desirable to be executed or done by it for the purpose of giving effect to this Scheme, the Newco Reduction of Capital and the transfer of Newco Shares to Sainsbury’s and/or its nominee(s) pursuant to the Newco Articles, including not amending the Newco Articles prior to the Newco Reduction Effective Time except as agreed between Newco, Sainsbury’s and the Company.

## **THE SCHEME**

### **1 Cancellation of the Scheme Shares**

- 1.1 At the Scheme Effective Time, the share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares.
- 1.2 Subject to and forthwith upon the Home Retail Group Reduction of Capital taking effect and notwithstanding anything to the contrary in the articles of association of the Company, the reserve arising in the books of account of the Company as a result of the Home Retail Group Reduction of Capital shall be capitalised and applied in paying up in full at par such number of new Shares as shall be equal to the number of Scheme Shares cancelled pursuant to Clause 1.1, and such new Shares shall be allotted and issued credited as fully paid to Newco and/or its nominee(s).

### **2 Consideration for the cancellation of the Scheme Shares**

- 2.1 In consideration of the cancellation of the Scheme Shares and the allotment and issue of the new Shares as provided in Clause 1, Newco shall (subject to Clause 6) allot and issue Newco Shares to the Scheme Shareholders (as appearing in the register of members of the Company at the Scheme Record Time) on the following basis:

#### **For each Scheme Share**

#### **One Newco Share**

- 2.2 The Newco Shares allotted and issued pursuant to Clause 2.1 shall be issued credited as fully paid and shall be entitled to all dividends and other distributions declared, paid or made by Newco on the ordinary share capital of Newco by reference to a record date at or after the Scheme Effective Time.

### **3 Reduction of Capital of Newco**

- 3.1 Subject to this Scheme becoming effective and the register of members of Newco being updated to reflect the allotment and issue of Newco Shares to Scheme Shareholders pursuant to Clause 2.1, Newco shall procure the delivery to the Registrar of Companies of the Newco Reduction Court Order and, upon the Newco Reduction of Capital taking effect by registration by the Registrar of Companies of the Newco Reduction Court Order, the share capital of Newco shall be reduced by cancelling paid-up capital upon each of the Newco Shares to the extent of an amount equal to the nominal value of the Newco Shares upon issue less £0.01 per Newco Share and reducing the nominal amount of each of the Newco Shares to £0.01.
- 3.2 As part of the Newco Reduction of Capital, Newco shall also return 27.8 pence of capital per Newco Share (subject to the rounding of entitlements as set out in the Newco Reduction Resolution) to Newco Shareholders on the register of members of Newco at the Newco Reduction Record Time (being the Scheme Shareholders) and such amount shall be paid to such Newco Shareholders in accordance with the Newco Reduction Resolution and the provisions of Clause 7. The remaining capital reduced as part of the Newco Reduction of Capital but not returned to shareholders as part of the Capital Return shall be transferred to the reserves of Newco to be available for future distributions by Newco from time to time or applied by Newco from time to time toward any other purpose to which such reserves may be applied.

### **4 Subsequent transfer of Newco Shares**

Subject to and immediately following the Newco Reduction of Capital becoming effective, Sainsbury's (and/or its nominee(s)) shall acquire all of the Newco Shares pursuant to the Newco Articles and, in consideration for the transfer of the Newco Shares thereunder, Sainsbury's shall (subject to Clauses 5 and 6) deliver the Sainsbury's Offer Consideration to the Newco Shareholders (being the Scheme Shareholders) in accordance with the Newco Articles and the provisions of Clause 7.

### **5 Mix and Match Facility**

- 5.1 Pursuant to the Newco Articles, the Sainsbury's Offer Consideration due thereunder to Home Retail Group Shareholders (being Scheme Shareholders) shall be subject to Elections under the Mix and Match Facility made by such shareholders in their capacity as Scheme Shareholders.
- 5.2 Each Election by a holder of Scheme Shares in certificated form shall be made by completion of a Form of Election which shall be executed by the Scheme Shareholder or their duly authorised agent

(or, in the case of a body corporate, executed by an authorised representative). Scheme Shareholders who hold their Scheme Shares in uncertificated form shall make any such Election by way of an Electronic Election. To be effective, a Form of Election must be completed and returned in accordance with the instructions printed thereon so as to arrive at the offices of the Registrars by no later than the Election Return Time. To be effective, an Electronic Election must be made and received by the Registrars by no later than the Election Return Time.

- 5.3 If a Form of Election or an Electronic Election is received by the Registrars after the Election Return Time or if a Form of Election or an Electronic Election is received by the Registrars before such time but is not, or is deemed not to be, valid or complete in all respects at such time, then such Election shall be void unless and to the extent that the Company and Sainsbury's, in their absolute discretion, elect to treat as valid in whole or in part any such Election.
- 5.4 Upon execution and delivery by a Scheme Shareholder of a valid Form of Election or the making of a valid Electronic Election, such Scheme Shareholder shall be bound by the terms and provisions contained in the Form of Election or the Electronic Election (as the case may be) and by the terms and provisions contained in the part entitled "Notes for Making Elections under the Mix and Match Facility" of the circular sent by the Company to Scheme Shareholders, of which this Scheme forms part.
- 5.5 A Form of Election duly completed and delivered or an Electronic Election made in accordance with Clause 5.2 may be withdrawn by notice to the Registrars in writing to be received by the Election Return Time.
- 5.6 If a Scheme Shareholder delivers more than one Form of Election or Electronic Election in respect of his or her Scheme Shares, in the case of an inconsistency between such Forms of Election or Electronic Elections, the last Form of Election or Electronic Election which is delivered by the Election Return Time shall prevail over any earlier Form of Election or Electronic Election. The delivery time for a Form of Election or Electronic Election shall be determined on the basis of which Form of Election or Electronic Election is last sent or, if the Registrars are unable to determine which is last sent, is last received. Forms of Election which are sent in the same envelope shall be treated for these purposes as having been sent and received at the same time, and, in the case of an inconsistency between such Forms of Election, none of them shall be treated as valid (unless the Company and Sainsbury's otherwise determine in their absolute discretion).
- 5.7 Elections made by Scheme Shareholders under the Mix and Match Facility shall not affect the entitlements of Scheme Shareholders who do not make any such Election.
- 5.8 An Election shall only be accepted under the Mix and Match Facility in respect of a whole number of Scheme Shares. Any Election which is made in respect of a number of Scheme Shares which is not a whole number shall be deemed to be made in respect of the nearest whole number of Scheme Shares when rounded down.
- 5.9 A Scheme Shareholder may make an Election in respect of all or part of their holding of Scheme Shares. A Scheme Shareholder may make an Election to receive more cash in respect of some of their Scheme Shares and an Election to receive more shares in respect of others.
- 5.10 The following provisions shall apply:
  - 5.10.1 the aggregate number of New Sainsbury's Shares to be issued to Scheme Shareholders pursuant to the Newco Articles shall not be increased or decreased as a result of Elections made pursuant to this Clause 5 save where required to accommodate rounding of individual entitlements to the nearest whole New Sainsbury's Share;
  - 5.10.2 the aggregate amount of cash consideration to be paid to Scheme Shareholders pursuant to the Newco Articles shall not be increased or decreased as a result of Elections made pursuant to this Clause 5;
  - 5.10.3 Elections made by Scheme Shareholders to receive more New Sainsbury's Shares than they would receive absent such an Election shall be satisfied only to the extent that other Scheme Shareholders make equal and opposite Elections for more cash than they would receive absent such an Election; and
  - 5.10.4 Elections made by Scheme Shareholders to receive more cash than they would receive absent such an Election shall be satisfied only to the extent that other Scheme Shareholders make



equal and opposite Elections to receive more New Sainsbury's Shares than they would receive absent such an Election.

5.11 To the extent that Elections to receive more cash or more New Sainsbury's Shares cannot be satisfied in full:

- 5.11.1 the number of Scheme Shares in respect of which a Scheme Shareholder has made an Election shall be scaled down pro rata in proportion to the total number of Scheme Shares in respect of which the Election is made (or as near thereto as the Company and Sainsbury's in their absolute discretion consider practicable); and
- 5.11.2 the balance of the Scheme Shares the subject of such Election shall be deemed to be Scheme Shares in respect of which no Election has been made.

5.12 If a Scheme Shareholder has made a valid Election in respect of all of their Scheme Shares, then:

- 5.12.1 the validity of the Election shall not be affected by any alteration in the number of Scheme Shares held by the Scheme Shareholder at any time prior to the Scheme Record Time; and
- 5.12.2 accordingly, the Election shall apply in respect of all of the Scheme Shares which the Scheme Shareholder holds immediately prior to the Scheme Record Time.

5.13 If a Scheme Shareholder has made a valid Election in respect of a specified number of Scheme Shares and immediately prior to the Scheme Record Time the number of Scheme Shares held by the Scheme Shareholder:

- 5.13.1 exceeds the number of Scheme Shares to which such Election relates, then the validity of the Election made by the Scheme Shareholder shall not be affected by any alteration in the number of Scheme Shares held by the Scheme Shareholder at any time prior to the Scheme Record Time and any reduction in that holding shall be treated first as a disposal of those Scheme Shares in respect of which no Election was made; or
- 5.13.2 is less than the number of Scheme Shares to which such Election relates, then:
  - (a) if the Scheme Shareholder has made only a valid Election to receive more cash, such Scheme Shareholder shall be treated as having made such an Election in respect of their entire holding of Scheme Shares;
  - (b) if the Scheme Shareholder has made only a valid Election to receive more New Sainsbury's Shares, such Scheme Shareholder shall be treated as having made such an Election in respect of their entire holding of Scheme Shares; and
  - (c) if the Scheme Shareholder has made both a valid Election to receive more cash and a valid Election to receive more New Sainsbury's Shares, then:
    - (i) Elections to receive more New Sainsbury's Shares made by the Scheme Shareholder (the "**Relevant Share Elections**") shall be reduced so as to apply to the number of Scheme Shares calculated by multiplying (x) the number of Scheme Shares held by the Scheme Shareholder immediately prior to the Scheme Record Time by (y) the fraction calculated by dividing the number of Scheme Shares the subject of the Relevant Share Elections by the aggregate number of Scheme Shares the subject of (i) the Relevant Share Elections and (ii) Elections to receive more cash made by the Scheme Shareholder, and rounding down to the nearest whole number of Scheme Shares; and
    - (ii) the Elections to receive more cash made by the Scheme Shareholder shall be reduced so as to apply to all the Scheme Shares held by the Scheme Shareholder immediately prior to the Scheme Record Time which are not the subject of Relevant Share Elections as scaled down pursuant to paragraph (i) above.

5.14 Minor adjustments to the entitlements of Scheme Shareholders pursuant to Elections made under this Scheme may be made by the Registrars with the prior consent of the Company and Sainsbury's on a basis that the Company and Sainsbury's consider to be fair and reasonable to the extent necessary to satisfy all entitlements pursuant to Elections under this Scheme as nearly as may be practicable. Such adjustments shall be final and binding on Scheme Shareholders.

5.15 No Election shall be available to Restricted Overseas Shareholders, and any purported Election by a Restricted Overseas Shareholder shall be void. The Company shall omit to send any Restricted Overseas Shareholder a Form of Election and deny any Restricted Overseas Shareholder access to any platform required to effect an Electronic Election.

## **6 Overseas shareholders**

6.1 The provisions of Clause 2, and the issue pursuant to the Newco Articles of New Sainsbury's Shares thereunder (and referenced in Clause 4), shall be subject to any prohibition or condition imposed by law. Without prejudice to the generality of the foregoing, if, in respect of any Scheme Shareholder with a registered address in a jurisdiction outside the United Kingdom or whom Sainsbury's reasonably believes to be a citizen, resident or national of a jurisdiction outside the United Kingdom, Sainsbury's is advised that the allotment and/or issue of Newco Shares pursuant to Clause 2, or of New Sainsbury's Shares pursuant to the Newco Articles (and referenced in Clause 4), would or may infringe the laws of such jurisdiction or would or may require the Company, Newco or Sainsbury's (as the case may be) to comply with any governmental or other consent or any registration, filing or other formality with which the Company, Newco or Sainsbury's is unable to comply or compliance with which the Company or Sainsbury's regards as unduly onerous, then Sainsbury's or Newco (as applicable) may, in its sole discretion, require the Company to treat such Scheme Shareholder as a Restricted Overseas Shareholder for the purposes of this Scheme and may either:

6.1.1 determine that such Newco Shares or New Sainsbury's Shares (as the case may be) shall be sold, in which event the relevant shares shall be issued to such Scheme Shareholder and Sainsbury's shall appoint a person to act pursuant to this Clause 6.1.1 and such person shall be authorised on behalf of such Scheme Shareholder to procure that such shares shall, as soon as practicable following the Newco Reduction Effective Time, be sold; or

6.1.2 determine that such Newco Shares or New Sainsbury's Shares (as the case may be) shall not be issued to such Scheme Shareholder but shall instead be issued to a person appointed by Sainsbury's to hold such shares for such Scheme Shareholder on terms that such person shall, as soon as practicable following the Newco Reduction Effective Time, sell the relevant shares so issued.

6.2 Any sale under Clause 6.1 shall be carried out at the best price which can reasonably be obtained at the time of sale and the net proceeds of such sale (after the deduction of all expenses and commissions incurred in connection with such sale, together with any value added tax thereon, including any tax or any foreign exchange conversion fees payable on the proceeds of sale) shall be paid to such Scheme Shareholder by sending a cheque or creating an assured payment obligation in accordance with the provisions of Clause 7.

6.3 To give effect to any sale under Clause 6.1, the person appointed by Sainsbury's in accordance with Clause 6.1.1 shall be authorised as attorney on behalf of the Scheme Shareholder concerned, and the person appointed by Sainsbury's in accordance with Clause 6.1.2 shall be authorised, to execute and deliver as transferor a form of transfer or other instrument or instruction of transfer and to give such instructions and to do all other things which he or she may consider necessary or expedient in connection with such sale. In the absence of bad faith or wilful default, none of the Company, Sainsbury's, Newco or the persons so appointed shall have any liability for any determination made pursuant to Clause 6.1 or for any loss or damage arising as a result of the timing or terms of any sale pursuant to Clause 6.1.

## **7 Settlement of consideration**

7.1 Newco shall allot and issue the Newco Shares due to Scheme Shareholders as consideration pursuant to Clause 2 as soon as practicable after the Scheme Effective Time and in any event within one business day following the Scheme Effective Time. No share certificates shall be issued in respect of the Newco Shares and such shares shall not be admitted to CREST.

7.2 As soon as practicable on or after the Newco Reduction Effective Time in relation to Clause 7.2.1 (except Clause 7.2.1(a)), and in relation to Clauses 7.2.1, 7.2.2 and 7.2.3 no later than 14 days after the Newco Reduction Effective Time, Newco shall pay the return of capital proceeds due to Newco Shareholders (being Scheme Shareholders) pursuant to the Newco Reduction of Capital (and referenced in Clause 3), and Sainsbury's shall satisfy the Sainsbury's Offer Consideration due to

Newco Shareholders (being Scheme Shareholders) pursuant to the Newco Articles (and referenced in Clause 4) (each so far as the provisions of this Clause 7 apply to them) as follows:

- 7.2.1 allot and issue the New Sainsbury's Shares which it is required to allot and issue to Scheme Shareholders, and:
- (a) in the case of Scheme Shares which at the Scheme Record Time are in certificated form, procure the despatch of certificates for the New Sainsbury's Shares to the persons entitled thereto; and
  - (b) in the case of Scheme Shares which at the Scheme Record Time are in uncertificated form, procure that Euroclear is instructed to credit the appropriate stock account in CREST of the relevant Scheme Shareholder with such Scheme Shareholder's entitlement to the New Sainsbury's Shares, provided that Sainsbury's reserves the right to settle all or part of such consideration in the manner set out in Clause 7.2.1(a) if, for reasons outside its reasonable control, it is not able to effect settlement in accordance with this Clause 7.2.1(b);
- 7.2.2 in the case of Relevant Shares sold pursuant to Clause 6.1, and cash in respect of the return of capital pursuant to the Newco Reduction of Capital (and referenced in Clause 3) and in respect of the cash consideration payable pursuant to the Newco Articles (and referenced in Clause 4), and in each case due in respect of Scheme Shares which at the Scheme Record Time are in certificated form, procure the despatch to the persons entitled thereto of cheques for the sums payable to them respectively; and
- 7.2.3 in the case of Relevant Shares sold pursuant to Clause 6.1, and cash in respect of the return of capital pursuant to the Newco Reduction of Capital (and referenced in Clause 3) and in respect of the cash consideration payable pursuant to the Newco Articles (and referenced in Clause 4), and in each case due in respect of Scheme Shares which at the Scheme Record Time are in uncertificated form, procure that Euroclear is instructed to create an assured payment obligation in favour of the payment bank of the persons entitled thereto in accordance with the CREST assured payment arrangements for the sums payable to them respectively, provided that Newco or Sainsbury's (as the case may be) reserves the right to make payment of the said sums by cheque as set out in Clause 7.2.2 if, for reasons outside its reasonable control, it is not able to effect settlement in accordance with this Clause 7.2.3.
- 7.3 All deliveries of share certificates and cheques pursuant to this Scheme, the Newco Reduction of Capital and the Newco Articles shall be effected by sending the same by first class post (or international standard post, if overseas) in prepaid envelopes addressed to the persons entitled thereto at their respective addresses as appearing in the register of members of the Company or, in the case of joint holders, at the address of that one of the joint holders whose name stands first in such register in respect of such joint holding at the Scheme Record Time, and none of the Company, Sainsbury's, Newco or any person appointed by Sainsbury's in accordance with Clause 6.1 or their respective agents shall be responsible for any loss or delay in the transmission or delivery of any share certificates or cheques sent in accordance with this Clause 7.3 which shall be sent at the risk of the persons entitled thereto.
- 7.4 All cheques shall be in sterling drawn on a UK clearing bank and shall be made payable to the persons respectively entitled to the monies represented thereby (except that, in the case of joint holders, Newco and Sainsbury's reserve the right to make such cheques payable to that one of the joint holders whose name stands first in the register of members of the Company in respect of such joint holding at the Scheme Record Time), and the encashment of any such cheque or the creation of any such assured payment obligation in accordance with Clause 7.2.3 shall be a complete discharge of Newco's or Sainsbury's obligations under this Scheme, the Newco Reduction of Capital or the Newco Articles (as the case may be) to pay the monies represented thereby.
- 7.5 The provisions of this Clause 7 shall be subject to any condition or prohibition imposed by law.

## **8 Share certificates and cancellation of entitlements**

With effect from the Scheme Effective Time:

- 8.1 all certificates representing Scheme Shares shall cease to have effect as documents of title to the Scheme Shares comprised therein and every Scheme Shareholder shall be bound at the request of the

Company to deliver up their share certificate(s) to the Company (or any person appointed by the Company to receive the same) or to destroy the same;

- 8.2 Euroclear shall be instructed to cancel the entitlements of Scheme Shareholders to Scheme Shares in uncertificated form; and
- 8.3 appropriate entries shall be made in the register of members of the Company to reflect the cancellation of the Scheme Shares.

## **9 Mandates**

All mandates, including any mandates relating to the payment of dividends or other amounts, and communication preferences, and other instructions given to the Company by Scheme Shareholders and in force at the Scheme Record Time relating to Scheme Shares shall, unless and until revoked or amended, be deemed as from the Newco Reduction Effective Time to be valid and effective mandates or instructions to (i) Newco for the purposes of payment of the return of capital to be effected pursuant to the Newco Reduction of Capital, and (ii) Sainsbury's in relation to the New Sainsbury's Shares issued in respect thereof, except, in the case of (ii), to the extent that a Scheme Shareholder already holds Sainsbury's Shares at the Scheme Record Time (and the registrars of Sainsbury's are able to match such holdings), in which case any mandates and instructions in relation to those existing Sainsbury's Shares will apply to the New Sainsbury's Shares issued to that Scheme Shareholder.

## **10 Scheme Effective Time**

- 10.1 This Scheme shall become effective as soon as copies of the orders of the Court sanctioning this Scheme under section 899 of the Companies Act and confirming under section 648 of the Companies Act the Home Retail Group Reduction of Capital, together with the Statement of Capital, shall have been delivered to the Registrar of Companies and, if so ordered by the Court, the order of the Court confirming the Home Retail Group Reduction of Capital and the Statement of Capital shall have been registered by the Registrar of Companies.
- 10.2 Unless this Scheme shall have become effective on or before 28 March 2017, or such later date, if any, as the Company, Sainsbury's and Newco may agree and the Court may allow, this Scheme shall never become effective.

## **11 Modification**

The Company, Sainsbury's and Newco may jointly consent on behalf of all concerned to any modification of, or addition to, this Scheme or to any condition which the Court may approve or impose.

## **12 Loan**

The Company shall be authorised and permitted following this Scheme becoming effective to make a loan to Newco to fund the return of capital to be effected pursuant to the Newco Reduction of Capital, on such terms as may be agreed between the Company and Newco.

Dated 5 July 2016

## PART IX DEFINITIONS

In this document the following words and expressions have the following meanings, unless the context requires otherwise:

<b>2015 Annual Report and Accounts of Home Retail Group</b> . . . . .	the annual report and audited accounts of the Home Retail Group for the 52-week period ended 28 February 2015
<b>2015 Annual Report and Accounts of Sainsbury's</b> . . . . .	the annual report and audited accounts of the Sainsbury's Group for the 52-week period ended 12 March 2015
<b>Acquisition</b> . . . . .	the proposed direct or indirect acquisition by Sainsbury's of the entire issued and to be issued share capital of Home Retail Group plc not already owned by or on behalf of the Sainsbury's Group pursuant to the Scheme (and subsequent steps contemplated by the Scheme), or should Sainsbury's so elect, by means of a Takeover Offer
<b>Admission</b> . . . . .	the admission of the New Sainsbury's Shares by the FCA to the Official List and to trading on the London Stock Exchange's main market for listed securities
<b>Agreed Terms Announcement</b> . . . . .	the announcement by Sainsbury's and Home Retail Group plc under Rule 2.4 of the Takeover Code on 2 February 2016 setting out the key financial terms of a possible offer for Home Retail Group plc
<b>Amendment and Restatement Agreement</b> . . . . .	has the meaning given to it in paragraph 9 of Part II of this document
<b>Announcement</b> . . . . .	the joint announcement of the Acquisition, dated 1 April 2016, by Sainsbury's and Home Retail Group plc in accordance with Rule 2.7 of the Takeover Code
<b>Argos</b> . . . . .	the subsidiaries of Home Retail Group plc carrying on the business trading as Argos, the principal subsidiary undertakings of which being Argos Limited and Argos Distributors (Ireland Limited)
<b>Argos Limited</b> . . . . .	a company incorporated in the UK with company number 01081551
<b>Articles</b> . . . . .	the Articles of Association of Home Retail Group plc in force from time to time
<b>associated undertaking</b> . . . . .	shall be construed in accordance with paragraph 19 of Schedule 6 to the Large and Medium sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008/410) but for this purpose ignoring paragraph 19(1)(b) of Schedule 6 to those regulations
<b>Authorisations</b> . . . . .	authorisations, orders, grants, recognitions, confirmations, consents, licences, clearances, certificates, permissions or approvals
<b>Bank of America Merrill Lynch</b> . . . . .	Merrill Lynch International, a subsidiary of Bank of America Corporation
<b>Board</b> . . . . .	the board of directors of a company
<b>business day</b> . . . . .	a day on which London Stock Exchange plc is open for the transaction of business



<b>Capita</b> . . . . .	Capita Asset Services of The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU
<b>Capital Return</b> . . . . .	the proposed capital return of 27.8 pence per Home Retail Group Share, to be effected through the Newco Reduction of Capital
<b>Cash Election</b> . . . . .	a Mix and Match Election to receive a greater proportion of cash for each Scheme Share pursuant to the terms of the Mix and Match Facility
<b>certificated or in certificated form</b> . . .	in relation to a share or other security, not in uncertificated form (that is, not in CREST)
<b>Closing Price</b> . . . . .	the closing middle-market price of the relevant share as derived from the Daily Official List of the London Stock Exchange for the Home Retail Group Share price and/or the Sainsbury's Share price (as applicable)
<b>CMA</b> . . . . .	Competition and Markets Authority of the UK
<b>Combined Group</b> . . . . .	the enlarged group following Completion of the Acquisition, comprising the Home Retail Group and the Sainsbury's Group
<b>Companies Act</b> . . . . .	the Companies Act 2006 (as amended)
<b>Completion or Complete</b> . . . . .	in the context of the Acquisition: <ul style="list-style-type: none"> <li>(i) if the Acquisition is implemented pursuant to the Scheme, the Scheme and the Newco Reduction of Capital having become Effective and all other Conditions having been fulfilled or (if capable of waiver) waived; or</li> <li>(ii) if the Acquisition is implemented by way of a Takeover Offer, the Takeover Offer having become or been declared unconditional in all respects</li> </ul>
<b>Completion Date</b> . . . . .	the date on which Completion of the Acquisition occurs
<b>Conditions</b> . . . . .	the conditions to the Acquisition which are set out in Part III of this document
<b>Confidentiality Agreement</b> . . . . .	the confidentiality agreement dated 3 February 2016 between Sainsbury's and Home Retail Group plc
<b>Co-operation Agreement</b> . . . . .	the co-operation agreement dated 1 April 2016 between Sainsbury's and Home Retail Group plc
<b>Court</b> . . . . .	the High Court of Justice in England and Wales
<b>Court Meeting</b> . . . . .	the meeting of the Scheme Shareholders convened by order of the Court pursuant to section 896 of the Companies Act to consider and, if thought fit, approve this Scheme, including any adjournment thereof
<b>CREST</b> . . . . .	the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by Euroclear in accordance with the Uncertificated Securities Regulations 2001 (as amended)
<b>CREST Manual</b> . . . . .	The CREST manual referred to in agreements entered into by Euroclear
<b>CREST Proxy Instruction</b> . . . . .	the appropriate CREST message properly authenticated in accordance with Euroclear's specifications and which contains the information required for such instructions, as described in the CREST Manual
<b>Daily Official List</b> . . . . .	means the daily official list of the London Stock Exchange

<b>Dealing Disclosure</b> . . . . .	has the same meaning as in Rule 8 of the Takeover Code
<b>Dealing Facility</b> . . . . .	the share dealing facility to be made available to certain former Home Retail Group Shareholders following the Completion Date as described in paragraph 25 of Part II of this document
<b>Deloitte</b> . . . . .	Deloitte LLP
<b>Deposit Agreement</b> . . . . .	the deposit agreement, dated 1 October 2009, by and among Home Retail Group, the Home Retail Group Depositary and all holders from time to time of Home Retail Group ADRs issued thereunder
<b>EBIT</b> . . . . .	earnings before interest and taxation
<b>EBITDA</b> . . . . .	earnings before interest, taxation, depreciation and amortisation
<b>EEA</b> . . . . .	the European Economic Area
<b>Effective</b> . . . . .	(i) in respect of the Scheme, the Scheme having become effective pursuant to its terms;  (ii) in respect of the Newco Reduction of Capital, the Newco Reduction of Capital becoming effective by registration of the Newco Reduction Court Order
<b>Effective Date</b> . . . . .	the day on which the Scheme becomes Effective in accordance with its terms
<b>Election</b> . . . . .	an election made in accordance with the Scheme in respect of the Mix and Match Facility, including both an Electronic Election and an election made by Form of Election
<b>Election Return Time</b> . . . . .	1.00 p.m. on the business day immediately prior to the date of the hearing to sanction this Scheme or such later date and time (if any) as the Company, Sainsbury's and Newco may agree and the Company may announce through a Regulatory Information Service
<b>Electronic Election</b> . . . . .	an election made in accordance with the Scheme in respect of the Mix and Match Facility by a Home Retail Group Shareholder who holds Home Retail Group Shares in uncertificated form immediately prior to the Election Return Time
<b>Employee Trust</b> . . . . .	the Home Retail Group Employee Share Trust
<b>EURIBOR</b> . . . . .	the Euro Interbank Offered Rate
<b>Euroclear</b> . . . . .	Euroclear UK & Ireland Limited, incorporated in England and Wales with registered number 02878738
<b>Exchange Ratio</b> . . . . .	0.321 Sainsbury's Shares for each Home Retail Group Share which, following the Scheme becoming Effective, shall be interpreted to mean 0.321 Sainsbury's Shares for each Newco Share
<b>Excluded Shares</b> . . . . .	any Shares which are registered in the name of or beneficially owned by any member of the Sainsbury's Group
<b>Existing Sainsbury's Shares</b> . . . . .	the Sainsbury's Shares in issue at the date of the Announcement
<b>Explanatory Statement</b> . . . . .	the explanatory statement relating to the Scheme, as set out in Part II of this document, which together with the documents incorporated therein constitute the explanatory statement relating to the Scheme as required by section 897 of the Companies Act

<b>Fairly Disclosed</b> . . . . .	the information which has been fairly disclosed by or on behalf of Home Retail Group plc:
	(i) prior to the date of the Original Announcement by or on behalf of Home Retail Group plc to Sainsbury's or Sainsbury's financial, accounting, tax or legal advisers (specifically as Sainsbury's advisers in relation to the Acquisition);
	(ii) in the 2015 Annual Report and Accounts of Home Retail Group;
	(iii) in the circular dated 2 February 2016 published by Home Retail Group plc in connection with the Homebase Sale;
	(iv) in a public announcement made in accordance with the Disclosure Rules and Transparency Rules by Home Retail Group plc after 28 February 2015 and prior to the date of the Original Announcement
<b>FCA or Financial Conduct Authority</b> .	the Financial Conduct Authority or its successor from time to time
<b>Form of Election</b> . . . . .	the form of election relating to the Mix and Match Facility sent to Scheme Shareholders who hold their Scheme Shares in certificated form other than holders with a registered address in, or who are a citizen, resident or national of, a Restricted Jurisdiction
<b>Forms of Proxy</b> . . . . .	either or both of the blue form of proxy for use at the Court Meeting and the yellow form of proxy for use at the General Meeting which accompany this document, as the context requires
<b>FSMA</b> . . . . .	the Financial Services and Markets Act 2000 (as amended from time to time)
<b>General Meeting</b> . . . . .	the general meeting of Home Retail Group Shareholders to be convened in connection with the Scheme, the Home Retail Group Reduction of Capital and the Newco Reduction of Capital and to be held at 11.10 a.m. on 27 July 2016 or as soon thereafter as the Court Meeting shall have been concluded or been adjourned, notice of which is set out in Part XI of this document, and any adjournment thereof
<b>GFSC</b> . . . . .	the Guernsey Financial Services Commission
<b>Group</b> . . . . .	in connection with a legal entity, such entity together with its subsidiary undertakings, its holding companies and any fellow subsidiary undertakings of such a holding company
<b>Hampden Group Limited</b> . . . . .	Hampden Group Limited, a private company incorporated in Northern Ireland with company number NI011639
<b>HMRC</b> . . . . .	HM Revenue & Customs
<b>holder</b> . . . . .	a registered holder, and includes any person entitled by transmission
<b>Home Retail Group</b> . . . . .	Home Retail Group plc (and with effect from the Scheme becoming Effective, Newco) and its subsidiary undertakings from time to time and, where the context permits, each of them
<b>Home Retail Group ADRs</b> . . . . .	American Depositary Shares, each representing four Home Retail Group Shares, issued under the Deposit Agreement
<b>Home Retail Group Board</b> . . . . .	the board of directors of Home Retail Group plc

<b>Home Retail Group Depositary or Depositary</b> . . . . .	Citibank N.A., as depositary for the Home Retail Group ADR programme under the Deposit Agreement
<b>Home Retail Group Directors or Directors</b> . . . . .	the directors of Home Retail Group plc, whose names are set out in paragraph 2(a) of Part VI of this document
<b>Home Retail Group Executive Directors</b> . . . . .	John Walden and Richard Ashton
<b>Home Retail Group Non-Executive Directors</b> . . . . .	John Coombe, Ian Durant, Mike Darcey, Cath Keers and Jacqueline de Rojas
<b>Home Retail Group Pension Scheme</b> .	the Home Retail Group Pension Scheme, the defined benefit scheme of the Home Retail Group
<b>Home Retail Group plc or the Company</b> . . . . .	Home Retail Group plc, a company incorporated in England and Wales with registered number 05863533 and whose registered address is 489-499 Avebury Boulevard, Milton Keynes MK9 2NW
<b>Home Retail Group Reduction Court Hearing</b> . . . . .	the hearing by the Court (including any adjournment thereof) of the application to confirm the Home Retail Group Reduction of Capital
<b>Home Retail Group Reduction of Capital</b> . . . . .	the reduction of Home Retail Group plc's ordinary share capital provided for by the Scheme
<b>Home Retail Group Remuneration Committee</b> . . . . .	the remuneration committee of the board of directors of the Company or a duly authorised committee or individual
<b>Home Retail Group Share Plans</b> . . . .	the Home Retail Group Deferred Bonus Plan, the Home Retail Group Performance Share Plan, the Home Retail Group Tax Qualified Share Option Plan, the Home Retail Group UK Tax Qualified Sharesave Plan, the Home Retail Group Share Incentive Plan and the Home Retail Group Ireland Approved Profit Sharing Scheme
<b>Home Retail Group Shareholders</b> . . .	holders of Home Retail Group Shares from time to time
<b>Home Retail Group Share(s)</b> . . . . .	the existing unconditionally allotted or issued and fully paid ordinary shares of 10 pence each in the capital of Home Retail Group plc and any further shares which are unconditionally allotted or issued but excluding in both cases any such shares held or which become held in treasury
<b>Home Retail Group Trading Statement</b> . . . . .	the trading statement of the Home Retail Group for the 13 weeks from 28 February 2016 to 28 May 2016
<b>Homebase Group</b> . . . . .	means Hampden Group Limited and its subsidiaries carrying on the business trading as Homebase
<b>Homebase Limited</b> . . . . .	a company incorporated in the UK with company number 00533033

<b>Homebase Sale</b> . . . . .	the sale of the Homebase business by Home Retail Group (UK) Limited to Bunnings (UK & I) Holdings Limited pursuant to the Homebase Sale Agreement, as announced by Home Retail Group plc on 18 January 2016 and which completed on 27 February 2016
<b>Homebase Sale Agreement</b> . . . . .	the share purchase agreement entered into between, among others, Home Retail Group plc, Home Retail Group (UK) Limited and Bunnings (UK & I) Holdings Limited on 17 January 2016 in relation to the Homebase Sale
<b>IFRS</b> . . . . .	International Financial Reporting Standards (as adopted in the European Union)
<b>LIBOR</b> . . . . .	the London Interbank Offered Rate
<b>Listing Rules</b> . . . . .	the rules and regulations made by the Financial Conduct Authority in its capacity as the UKLA under the Financial Services and Markets Act 2000, and contained in the UKLA's publication of the same name
<b>London Stock Exchange</b> . . . . .	London Stock Exchange plc or its successor
<b>Long Stop Date</b> . . . . .	29 March 2017, or such later date (if any) as Home Retail Group plc and Sainsbury's may, with the consent of the Panel and (if required) the Court, agree
<b>Meetings</b> . . . . .	the Court Meeting and the General Meeting
<b>Mix and Match Election</b> . . . . .	any election by Home Retail Group Shareholders in connection with the Mix and Match Facility
<b>Mix and Match Facility</b> . . . . .	the facility provided for in the Scheme under which Home Retail Group Shareholders (other than holders with a registered address in, or who are a citizen, resident or national of, a Restricted Jurisdiction) may elect to vary the proportions in which they receive New Sainsbury's Shares and cash as part of the Sainsbury's Offer Consideration on the basis of, for every £0.55 in cash 0.233 of a New Sainsbury's Share, or for every 0.321 of a New Sainsbury's Share 75.8 pence in cash
<b>Morgan Stanley</b> . . . . .	Morgan Stanley & Co. International plc
<b>New Sainsbury's Shares</b> . . . . .	the Sainsbury's Shares proposed to be issued by Sainsbury's, credited as fully paid, as part of the Sainsbury's Offer Consideration
<b>Newco</b> . . . . .	Sainsbury's Intermediate Holdings Limited, a company incorporated in England and Wales with company number 10125892 and whose registered address is 33 Holborn, London EC1N 2HT
<b>Newco Articles</b> . . . . .	the articles of association of Newco at the date of this Scheme, subject to any amendments which may be made following agreement between Newco, Sainsbury's and the Company
<b>Newco Reduction Court Hearing</b> . . . .	the hearing by the Court (including any adjournment thereof) of the application to confirm the Newco Reduction of Capital
<b>Newco Reduction Court Order</b> . . . . .	the order of the Court confirming the Newco Reduction of Capital
<b>Newco Reduction Effective Time</b> . . . .	the time and date at which the Newco Reduction of Capital becomes effective by registration of the Newco Reduction Court Order by the Registrar of Companies



<b>Newco Reduction of Capital</b> . . . . .	the reduction of capital of Newco under sections 645 to 649 of the Companies Act, reducing the nominal value of each of the Newco Shares to £0.01 and returning 27.8 pence per Newco Share to the holders thereof at the Newco Reduction Record Time
<b>Newco Reduction Record Time</b> . . . . .	6.00 p.m. on the business day immediately prior to the date of the hearing to confirm the Newco Reduction of Capital
<b>Newco Reduction Resolution</b> . . . . .	the special resolution of the member(s) of Newco approving the Newco Reduction of Capital
<b>Newco Shareholder</b> . . . . .	a holder of Newco Shares at any relevant date or time
<b>Newco Shares</b> . . . . .	ordinary shares in the capital of Newco to be issued pursuant to the Scheme, the nominal value of which shall be equal to the Closing Price of the Home Retail Group Shares on the last day of trading in the Home Retail Group Shares on the London Stock Exchange prior to the Scheme Effective Time
<b>Offer Period</b> . . . . .	the period which commenced on 5 January 2016 and ending on the later of (i) the Completion Date; or (ii) the date on which the Acquisition lapses or is withdrawn (or such other date as the Panel may decide)
<b>Official List</b> . . . . .	the official list of the UK Listing Authority
<b>Opening Position Disclosure</b> . . . . .	has the same meaning as in Rule 8 of the Takeover Code
<b>Original Announcement</b> . . . . .	the announcement by Sainsbury's on 18 March 2016 setting out the terms of the Acquisition, which was originally to be implemented by way of a Takeover Offer
<b>Overseas Shareholders</b> . . . . .	Home Retail Group Shareholders (or nominees of, or custodians or trustees for Home Retail Group Shareholders) not resident in, or nationals or citizens of, the United Kingdom
<b>Panel</b> . . . . .	the Panel on Takeovers and Mergers
<b>Permitted Home Retail Group Payments</b> . . . . .	the aggregate of the Capital Return and the Permitted Home Retail Group plc Interim Dividend
<b>Permitted Home Retail Group plc Interim Dividend</b> . . . . .	has the meaning given to it in paragraph 10 of Part I
<b>Phase 2 CMA Reference</b> . . . . .	a reference of the Acquisition to the chair of the CMA for the constitution of a group under Schedule 4 to the Enterprise and Regulatory Reform Act 2013
<b>pounds or £ or sterling</b> . . . . .	the lawful currency of the United Kingdom from time to time
<b>Reduction Court Order</b> . . . . .	the order of the Court, to be granted at the Home Retail Group Reduction Court Hearing, confirming the Home Retail Group Reduction of Capital
<b>Registrar of Companies</b> . . . . .	the Registrar of Companies in England and Wales
<b>Regulations</b> . . . . .	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755)
<b>Regulatory Approvals</b> . . . . .	all regulatory approvals and consents (including anti-trust clearances in the UK and change of control approvals from the FCA and GFSC in the UK and the Bailiwick of Guernsey respectively) necessary to implement the Scheme and the Acquisition

<b>Regulatory Information Service . . . . .</b>	has the meaning given in the Listing Rules of the Financial Conduct Authority
<b>Restricted Jurisdiction . . . . .</b>	any jurisdiction where local laws or regulations may result in a significant risk of civil, regulatory or criminal exposure if the Acquisition is made in that jurisdiction, or information concerning the Acquisition is sent or made available to Home Retail Group Shareholders in that jurisdiction, or the Mix and Match Facility is made available to Home Retail Group Shareholders in that jurisdiction including, without limitation, the Republic of South Africa
<b>Restricted Overseas Shareholder . . . . .</b>	a Scheme Shareholder whom Sainsbury's or Newco requires the Company to treat as a Restricted Overseas Shareholder pursuant to the Scheme
<b>Sainsbury's . . . . .</b>	J Sainsbury plc, a company incorporated in England and Wales with company number 00185647 and whose registered address is 33 Holborn, London EC1N 2HT
<b>Sainsbury's ADRs . . . . .</b>	American depositary shares, each representing four Sainsbury's Shares, issued under a deposit agreement by and among Sainsbury's, Bank of New York Mellon and all holders from time to time of Sainsbury's ADRs issued thereunder
<b>Sainsbury's Bank . . . . .</b>	Sainsbury's Bank plc
<b>Sainsbury's Board . . . . .</b>	the board of directors of Sainsbury's
<b>Sainsbury's Directors . . . . .</b>	the directors of Sainsbury's, whose names are set out in paragraph 2(b) of Part VI of this document or, where the context so requires, the directors of Sainsbury's from time to time
<b>Sainsbury's Group . . . . .</b>	Sainsbury's and its subsidiary undertakings from time to time, and where the context permits, each of them
<b>Sainsbury's Interim Dividend Record Time . . . . .</b>	the date and time determined by the Sainsbury's Directors as being the time at which Sainsbury's Shareholders on the share register of Sainsbury's are entitled to receive the interim dividend from Sainsbury's for the 28 weeks ending 24 September 2016
<b>Sainsbury's Offer Consideration . . . . .</b>	for each Newco Share, 0.321 New Sainsbury's Shares and 55 pence in cash, subject to the Mix and Match Facility and the provisions regarding fractional entitlements in the Newco Articles
<b>Sainsbury's Prospectus . . . . .</b>	the prospectus relating to Sainsbury's to be published in respect of the New Sainsbury's Shares to be issued in connection with the Acquisition
<b>Sainsbury's Remuneration Committee</b>	the remuneration committee of the board of directors of Sainsbury's or a duly authorised committee or individual
<b>Sainsbury's Shares . . . . .</b>	Sainsbury's ordinary shares of 28 <sup>4</sup> / <sub>7</sub> pence each in the capital of Sainsbury's
<b>Sainsbury's Trading Statement . . . . .</b>	the trading statement for Sainsbury's Group for the 12 weeks from 13 March 2016 to 4 June 2016

<b>Scheme</b> . . . . .	the scheme of arrangement proposed to be made under Part 26 of the Companies Act between Home Retail Group plc and the holders of Scheme Shares as set out in Part VIII of this document, with or subject to any modification, addition or condition approved or imposed by the Court and agreed to by Home Retail Group plc, Sainsbury's and Newco
<b>Scheme Court Hearing</b> . . . . .	the hearing by the Court to sanction the Scheme
<b>Scheme Court Order</b> . . . . .	the order of the Court sanctioning the Scheme under Part 26 of the Companies Act
<b>Scheme Effective Time</b> . . . . .	the time and date at which the Scheme becomes Effective in accordance with the Scheme
<b>Scheme Record Time</b> . . . . .	6.00 p.m. on the business day immediately prior to the date of the hearing to confirm the Home Retail Group Reduction of Capital
<b>Scheme Shareholder</b> . . . . .	a holder of Scheme Shares at any relevant date or time
<b>Scheme Shares</b> . . . . .	all the Home Retail Group Shares: (i) in issue at the date of this document; (ii) (if any) issued after the date of this document but before the Voting Record Time; and (iii) any Shares issued at or after the Voting Record Time and before the Scheme Record Time on terms that the holder thereof shall be bound by the Scheme, or in respect of which the original or any subsequent holders thereof shall have agreed in writing to be bound by the Scheme  and in each case remaining in issue at the Scheme Record Time, but excluding any Excluded Shares
<b>Share Election</b> . . . . .	a Mix and Match Election to receive a greater proportion of New Sainsbury's Shares for each Scheme Share pursuant to the terms of the Mix and Match Facility
<b>Special Resolution</b> . . . . .	the special resolution to be proposed by Home Retail Group plc at the General Meeting in connection with, among other things, the confirmation of the Home Retail Group Reduction of Capital, the alteration of the Articles, the approval of the Newco Reduction of Capital and such other matters as necessary to implement the Scheme and the Acquisition
<b>Subscriber Share</b> . . . . .	the ordinary share of £0.01 in the capital of Newco issued to Sainsbury's at incorporation of Newco
<b>subsidiary and subsidiary undertaking</b> . . . . .	have the meanings given in the Companies Act
<b>Takeover Code</b> . . . . .	the City Code on Takeovers and Mergers, as amended from time to time
<b>Takeover Offer</b> . . . . .	if Sainsbury's so elects, the offer by Sainsbury's for the entire issued and to be issued share capital of Home Retail Group plc or, after the Scheme Effective Time, of Newco by means of a takeover offer, including, where the context so requires, any subsequent revision, variation, extension or renewal of such offer and includes any election available in connection with it

<b>Third Party</b> . . . . .	each of a central bank, government or governmental, quasi-governmental, supranational, statutory, regulatory, environmental, administrative, fiscal or investigative body, court, trade agency, association, institution, environmental body, employee representative body or any other body or person whatsoever in any jurisdiction
<b>Total Consideration</b> . . . . .	the aggregate of the Capital Return and the Sainsbury's Offer Consideration
<b>Transformation Plan</b> . . . . .	means the five-year plan launched in October 2012 to reinvent Argos as a digital retail leader
<b>UBS</b> . . . . .	UBS Limited
<b>UK Listing Authority or UKLA</b> . . . . .	the UK Listing Authority, being the Financial Conduct Authority acting in its capacity as the competent authority for the purposes of Part V of the Financial Services and Markets Act 2000
<b>uncertificated or in uncertificated form</b> . . . . .	in relation to a share or other security, a share or other security which is recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST and title to which, by virtue of the Regulations, may be transferred by means of CREST
<b>United Kingdom or UK</b> . . . . .	the United Kingdom of Great Britain and Northern Ireland
<b>United States or US</b> . . . . .	the United States of America, its territories and possessions, any state of the United States of America, the District of Columbia and all other areas subject to its jurisdiction and any political sub-division thereof
<b>US Exchange Act</b> . . . . .	the US Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder
<b>US Securities Act</b> . . . . .	the US Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
<b>Voting Record Time</b> . . . . .	6.00 p.m. on the day which is two days before the date of the Court Meeting or, if the Court Meeting is adjourned, 6.00 p.m. on the day which is two days before the date of such adjourned meeting
<b>Wider Home Retail Control Group</b> . . . . .	the Wider Home Retail Group, together with any other body corporate, partnership, joint venture or person (in each case, from time to time) in which any member of the Wider Home Retail Group holds 10 per cent. or more of the voting power of the shares or over the management of which any member of the Wider Home Retail Group has significant influence (within the meaning used in section 181(2)(c) of FSMA)
<b>Wider Home Retail Group</b> . . . . .	Home Retail Group and its associated undertakings and any other body corporate, partnership, joint venture or person (in each case, from time to time) in which Home Retail Group plc (and with effect from the Scheme becoming Effective, Newco) and such undertakings (aggregating their interests) have an interest of more than 20 per cent. of the voting or equity capital or the equivalent
<b>Wider Sainsbury's Group</b> . . . . .	Sainsbury's Group and its associated undertakings and any other body corporate, partnership, joint venture or person (in each case, from time to time) in which Sainsbury's and such undertakings (aggregating their interests) have an interest of more than 20 per cent. of the voting or equity capital or the equivalent.

**PART X  
NOTICE OF COURT MEETING**

**IN THE HIGH COURT OF JUSTICE  
CHANCERY DIVISION  
COMPANIES COURT  
MR JUSTICE NEWNEY**

**CR-2016-002459**

**IN THE MATTER OF HOME RETAIL GROUP PLC**

**- and -**

**IN THE MATTER OF THE COMPANIES ACT 2006**

NOTICE IS HEREBY GIVEN that by an Order dated 9 June 2016 made in the above matters the Court has given permission for a meeting (the “**Court Meeting**”) to be convened of the Scheme Shareholders (as defined in the scheme of arrangement referred to below) for the purpose of considering and, if thought fit, approving (with or without modification) a scheme of arrangement (the “**Scheme of Arrangement**”) proposed to be made between Home Retail Group plc (the “**Company**”) and the Scheme Shareholders, and that such meeting shall be held at Holiday Inn Milton Keynes, 500 Saxon Gate West, Milton Keynes MK9 2HQ on 27 July 2016 at 11.00 a.m., at which place and time all Scheme Shareholders are requested to attend.

A copy of the Scheme of Arrangement and a copy of the Explanatory Statement required to be furnished pursuant to section 897 of the Companies Act 2006 are incorporated in the document of which this Notice forms part.

**Scheme Shareholders entitled to attend and vote at the Court Meeting may vote in person or they may appoint another person, whether a member of the Company or not, as their proxy to attend and vote in their stead.**

A blue form of proxy for use in connection with the Court Meeting is enclosed with this Notice or shall be sent in a separate mailing to those Scheme Shareholders who have elected or are deemed to have elected to receive documents and notices from the Company via the Company’s website. Scheme Shareholders entitled to attend and vote at the meeting who hold their shares through CREST may appoint a proxy using the CREST electronic proxy appointment service.

Scheme Shareholders entitled to attend and vote at the Court Meeting may appoint a proxy electronically by logging on to <https://www.homeretailgroup-shares.com/>, using the investor code printed on the Form of Proxy and following the online instructions. Scheme Shareholders should note that they may not appoint more than one proxy in respect of their shareholding through <https://www.homeretailgroup-shares.com/>, and if they wish to appoint more than one proxy they should request blue forms of proxy from the Company’s registrars, Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

**Completion and return of a blue form of proxy, or the appointment of a proxy through CREST or electronically, shall not prevent a Scheme Shareholder from attending and voting in person at the Court Meeting or any adjournment thereof.**

Scheme Shareholders are entitled to appoint a proxy in respect of some or all of their shares. Scheme Shareholders are also entitled to appoint more than one proxy, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by such Scheme Shareholder. A space has been included in the blue form of proxy to allow Scheme Shareholders to specify the number of shares in respect of which that proxy is appointed. Scheme Shareholders who return the blue form of proxy duly executed but leave this space blank shall be deemed to have appointed the proxy in respect of all their Scheme Shares.

Scheme Shareholders who wish to appoint more than one proxy in respect of their shareholding should contact the Company’s registrars, Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, for further blue forms of proxy or photocopy the blue form of proxy as required. Such Scheme Shareholders should also read the information regarding the appointment of multiple proxies set out on page 11 of the document of which this Notice forms part and on the blue form of proxy.

It is requested that blue forms of proxy, and any power of attorney or other authority under which they are executed (or a duly certified copy of any such power or authority), be lodged with the Company’s registrars, Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, or be



submitted via CREST or electronically, by no later than 11.00 a.m. on 25 July 2016 (or not less than 48 hours before the time appointed for any adjourned meeting), but if forms are not so lodged or submitted they may be handed to the Chairman, or the Company's registrars on behalf of the Chairman, at the start of the Court Meeting.

In the case of joint holders of Scheme Shares, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

Entitlement to attend and vote at the Court Meeting or any adjournment thereof and the number of votes which may be cast thereat shall be determined by reference to the register of members of the Company at 6.00 p.m. on the day which is two days before the date of the Court Meeting or adjourned meeting (as the case may be). In each case, changes to the register of members of the Company after such time shall be disregarded.

By the said Order, the Court has appointed John Coombe or, failing him, John Walden or, failing him, any other director of the Company, to act as Chairman of the Court Meeting and has directed the Chairman to report the result thereof to the Court.

The Scheme of Arrangement will be subject to the subsequent sanction of the Court.

Dated 5 July 2016

LINKLATERS LLP  
One Silk Street  
London EC2Y 8HQ  
*Solicitors for the Company*

**PART XI**  
**NOTICE OF GENERAL MEETING**

**HOME RETAIL GROUP PLC**  
*(Registered in England and Wales with registered number 05863533)*

NOTICE IS HEREBY GIVEN that a GENERAL MEETING of the Company shall be held at Holiday Inn Milton Keynes, 500 Saxon Gate West, Milton Keynes MK9 2HQ on 27 July 2016 at 11.10 a.m. (or as soon thereafter as the Court Meeting (as defined in the circular dated 5 July 2016 of which this Notice forms part (the “**Circular**”)) has concluded or been adjourned) for the purpose of considering and, if thought fit, passing the following resolution which shall be proposed as a special resolution:

**SPECIAL RESOLUTION**

**1 THAT:**

- (1) for the purpose of giving effect to the scheme of arrangement dated 5 July 2016 (the “**Scheme**”) between the Company and its Scheme Shareholders (as defined in the Scheme), a print of which has been produced to this meeting and for the purposes of identification signed by the chairman thereof, in its original form or subject to any modification, addition or condition agreed by the Company, J Sainsbury plc and Sainsbury’s Intermediate Holdings Limited (“**Newco**”) and approved or imposed by the Court:
  - (a) the directors of the Company be authorised to take all such action as they may consider necessary or appropriate for carrying the Scheme, and the subsequent steps contemplated by the Scheme, into effect;
  - (b) the share capital of the Company be reduced by cancelling and extinguishing all of the Scheme Shares (as defined in the Scheme);
  - (c) subject to and forthwith upon the reduction of capital referred to in paragraph (b) above taking effect and notwithstanding anything to the contrary in the articles of association of the Company:
    - (i) the reserve arising in the books of account of the Company as a result of the reduction of capital referred to in paragraph (b) above be capitalised and applied in paying up in full at par such number of new ordinary shares of £0.10 each in the capital of the Company (“**Ordinary Shares**”) as shall be equal to the aggregate number of Scheme Shares cancelled pursuant to paragraph (b) above, and such new Ordinary Shares be allotted and issued credited as fully paid to Newco and/or its nominee(s); and
    - (ii) the directors of the Company be generally and unconditionally authorised pursuant to and in accordance with section 551 of the Companies Act 2006 to allot the new Ordinary Shares referred to in paragraph (c)(i) above, provided that (1) the maximum aggregate nominal amount of the shares which may be allotted under this authority shall be the aggregate nominal amount of the said new Ordinary Shares created pursuant to paragraph (c)(i) above, (2) this authority shall expire on the fifth anniversary of the date of this resolution, and (3) this authority shall be in addition and without prejudice to any other authority under the said section 551 previously granted and in force on the date on which this resolution is passed; and
- (2) with effect from the passing of this resolution, the articles of association of the Company be amended by the adoption and inclusion of the following new Article 124:

**“124 SCHEME OF ARRANGEMENT**

- (A) In this Article, the “**Scheme**” means the scheme of arrangement dated 5 July 2016 between the Company and its Scheme Shareholders (as defined in the Scheme) under Part 26 of the Companies Act 2006 in its original form or with or subject to any modification, addition or condition approved or imposed by the Court and agreed by the Company, J Sainsbury plc (“**Sainsbury’s**”) and Sainsbury’s Intermediate Holdings Limited (“**Newco**”) and (save as defined in this Article) expressions defined in the Scheme shall have the same meanings in this Article.
- (B) Notwithstanding any other provision of these Articles, if the Company issues any Shares (other than to Sainsbury’s or its nominee(s)) after the adoption of this Article and before the Scheme Record Time, such shares shall be issued subject to the terms of the Scheme (and shall be

Scheme Shares for the purposes thereof) and the holders of such shares shall be bound by the Scheme accordingly.

- (C) Subject to the Scheme becoming effective, if any Shares are issued to any person (a “**New Member**”) (other than under the Scheme or to Sainsbury’s or its nominee(s)) on or after the Scheme Record Time (the “**Post-Scheme Shares**”), they shall, conditional on the Newco Reduction of Capital becoming effective, be immediately transferred to Sainsbury’s (or as it may direct), in consideration for each Post-Scheme Share of (subject as hereinafter provided) the Sainsbury’s Offer Consideration and a cash amount per share equal to the capital return to be effected as part of the Newco Reduction of Capital, provided that:
- (i) if, in respect of any New Member with a registered address in a jurisdiction outside the United Kingdom or whom the Company reasonably believes to be a citizen, resident or national of a jurisdiction outside the United Kingdom, the Company is advised that the allotment and/or issue or transfer of New Sainsbury’s Shares pursuant to this Article would or may infringe the laws of such jurisdiction or would or may require the Company and/or Sainsbury’s to comply with any governmental or other consent or any registration, filing or other formality with which the Company and/or Sainsbury’s is unable to comply or compliance with which the Company and/or Sainsbury’s regards as unduly onerous, the Company and Sainsbury’s may, in their sole discretion, determine that the New Sainsbury’s Shares shall be sold or a cash amount equal to the value of the New Sainsbury’s Shares be delivered to the New Member. In the event that the New Sainsbury’s Shares are to be sold the Company shall appoint a person to act as agent for the New Member pursuant to this Article and such person shall be authorised on behalf of such New Member to procure that any shares in respect of which the Company and Sainsbury’s have made such determination shall, as soon as practicable following the allotment, issue or transfer of such shares, be sold, including being authorised to execute and deliver as transferor a form of transfer or other instrument or instruction of transfer on behalf of the New Member and the net proceeds of sale (after the deduction of all expenses and commissions incurred in connection with such sale, including any value added tax payable on the proceeds of sale) shall be paid to the persons entitled thereto in due proportions as soon as practicable, save that fractional cash entitlements shall be rounded down to the nearest whole penny; and
  - (ii) any New Member may, prior to the issue of any Post-Scheme Shares to such New Member pursuant to the exercise of an option or satisfaction of an award under any of the Home Retail Group Share Plans, give not less than five business days’ written notice to the Company in such manner as the Directors shall prescribe of their intention to transfer some or all of such Post-Scheme Shares to their spouse or civil partner. Any such New Member may, if such notice has been validly given, on such Post-Scheme Shares being issued to such New Member, immediately transfer to their spouse or civil partner any such Post-Scheme Shares, provided that such Post-Scheme Shares shall then be immediately transferred from that spouse or civil partner to Sainsbury’s (or as it may direct) pursuant to this Article as if the spouse or civil partner were a New Member. Where a transfer of Post-Scheme Shares to a New Member’s spouse or civil partner takes place in accordance with this Article, references to “New Member” in this Article shall be taken as referring to the spouse or civil partner of the New Member. If notice has been validly given pursuant to this Article but the New Member does not immediately transfer to their spouse or civil partner the Post-Scheme Shares in respect of which notice was given, such shares shall be transferred directly to Sainsbury’s (or as it may direct) pursuant to this Article.

For the purposes of this Article, “**Home Retail Group Share Plans**” means the Home Retail Group Deferred Bonus Plan, the Home Retail Group Performance Share Plan, the Home Retail Group Tax Qualified Share Option Plan, the Home Retail Group UK Tax Qualified Sharesave Plan, the Home Retail Group Share Incentive Plan and the Home Retail Group Ireland Approved Profit Sharing Scheme.

- (D) The New Sainsbury’s Shares allotted and issued or transferred to a New Member pursuant to paragraph (C) of this Article shall be credited as fully paid and shall rank equally in all respects with all other fully paid Sainsbury’s Shares in issue at that time (other than as regards any dividend or other distribution payable by reference to a record date preceding the date of allotment or transfer).

- (E) On any reorganisation of, or material alteration to, the share capital of either the Company or Sainsbury's (including, without limitation, any subdivision and/or consolidation) effected after the Scheme Effective Time, the amount of Sainsbury's Offer Consideration, including the number of New Sainsbury's Shares, due to a New Member for each Post-Scheme Share pursuant to paragraph (C) of this Article may be adjusted by the Directors of the Company and the Directors of Sainsbury's in such manner as the auditors of the Company may determine to be appropriate to reflect such reorganisation or alteration. References in this Article to Shares shall, following such adjustment, be construed accordingly.
- (F) No fraction of a New Sainsbury's Share shall be allotted, issued or transferred to a New Member pursuant to this Article. Any fraction of a New Sainsbury's Share to which a New Member would otherwise have become entitled shall be aggregated with the fractional entitlements of any other New Members whose shares are being transferred under this Article on the same date and sold in the market and the net proceeds of sale (after the deduction of all expenses and commissions incurred in connection with such sale, including any value added tax payable on the proceeds of sale) shall be paid to the persons entitled thereto in due proportions as soon as practicable, save that fractional cash entitlements shall be rounded down to the nearest whole penny.
- (G) To give effect to any transfer of Post-Scheme Shares, the Company may appoint any person as attorney and agent for the New Member (the "**agent**") to transfer the Post-Scheme Shares to Sainsbury's or as it may direct and do all such other things and execute and deliver all such documents as may in the opinion of the agent be necessary or desirable to vest the Post-Scheme Shares in Sainsbury's or another person as directed by Sainsbury's, and pending such vesting to exercise all such rights attaching to the Post-Scheme Shares as Sainsbury's may direct. If an agent is so appointed, the New Member shall not thereafter (except to the extent that the agent fails to act in accordance with the directions of Sainsbury's) be entitled to exercise any rights attaching to the Post-Scheme Shares unless so agreed by Sainsbury's. The agent shall be empowered to execute and deliver as transferor a form of transfer or other instrument or instruction of transfer on behalf of the New Member (or any subsequent holder) in favour of Sainsbury's and/or another person as directed by Sainsbury's and the Company may give a good receipt for the consideration for the Post-Scheme Shares and may register Sainsbury's and/or another person as directed by Sainsbury's as holder thereof and issue to it certificates for the same. The Company shall not be obliged to issue a certificate to the New Member for the Post-Scheme Shares. Sainsbury's shall, subject to paragraph (C) of this Article, settle the Sainsbury's Offer Consideration, and pay the cash amount per share equal to the capital return to be effected as part of the Newco Reduction of Capital, due to the New Member within 14 days of the issue of the Post-Scheme Shares to the New Member.
- (H) Notwithstanding any other provision of these Articles, neither the Company nor the Directors shall register the transfer of any Scheme Shares between the Scheme Record Time and the Scheme Effective Time."; and
- (3) with effect from the passing of this resolution:
- (a) the articles of association of the Company be altered to include the rights attaching to a Deferred Share of £0.10 by the adoption and inclusion of the following new Article 125:
- "125 DEFERRED SHARE**
- 125 The Deferred Share of £0.10 shall have all the rights of an ordinary share as set out in these Articles, save that:
- (i) the holder of the Deferred Share shall not be entitled to receive a dividend or other distribution or to have any other right to participate in the profits of the Company;
  - (ii) the holder of the Deferred Share shall have no right to attend or vote at any general meeting of the Company; and
  - (iii) on a return of capital on a winding-up of the Company, the holder of the Deferred Share shall be entitled, subject to the payment to the holders of all other classes of shares of the amount paid up or credited as paid up on such shares, to repayment of the amount paid up or credited as paid up on the Deferred Share, but shall have no further or other right to participate in the assets of the Company.";

- (b) the Directors be generally and unconditionally authorised pursuant to and in accordance with section 551 of the Companies Act 2006 to allot the said Deferred Share, provided that (1) this authority shall expire on the fifth anniversary of the date of this resolution and (2) this authority shall be in addition and without prejudice to any authority under the said section 551 previously granted and in force on the date on which this resolution is passed; and
- (c) pursuant to and during the period of the said authority the Directors be empowered to allot the said Deferred Share wholly for cash as if section 561(1) of the said Act did not apply to any such allotment;
- (4) the proposed reduction of capital of Newco approved by a special resolution of the shareholders of Newco to implement the Newco Reduction of Capital (as described in Part II: “Explanatory Statement” of the Circular) be approved; and
- (5) the proposed loan by the Company to Newco to fund the return of capital to be effected pursuant to such reduction of capital (as described in Part II: “Explanatory Statement” of the Circular) be approved.

*By order of the Board*

**Gordon Bentley**  
*Company Secretary*  
 5 July 2016

*Registered Office*  
 489-499 Avebury Boulevard  
 Milton Keynes  
 MK9 2NW

## **IMPORTANT NOTES**

The following notes explain your general rights as a shareholder and your rights to attend and vote at this General Meeting or to appoint someone else to vote on your behalf.

1. The shorter notice period of 14 working days as approved at the Company’s last Annual General Meeting has been used for the purposes of this General Meeting as the Directors believe that the flexibility offered by the shorter notice period is in the best interests of shareholders generally, taking into account the circumstances and business of the General Meeting.
2. Only registered holders of fully paid shares or their duly appointed representatives are entitled to attend and vote at the General Meeting. Those shareholders entered on the register of members of the Company as at 6.00 p.m. on 25 July 2016 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries on the Register after 6.00 p.m. on 25 July 2016 shall be disregarded in determining the rights of any person to attend and vote at the meeting. If the meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original meeting, that time will also apply for the purpose of determining the entitlement of shareholders to attend and vote (and for the purposes of determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then shareholders must be entered on the Company’s register of members at the time which is 48 hours before the time fixed for the adjourned meeting or, if the Company gives notice of the adjourned meeting, at the time specified in that notice to be entitled to attend and vote at the meeting and changes to entries on the Register after such time will be disregarded in determining the rights of any person to attend and vote at the adjourned meeting.
3. The Special Resolution to be put to the General Meeting will be voted on by way of a poll and not by show of hands. The Company believes that a poll is more representative of shareholders’ voting intentions because shareholder votes are counted according to the number of shares held and all votes tendered are taken into account.
4. As at 1 July 2016 (being the latest practicable date before the publication of this Notice), the Company’s issued share capital consisted of 813,445,001 ordinary shares, carrying one vote each on a poll. Therefore, the total voting rights in the Company as at 1 July 2016 are 813,445,001.



## Proxy appointment

5. A registered shareholder entitled to attend and vote at the General Meeting may appoint a proxy pursuant to the Company's Articles of Association to attend and to speak and vote in his/her place. A registered shareholder may appoint more than one proxy in relation to the General Meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that registered shareholder. A proxy need not be a member of the Company. The appointment of a proxy will not preclude shareholders entitled to attend and vote at the meeting (or at any adjournment(s) thereof) from doing so in person if they wish.
6. A person who has been nominated under section 146 of the Companies Act to enjoy information rights (a "**Nominated Person**") may have a right under an agreement between him/her and the member by whom he/she was nominated to be appointed, or to have someone else appointed, as a proxy for the General Meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he/she may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. The statement of the rights of members to appoint proxies in note 5 above does not apply to Nominated Persons. The rights described in note 5 can only be exercised by members.
7. To be effective, an appointment of proxy must be returned using one of the following methods:
  - (i) by sending the form of proxy (together, if appropriate, with the power of attorney or other written authority under which it is signed or a certified copy of such power or authority) in the reply paid envelope provided or by hand (during normal business hours) or courier only to the office of the Company's registrars, Capita Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU ("**Capita**"); or
  - (ii) by logging onto <https://www.homeretailgroup-shares.com/>, using your investor code and following the online instructions; or
  - (iii) in the case of CREST members, by utilising the CREST proxy voting service in accordance with note 7 below, and in each case the appointment of proxy (together with any relevant power/authority) must be received (or, in the case of the appointment of a proxy through CREST, retrieved by enquiry to CREST in the manner prescribed by CREST) by Capita not later than 11.10 a.m. on 25 July 2016.

## CREST members

8. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting and any adjournment(s) of the meeting by following the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members (and those CREST members who have appointed a voting service provider) should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "**CREST Proxy Instruction**") must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instructions, as described in the CREST Manual (available via <https://www.euroclear.com/>). **The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in note 6 above.**

For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee by other means.

CREST members and, where applicable, their CREST sponsors or voting service providers, should note that Euroclear does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of

CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his/her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time.

In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

#### **Corporate representatives**

9. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member, provided that they do not do so in relation to the same shares.

#### **Website information**

10. A copy of this Notice and other information required by section 311A of the Companies Act 2006 can be found at <http://www.homeretailgroup.com/investor-centre/>.

#### **Questions**

11. Any shareholder attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

#### **Use of electronic address**

12. Members may not use any electronic address provided in either this Notice, the enclosed Circular to shareholders or any related documents (including the enclosed form of proxy) to communicate with the Company for any purposes other than those expressly stated.

## APPENDIX I

### QUANTIFIED FINANCIAL BENEFITS STATEMENT

The Original Announcement included revised statements of estimated cost savings and synergies expected to arise from the Acquisition (together, the “**Quantified Financial Benefits Statement**”), which was repeated in paragraph 4 of the Announcement. A copy of the Quantified Financial Benefits Statement is set out below<sup>1</sup>:

“The Sainsbury’s Directors now expect a higher level of EBITDA synergies in the third full year after Completion of not less than £160 million. This represents an increase of one-third compared to the previous estimate of not less than £120 million EBITDA synergies. This higher EBITDA synergy estimate results from: (i) an increase of £15 million in the estimated synergies from Argos concessions due to an increase in the number of concession opportunities and increased occupancy cost savings, offset by a reduction in the estimated Sainsbury’s food and grocery halo sales; (ii) an increase of £30 million in the estimated cost synergies from central and support functions savings as well increased buying cost savings; and (iii) a decrease of £5 million in other revenue synergies as a result of revised assumptions on clothing, homewares and seasonal revenue synergies.<sup>2</sup>”

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

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

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

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

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

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<sup>1</sup> References to “HRG” in the Quantified Financial Benefits Statement set out in the Original Announcement have been replaced with “Home Retail Group plc”.

<sup>2</sup> Numbers refer to synergies in the third full year after Completion.

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

Further information on the bases of belief supporting the Quantified Financial Benefits Statement, including the principal assumptions and sources of information, is set out below.

### **Bases of belief and principal assumptions**

Following initial discussions regarding the Acquisition, a synergy development team was established to evaluate and assess the potential synergies available for the integration and undertake an initial planning exercise (the “**Sainsbury’s Synergy Team**” or the “**Team**”). The Team, which comprises senior strategy and financial colleagues, has worked collaboratively to identify and quantify potential synergies as well as estimate any associated costs on behalf of the Sainsbury’s Directors. The Team also worked alongside external consultants to prepare a detailed synergy plan.

The Team has engaged with the relevant functional heads and other personnel to provide input into the development process and to agree on the nature and quantum of the identified synergy initiatives. In preparing the Quantified Financial Benefits Statement, Sainsbury’s has had a level of due diligence access to the Home Retail Group in order to confirm certain key data points as well as information available to it from existing trials of Argos concessions in its stores. In circumstances where data has been limited due to lack of access to the Home Retail Group, the Team has made estimates and assumptions to aid its development of individual synergy initiatives. The assessment and quantification of the potential synergies have in turn been informed by Sainsbury’s management’s industry experience and knowledge of its existing business.

The Sainsbury’s Synergy Team has sought to assess synergies in relation to the Home Retail Group central functions and the Argos business. The cost bases used as the basis for the Quantified Financial Benefits Statement are those contained in the management accounts of Home Retail Group plc for the financial year ended 28 February 2015 and the 2015 Annual Report and Accounts of Sainsbury’s.

The majority of cost saving synergies are driven by physical consolidation that is within the influence of Sainsbury’s management, whereas the delivery of the revenue synergies is more complex and to some extent outside the full control of Sainsbury’s management.

In general, the synergy assumptions have in turn been risk adjusted, exercising a degree of prudence in the calculation of the estimated synergy benefit set out above.

### **Notes**

- (a) These statements are not intended as a profit forecast and should not be interpreted as such. These statements of estimated synergies relate to future actions and circumstances which, by their nature, involve risks, uncertainties and contingencies. As a result, the estimated synergies referred to may not be achieved, or may be achieved later or sooner than estimated, or those achieved could be materially different from those estimated. Neither the Quantified Financial Benefits Statement nor any other statement in this document should be construed as a profit forecast or interpreted to mean that Sainsbury’s earnings in the first full year following Completion, or in any subsequent period, will necessarily match or be greater than or be less than those of Sainsbury’s or Home Retail Group plc for the relevant preceding financial period or any other period.
- (b) Due to the scale of the enlarged Sainsbury’s business, there may be additional changes to the Combined Group’s operations. As a result, and given the fact that the changes relate to the future, the resulting synergies may be materially greater or less than those estimated.
- (c) In arriving at the estimate of synergies set out in this document, the Sainsbury’s Synergy Team has assumed that:
  - (i) there will be no significant impact on the underlying operations of either business;

- (ii) there will be no material change to macroeconomic, political or legal conditions in the markets or regions in which the Combined Group operates which will materially impact on the implementation of or costs to achieve the proposed cost savings; and
- (iii) there will be no material change in exchange rates.

#### **Reports and confirmations**

On 18 March 2016 Deloitte, as reporting accountants to Sainsbury's and Morgan Stanley and UBS, as joint financial advisers to Sainsbury's, gave the opinions required by Rule 28.1(a) of the Takeover Code. Copies of these reports were included in Appendix 3 to the Original Announcement.

The Sainsbury's Directors have confirmed that:

- (a) there have been no material changes to the Quantified Financial Benefits Statement since 18 March 2016 and the Quantified Financial Benefits Statement remains valid; and
- (b) each of Deloitte, Morgan Stanley and UBS, has confirmed to Sainsbury's that their respective reports produced in connection with the Quantified Financial Benefits Statement continue to apply.



