MINUTES OF A MEETING OF THE
Bhs PENSION SCHEMES’ FUNDING LEVEL SUB-COMMITTEE
HELD AT THE OFFICES OF ROWE & MAW, 1 FLEET PLACE, LONDON EC4
ON WEDNESDAY 27TH SEPTEMBER 2000

PRESENT:
Dr Margaret Downes, Chairman
Stuart James Universal Pension Trustees
Ian Alkins Bhs Pension Trustees
Paul Coackley Bhs Limited
Simon Head Aon Consulting
Margaret Hannell Bhs Pension Trustees

COMMENCEMENT TIME: 2.00 p.m.

1. PURPOSE

This Sub-Committee comprises representatives of the Trustees of the Bhs Pension Schemes and the Company who have come together to consider the results of the actuarial valuations undertaken as at 31 March 2000, as summarised in Simon Head’s paper dated 16 August 2000.

It was noted that the Rules of the Bhs Schemes provide for the Employer’s contribution rate to be determined by the Trustees, who will be guided by actuarial advice in coming to their decision.

The outcome of the 31 March 2000 actuarial valuations (as far as they are attributable to the Bhs Schemes) were extrapolated from the periodic, triennial valuations of the Storehouse Group and Storehouse Senior Management Pension Schemes. The results of these valuations determined the split of funds as at 1 July 2000 and are to be used as the basis for deciding the ongoing Employer contribution rates for the individual Storehouse and Bhs Schemes.

2. BACKGROUND TO ACTUARIAL FUNDING ASSUMPTIONS

Simon Head explained that past practice had been to adopt prudent assumptions which could be expected to produce surplus rather than deficit as well as providing a ‘cushion’ against any adverse experience.

The economic assumptions which formed the basis of the March 2000 valuations were a little less conservative than those adopted in 1997 (due to the release of a margin introduction account of changes in Advanced Corporation Tax) and were:
- Price Inflation 4.00% p.a.
- Investment Returns 8.00% p.a.
- Salary Inflation 6.00% p.a. plus 1% p.a. for SMS members
- Pension Increases 3.75% p.a.
- Asset Valuation Calculated Value (as opposed to Market value)
- Normal Dividend Yield 3.10% p.a.
The key differential is the "real" return relative to price inflation. Members of the Sub-Committee commented that these assumptions could indeed be regarded as conservative - particularly with regard to assumed salary increases - and acknowledged that this fitted in with the Trustees' previously adopted prudent stance.

As far as the demographic assumptions are concerned, the assumptions reflect the high levels of staff turnover within the Company. Adjustments have been made since the last valuation to reflect increased longevity in general, as well as the Schemes' actual experience of the incidence of "normal" early retirements.

3. **VALUATION OF ASSETS**

The objective is to achieve a stable, long-term valuation which should smooth out any volatility in the market value of assets and be consistent with the valuation of the Schemes' liabilities.

4. **THE RESULTS OF THE VALUATIONS**

The surpluses disclosed by the 1997 valuations of the Storehouse Group and Senior Management Schemes had reduced somewhat during the inter-valuation period. Whilst part of this was due, as expected, to the impact of the three year contribution "holidays", losses had also been incurred as a result of investment under-performance. This had been offset to some extent by changes to the actuarial assumptions used in valuing the assets.

Based on the 2000 Funding Basis the position of the Bhs Schemes, following their separation from the Storehouse Schemes, is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Bhs Pension Scheme</th>
<th>Senior Management Scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PAST SERVICE (£'000)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Active members</td>
<td>52,529</td>
<td>17,982</td>
</tr>
<tr>
<td>Deferred Pensioners</td>
<td>56,543</td>
<td>8,249</td>
</tr>
<tr>
<td>Pensioners</td>
<td>91,452</td>
<td>11,697</td>
</tr>
<tr>
<td><strong>TOTAL PAST SERVICE LIABILITIES</strong></td>
<td>202,504</td>
<td>39,128</td>
</tr>
<tr>
<td><strong>VALUE OF ASSETS</strong></td>
<td>226,541</td>
<td>55,127</td>
</tr>
<tr>
<td><strong>SURPLUS</strong></td>
<td>26,037</td>
<td>16,999</td>
</tr>
<tr>
<td><strong>PAST SERVICE FUNDING LEVEL</strong></td>
<td>113%</td>
<td>145%</td>
</tr>
<tr>
<td><strong>FUTURE SERVICE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard company contribution rate</td>
<td>11.7%</td>
<td>24.9%</td>
</tr>
<tr>
<td>Amortisation of surplus</td>
<td>6.5 years (8.0%)</td>
<td>15 years (24.5%)</td>
</tr>
<tr>
<td>Balancing cost</td>
<td>3.7%</td>
<td>0.4%</td>
</tr>
</tbody>
</table>

Accepting that it would be prudent to commence payment of contributions to the main Scheme, the Sub-Committee considered two patterns of payment: one which involved paying a higher contribution at the outset which would reduce over time and another which operated in the opposite way.
5. **FUTURE COMPANY CONTRIBUTION PAYMENTS**

Having considered this Paul Coackley, on behalf of the Company, agreed to the payment of contributions on the following basis:-

<table>
<thead>
<tr>
<th>For the Period</th>
<th>Company contribution as a Percentage of Pensionable Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 October 2000 to 31 March 2001</td>
<td>3.70%</td>
</tr>
<tr>
<td>1 April 2001 to 31 March 2002</td>
<td>3.70%</td>
</tr>
<tr>
<td>1 April 2002 to 31 March 2003</td>
<td>5.55%</td>
</tr>
</tbody>
</table>

The representatives of the Trustees thanked Paul Coackley and advised that, in view of the strong funding position of the Senior Management Scheme, no Company contributions would be requested at this time.

5. **REQUIREMENTS FOR FUTURE FUNDING REVIEWS**

Simon Head drew the Sub-Committee's attention to the fact that although a formal actuarial review needs to be undertaken no more than once every three and a half years, the 1995 Pensions Act requires an assessment of a new pension scheme's compliance with the Minimum Funding Requirement (MFR) within a year of the scheme's establishment and that the next such assessment will be made as at 31 March 2001.

It was also agreed that annual updates of the funding position, on an approximate basis, may be desirable.

The Meeting closed at 3:30 p.m.
MINUTES OF A MEETING OF THE Bhs PENSION SCHEMES' INVESTMENT STRATEGY SUB-COMMITTEE HELD AT Bhs LIMITED, 129-137 MARYLEBONE ROAD LONDON NW1 5QD ON WEDNESDAY 20TH MARCH 2002

PRESENT: Dr Margaret Downes Chairman
Stuart James Universal Pension Trustees Limited
Ian Allkins Bhs Pension Trustees Limited
Roger Urwin Watson Wyatt Partners
Margaret Hannell Secretary

IN ATTENDANCE: Philip Green Chairman, Bhs Limited
Paul Coackley Finance Director, Bhs Limited

COMMENCEMENT TIME: 2:30 pm

PURPOSE: To consider the Bhs Schemes' ongoing funding position, asset allocation strategy and any 'risk' attached to this strategy.

1. BACKGROUND

Attached to these Minutes is a paper showing the change in the Bhs Schemes' market values from April 2001 (following the withdrawal of assets from the Storehouse Pension Investment Fund) to February 2002, a roll forward of the Schemes' actuarial positions to December 2001 and statistics and commentary relating to possible changes in investment strategy or scheme structure.

2. COMPANY VIEW

The Company would like to see certainty and stability in the Schemes' ongoing costs and, as far as possible, consistency in their funding levels.

The Company also wishes to debate the Schemes' investment strategy and to be assured that the policy being followed is generating the optimum level of return within acceptable risk parameters.

3. CURRENT INVESTMENT STRATEGY

The Sub-Committee reiterated that a deliberately cautious investment strategy had been adopted and following since the Schemes' assets were withdrawn from the Storehouse Fund in April 2001. The position at February 2002 is:-

<table>
<thead>
<tr>
<th>UK Equities: passive and active</th>
<th>Bhs Scheme</th>
<th>£ 92m</th>
<th>34%</th>
<th>Bhs Senior Scheme</th>
<th>£27m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equities: passive and active</td>
<td>Bhs Scheme</td>
<td>£ 72m</td>
<td>27%</td>
<td>Bhs Senior Scheme</td>
<td>£27m</td>
</tr>
<tr>
<td>Gilt and Bonds: passive</td>
<td>Bhs Scheme</td>
<td>£ 73m</td>
<td>27%</td>
<td>Bhs Senior Scheme</td>
<td>£ 8m</td>
</tr>
<tr>
<td>Property</td>
<td>Bhs Scheme</td>
<td>£ 33m</td>
<td>12%</td>
<td>Bhs Senior Scheme</td>
<td>£ 8m</td>
</tr>
<tr>
<td>100%</td>
<td>Bhs Scheme</td>
<td>£270m</td>
<td>100%</td>
<td>Bhs Senior Scheme</td>
<td>£63m</td>
</tr>
</tbody>
</table>

Both Schemes' market values have bounced back to be virtually the same at the end of February 2002 as they were at April 2001 – or marginally improved given that cash has been draw-down from the invested assets to meet pensions and other expenditure arising during the intervening period.
4. INVESTMENT RETURNS

There was some debate about the ‘real’ rate of return required for the Bhs Pension Scheme to meet its liabilities, with or without payment of Company contributions. The rates settled upon — over and above price inflation of 2% per annum — were 3.5% per annum with a 15% Company contribution or 6.5% per annum with a zero Company contribution applying.

The returns generated by various asset classes were noted, as follows:

<table>
<thead>
<tr>
<th>'Real' rates of return (on top of 2% price inflation)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Safe Bonds</td>
<td>2.5% to 3.5%</td>
</tr>
<tr>
<td>Less secure Bonds</td>
<td>3.5% to 4.5%</td>
</tr>
<tr>
<td>Property</td>
<td>4.5% to 5.5%</td>
</tr>
<tr>
<td>Equities</td>
<td>5% to 7%</td>
</tr>
</tbody>
</table>

The Company asked the Trustees to reappraise their weightings in Corporate Bonds and Property, commenting that a carefully selected, diverse portfolio of high quality investments can generate superior yields within reasonable risk parameters. The Sub-Committee agreed to give this request full consideration.

5. POSSIBLE INVESTMENT OPTIONS FOR THE Bhs PENSION SCHEME

The following scenarios were discussed:

- 100% Equities could be expected to generate 6% per annum ‘real’ return — but the actual return could be far higher or much lower than this.

- To match the Scheme’s pensioner liabilities 40% should be invested in corresponding Bonds; if the balance were invested 33% in Equities and 27% in other Bonds and Property, this strategy could generate a real return of 4% and require a Company contribution of 9.4% of pensionable salaries. It was noted that investing 40% or more in Gilts would require some level of supporting Company contribution.

- Matching all liabilities suggests investing 100% in index-linked Gilts generating a real return of 2.5%; but this would also require a substantial Company contribution - of £12m per annum plus the costs of funding the annual deficit arising.

- It was acknowledged that Bond investment in itself does not provide total immunity, but carries the following risks:
  - deflation – an issue because accrued pensions cannot be reduced;
  - excessive salary inflation;
  - adverse interest rate changes;
  - finding ongoing matching assets with adequate yields and suitable longevity;
  - changes in benefit structure and unforeseen amendments to legislation; and
  - possible under-performance against other asset classes.

- Assumed ‘real’ returns over the next decade are expected to be far lower than those experienced in the last ten years, during which time interest rates have fallen from 10% to 4% and Price/Earnings ratios have moved from 14 to 21. Inflation has averaged 2%/per annum for the last decade and is projected to average 2%/per annum over the next ten years.
6. **Bhs LIMITED – FUTURE, POTENTIAL PENSION COSTS**

It was acknowledged that the costs of setting-up and running a defined contribution scheme would be additional to the expenses of running-on the existing Bhs Pension Scheme. The impact would, of course, depend on whether the Bhs Pension Scheme were closed to new employees only or to all staff, including current active members of the Scheme. Furthermore any savings associated with closing the Bhs Pension Scheme would accrue gradually, over time, rather than being felt immediately.

It was agreed that a review of the future structure of the Scheme is warranted. At this point it was noted that since October 2001, when entry changed from ‘negative’ to ‘positive’ application, retention/joining rates have dropped from 40% to 5%. It could therefore be said the Scheme has been operating like a “closed” scheme for the past six months. Consideration will be given to other areas in which the Bhs Pension Scheme’s costs can be reasonably curtailed.

7. **ISSUES TO BE ADDRESSED:**

- The assumptions underpinning the Company contribution requirement from April 2002 [these are set out in point 2 of the attached paper].
- How the Scheme’s income stream and yield/rate of return can be consolidated or even increased.

8. **THE Bhs SENIOR MANAGEMENT SCHEME**

The principle is the same for the Senior Management Scheme although with the SMS having a greater level of solvency cover, the ‘real’ rate of return required for this Scheme to meet its liabilities is closer to 1% to 1½%.

Messrs Green, Coackley and Allkins left the Meeting at this point and the Sub-Committee considered its next actions:

9. **AGREED OBJECTIVES**

- The Bhs Pension Scheme needs a diversified, high-yielding, high-quality, actively-managed Corporate Bond portfolio – a quarter of which should be index-linked.

- 40% of the Scheme’s assets should be invested in Corporate Bonds to cover pensioner liabilities - but the Bonds selected should be less "secure" than those of matching Bonds, with the objective being to generate higher returns.

- Property: consideration should be given to having a higher weighting in this asset class.

- It was agreed higher weightings could be held in Bonds and Property, whilst at the same time preserving diversification and limiting risk.

- Finally, any change/s in investment strategy should not diminish the Scheme's funding position or its solvency.
10. **ACTION POINTS**

(i) The appointment of a specialist, active Corporate Bond manager should be pursued.

(iii) In line with the attached [APPENDIX (A)], Simon Head (Scheme Actuary) would be asked to provide indicative funding and contribution projections assuming:

- 10% were switched from Equities to Bonds; or
- 10% were switched from Equities to Property; or
- 10% were switched from Equities to Bonds plus 10% from Equities to Property.

The Meeting closed at 5:30 pm
1. **ASSET VALUES**

<table>
<thead>
<tr>
<th></th>
<th>Bhs Pension Scheme £m</th>
<th>Bhs Senior Scheme £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Assets as April 2001</td>
<td>273</td>
<td>65</td>
</tr>
<tr>
<td>Payments out</td>
<td>( 7)</td>
<td>( 3)</td>
</tr>
<tr>
<td>Contributions in</td>
<td>+ 4</td>
<td>0</td>
</tr>
<tr>
<td>Change in Market Value</td>
<td>( 0)</td>
<td>+ 1</td>
</tr>
<tr>
<td>Closing Assets at February 2002</td>
<td>£270m</td>
<td>£63m</td>
</tr>
<tr>
<td>Investment Management Fees</td>
<td>£550,000 pa</td>
<td>£150,000 pa</td>
</tr>
</tbody>
</table>

2. **LIABILITIES at 31 DECEMBER 2001**

Long-term Assumptions, based on 2000 actuarial valuations:
- Investment Returns 8%
- Salary growth 6%
- Price inflation 4%

<table>
<thead>
<tr>
<th></th>
<th>Bhs Pension Scheme £m</th>
<th>Bhs Senior Scheme £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>231</td>
<td>60</td>
</tr>
<tr>
<td>Liabilities</td>
<td>(225)</td>
<td>(49)</td>
</tr>
<tr>
<td>Surplus</td>
<td>£ 6m</td>
<td>£11m</td>
</tr>
</tbody>
</table>

Membership profile:
- Active members 29% (40% of employees)
- Deferred pensioners 31% (Salary roll = £53m)
- Pensioners 40%

Estimated annual cash requirements, pensions, benefits, fees and admin - £16m pa

3. **Bhs PENSION SCHEME - ONGOING POSITION**

Current investment policy:
- Equities 61%
- Bonds and Property 39%
To meet current and future liabilities the Scheme requires roughly:

(i) 6.5% real return [8.5% nominal after 2% price inflation] if there are no Company contributions; or
(ii) 3.5% real return plus 15% Company contributions (£8m pa)

Current, expected real rates of return [after 2% price inflation]:

<table>
<thead>
<tr>
<th>Safe Bonds</th>
<th>2½% to 3½%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less secure Bonds</td>
<td>3½% to 4½%</td>
</tr>
<tr>
<td>Property</td>
<td>4½% to 5½%</td>
</tr>
<tr>
<td>Equities</td>
<td>5% to 7%</td>
</tr>
</tbody>
</table>

4. ALTERNATIVE INVESTMENT OPTIONS FOR THE SCHEME

(a) 100% Equities: expected real return 6% pa – but could be much higher or much lower;

(b) Matching pensioner liabilities:
    - 40% matching Bonds
    - 27% other Bonds and Property
    - 33% Equities

    Expected real return 4%
    PLUS Company contribution of 9.4% - £5m pa

(c) Matching all liabilities:
    - 100% index-linked gilts
    - Expected real return 2.5%
    - With large Company contribution - £12m pa plus deficit payment

Risk factors:

➤ Equity risks are greatest;
➤ But Bonds cannot eliminate all risks: Deflation
    Salary inflation
    Interest rate changes
    Matching longevity
    Legal/benefit changes

5. ALTERNATIVE BENEFIT DESIGN OPTIONS – Bhs PENSION SCHEME

➤ Maintain Scheme – adjust benefits/employee contribution levels
➤ Close Scheme to new entrants and open a DC scheme
➤ Close Scheme to all members and open a DC scheme
➤ Move to Stakeholder

Notes:

• Reducing future benefits has a gradual not immediate effect
• DC alternative: 9%-10% Company contribution is the benchmark
• Total Company salary roll = £100m per annum

6. Bhs SENIOR MANAGEMENT SCHEME

Same principles apply, but SMS is currently in surplus – requires 1% to 1½% less by way of real return to break even.
MINUTES OF A MEETING OF
THE Bhs PENSION SCHEMES’ INVESTMENT STRATEGY SUB-COMMITTEE
HELD AT MARYLEBONE HOUSE, 129-137 MARYLEBONE ROAD, LONDON NW1
ON TUESDAY 11TH JUNE 2002

PRESENT:
Dr Margaret Downes (Chairman)
Stuart James
Ian Allkins
Roger Urwin (Watson Wyatt)
Margaret Hannell (Secretary)

IN ATTENDANCE:
Philip Green
Paul Coackley

COMMENCEMENT TIME: 9:30 am

1. BACKGROUND

The Chairman talked through a paper entitled “Bhs Pension Schemes – Investment Strategy Review” (copy attached) which was tabled at the beginning of the Meeting and which summarised the progression of the Bhs Pension Scheme during the year 2001/2002, its current asset allocation and the recently received independent advice which had lead the Investment Sub-Committee to propose a change in the Scheme’s asset allocation strategy.

It was noted that although the Review paper refers to the Bhs Pension Scheme in the main, the profile of the Bhs Senior Management Scheme is broadly similar and pro-rata adjustments to its asset allocation are also proposed.

Dr Downes also pointed out that the Scheme Actuary has confirmed that he does not expect the proposed new asset allocation to have a material impact - either positive or negative - on either of the Scheme’s ongoing funding positions.

2. REQUIRED LEVEL OF RETURN

In response to Mr Green’s question, Roger Urwin advised that the Scheme needs to earn approximately 6% per annum in order to meet its required outgoings.

3. CORPORATE BOND INVESTMENT

Mr Green put forward the view that there are adequate supplies of bonds available in the market which will yield 5% per annum. Roger Urwin questioned whether these bonds would have the necessary longevity to match the Scheme’s long-term liabilities and also commented that the risk of such bonds defaulting in the future also needs to be taken into account.

There was uniform agreement that the bond portfolio should comprise a spread of AAA-rated through to investment grade, as well as short-dated and long-dated issues, and needs to be actively and rigorously managed to achieve optimum and consistent returns whilst at the same time working to minimise the risk of default.
4. PROPERTY INVESTMENT

There was some discussion about property investment and alternative ways of financing property purchase including gearing which, on the face of it, might be an attractive proposition in the current climate of low interest rates.

The Sub-Committee agreed to give further consideration to its options in this area.

Mr Green proposed that Terry Goddard (of Troubadour Properties Limited) might meet with Mr Malcolm Dalgleish, an independent property specialist, for an informal exchange of views.

Margaret Hannell agreed to set-up a meeting [however, with Terry Goddard having just commenced a holiday, it will not be possible to schedule this meeting before July 2002].

5. PROPOSED FUTURE INVESTMENT STRATEGY

The proposed new allocations will result in the Scheme holding almost 60% in corporate bonds and property as an initial step towards their change in investment strategy.

The representatives of the Company agreed they would support this new investment strategy and indicated that their main concerns are to see that the Schemes' assets are securely invested and that 'risk' has been eradicated as far as is possible.

6. FUNDING POSITION

The Company has been paying 5.55% of Pensionable Salaries - equivalent to approximately £3m per annum - to the Bhs Pension Scheme since 1st April 2002; the Senior Management Scheme remains on a Company contribution "holiday".

Messrs Green and Coackley indicated that this was the maximum sum they would wish to contribute to the Scheme in the future. They also affirmed that they remain supportive of the Company's current defined benefit pension arrangements.

The next formal actuarial valuations of the Schemes are due to be undertaken as at 31st March 2003.

7. THE MEETING WITH THE COMPANY DRAW TO A CLOSE AT 10:40 am

8. NEXT STEPS

- Roger Urwin to circulate a draft action and events time-table in a week's time;
- to consider which active bond managers to include on a selection short-list;
- to assess whether the move from gilts to corporate bonds should be made sooner than the previously anticipated transfer date of July 2003;
- Margaret Hannell to brief Terry Goddard and arrange a meeting with Malcolm Dalgleish;
- Margaret Hannell to set a follow-up meeting date during the first half of July 2002, following the Chairman's return from holiday.

mmh/16.6.2002

[Signature]

CHAIRMAN

July 17, 2002
1. RECENT EVENTS

The Chairman gave a resume of her recent conversation with Mr Philip Green during which it was agreed that, because of the continuing downturn in equity markets and reduced yield in bonds, there was no immediate urgency in switching from equities into corporate bonds.

Philip Green had also given his endorsement to the Trustees' planned increase in the Schemes' property weightings.
Bhs PENSION SCHEMES' INVESTMENT STRATEGY SUB-COMMITTEE:
[Dr Margaret Downes Stuart James Ian Allkins, Roger Urwin (Watsons) and Margaret Hannell]
SUMMARY OF ACTIVITIES FROM JUNE 2002 TO NOVEMBER 2002

11 JUNE 2002: INVESTMENT SUB-COMMITTEE MEET PHILIP GREEN AND PAUL COACKLEY:
(i) Outlined the proposed changes in strategy agreed at the Trustees' Meeting of 10 June 2002 i.e., to reduce equities by 20%, to invest 10% in actively managed corporate bonds and to increase our property weighting by a further 10%.
(ii) The Company endorsed the Trustees' revised strategy and noted the switches would be made as and when investment conditions made it appropriate to do so.

17 JULY 2002: INVESTMENT SUB-COMMITTEE MEETING:
(i) To: (a) consider the timing of the switch from equities to corporate bonds;
     (b) interview two prospective active bond managers [Morley Asset Management and Prudential MG]; and
     (c) discuss how best to invest the additional allocation to property.
(ii) Agreed: (a) because of current market volatility, the move from equities to bonds be spread over a series of moves, rather than executed in a single transaction;
     (b) Morley was the preferred active bond manager; Margaret Hannell was asked to discuss/agree terms with this manager; and
     (c) a second manager should be considered for the new allocation to property; Margaret Hannell was asked to compile a shortlist.

10 SEPTEMBER 2002: INVESTMENT SUB-COMMITTEE MEETING:
(i) Dr Downes advised she had spoken with Philip Green and agreed that, because of the continual downturn in world markets and diminishing bond yields, now is not the time to switch from equities into corporate bonds.
(ii) The Actuary advised that a switch from equities to corporate bonds on these terms could adversely impact on funding and recommended that the Trustees consider deferring the switch until there is a positive upturn in markets and then to stage the switch over a longer period — perhaps up to twelve months.

It was agreed to review at the November 2002 Trustees' Meeting unless, in the meantime, equity/corporate bond yields move closer to the levels experienced earlier in the year, when the Trustees agreed to the change in asset allocation. To help measure this, Roger Urwin supplied a "trigger" formula which Margaret Hannell has since been updating and monitoring on a daily basis.
(iii) The same applies to the switch from equities to property – although there is not such a ready measure as corporate bond yield ratios to illustrate this point. It was also noted that, with the construction of a new property portfolio taking up to a year in any event, this transition will inevitably take longer to implement.

(iv) Fletcher King was declared the Sub-Committee’s preferred choice for the role of second property manager and Margaret Hannell agreed to ask whether Philip Green might wish to meet with this manager.

23 OCTOBER 2002: MEETING BETWEEN PHILIP GREEN AND FLETCHER KING (with Margaret Hannell in attendance)

- Philip Green met David Fletcher and Richard Goode (of Fletcher King) for an informal discussion about the prospects for property including availability of stock, possible future trends in rents and lease structures.

- Following this meeting Philip Green expressed himself happy to see Fletcher King appointed to this mandate.

- Margaret Hannell sent Richard Goode details of the Troubadour portfolio so that Fletcher King could outline how a second, £30m property portfolio might be constructed, having regard for the £40m+ the Schemes already hold in this asset class. Fletcher King are also to supply Margaret Hannell with a draft Investment agreement.

mmh / 30.10.2002
Ian Allkins briefed the Sub-Committee on the discussions which had taken place to date:

1. Paul Coackley, Ian Allkins, Sue Topping (HR Director) and Margaret Hannell met on Tuesday 25th February 2003 to consider the Actuary’s preliminary findings with regard to the actuarial valuations of the Scheme and the SMS due as at 31st March 2003.

2. The Company’s initial view was that:
   - the benefit structure for existing members should be retained for the time being and pending the outcome of the full 2003 actuarial valuations;
   - market trends and competitive practice suggest a review of pension provision for future new entrants is warranted;
   - the terms for early retirement should be made cost neutral for future joiners;
   - the approach favoured at present is to move to a career average re-valued basis for future new entrants – giving 1.67% of Pensionable Salary for each year of Pensionable Service with the pension so accrued being re-valued in line with the rise in inflation (to a maximum of 5% per annum) for each year until payment of the pension commences;
   - corresponding changes should also be made to the SMS structure;
   - it was not felt that an increase in member contributions was appropriate.

Dr Downes responded that this seemed fair and reasonable in the current climate.

3. The next step is for this matter to be discussed by the full Bhs Limited Board at their meeting on Tuesday 25th March 2003.

4. Ian Allkins and Margaret Hannell will liaise and draft a discussion paper covering:
   - initial and current fund values and an explanation for their movements;
   - a reminder about the Trustees’ decision to transfer some assets out of equities and into corporate bonds – and why this switch has yet to be made;
   - the proposal to reduce equities by c. £30m over the next year/eighteen months in favour of increasing the property weighting, using Fletcher King;
   - the Bhs Pension Schemes’ Investment Strategy Sub-Committee wish to consider switching some assets out of Government gilts and into higher yielding corporate bonds; this debate is at an early stage and the view of Philip Green and the Bhs Board would be welcomed.

Members of the Funding Level Sub-Committee took their leave at 6:20pm
Bhs PENSION SCHEMES' INVESTMENT STRATEGY SUB-COMMITTEE
[Margaret Downes, Stuart James, Ian Allkins, Roger Urwin (Watson Wyatt) and Margaret Hannell]

SUMMARY OF ACTIVITIES FROM DECEMBER 2002 TO MAY 2003

26 FEBRUARY 2003: INVESTMENT STRATEGY SUB-COMMITTEE MEETING

24 MARCH 2003: MEETING BETWEEN PHILIP GREEN, PAUL COACKLEY, IAN ALLKINS and MARGARET HANNELL

(i) This meeting was called to discuss the indicative valuation results but investment strategy was also raised.

(ii) Noting the Trustees' target is to be invested: equities 41%; corporate bonds 37% and property 22%, the debate turned to stock-picking and investing in good, sound income-generating stocks.

Philip Green asked Ian Allkins and Margaret Hannell to meet with Chris Coles (Bhs non-executive director and Managing Director of Barclays Capital) to discuss this further.

16 APRIL 2003: MEETING BETWEEN IAN ALLKINS, CHRIS COLES and MARGARET HANNELL


Bhs Pensions Office  Euston House  132 Hampstead Road  London NW1 2PS
Telephone 020 7339 4077  Fax 020 7339 4161

The Administrators of the Bhs Pension Schemes cannot augment benefits or bind the Trustees or the Company to provide benefits in excess of a Member's entitlement under the Rules. In the event of any error being made, benefits must be limited to those payable in respect of the Member in accordance with his/her entitlement under the Rules.
20 MAY 2003: Bhs LIMITED BOARD MEETING

(i) Ian Allkins and Margaret Hannell outlined the Trustees' developing strategy since the Schemes' establishment in July 2000 and subsequent withdrawal from the Storehouse common investment fund in April 2001. This had essentially been to continually reduce equities and increase the weightings in bonds and property. In the case of the Scheme:

<table>
<thead>
<tr>
<th></th>
<th>July 2000</th>
<th>April 2001</th>
<th>June 2002 target</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>74%</td>
<td>63%</td>
<td>43%</td>
<td>53%</td>
</tr>
<tr>
<td>Bonds and Gilts</td>
<td>15%</td>
<td>26%</td>
<td>36%</td>
<td>30%</td>
</tr>
<tr>
<td>Property</td>
<td>11%</td>
<td>11%</td>
<td>21%</td>
<td>17%</td>
</tr>
</tbody>
</table>

(ii) Immediately following the Trustees' June 2002 decision to further reduce equities and increase bonds and property, equity/bond yields shifted to such an extent this move would now be much more expensive to make and could negatively impact on funding.

The Trustees and Company agreed to defer the switch until terms more closely allied to those of June 2002 are evidenced. This situation continues to be monitored.

(iv) The Board expressed support for the Trustees' strategic aim to reduce equities in favour of an increase in bonds and property, when the time is right. The Company has also advocated investment in safe, high-yielding, income generating stocks.

(vi) A provisional date of 28 May 2003 has been set to discuss the Trustees' latest proposals with Philip Green.

MMH / 22.5.2003
5 JUNE 2003: Bhs PENSION SCHEMES' INVESTMENT STRATEGY SUB-COMMITTEE MEETING

(i) **Property:** Although the strategy is to increase our property weighting, the current lack of suitable supply in the market is thwarting these plans.

(ii) **Equity / bond switch:** The terms for switching remain unfavourable; members of the Sub-Committee reiterated their decision to delay making this move until comparative yields more closely resemble those applying in 2002, when the decision to reduce equities and increase bonds was originally made.

(iii) **Active versus passive management:** It was agreed that moving from passive to active management and seeking to maximise yields will be appropriate for the next few years.

(iv) **Consultation with the Company:** Philip Green’s endorsement of the planned investment strategy is awaited and in the meantime the following points were agreed in principle.

(v)  

(vi)  

11 JUNE 2003: Bhs LIMITED BOARD MEETING

(i) Following a discussion on funding and investment matters, the Board acknowledged decisions taken by the Investment Strategy Sub-Committee/Trustees of the Schemes, as follows:

   (a) The switches from equities to bonds and property have still not been actioned due to unfavourable market conditions, but will be made when the time is right.

   (b) The decision to move £50m from the current equity managers to a manager with a higher yielding, absolute return mandate was endorsed.

   (c) The move from passive to actively-managed portfolios was also acknowledged.

Allan Leighton agreed to appraise Philip Green of these points.
9 JULY 2003: BHs LIMITED BOARD MEETING

(i) The Board – Phillip Green present – endorsed the Trustees' strategy, as follows: To sell:
   
   (a) £20m passively-managed equities and invest the proceeds in property;
   
   (b) the remaining passive equities and some Merrill Lynch and Capital equities to generate £50m for placement with an absolute return manager. This mandate will have a strong UK bias and a yield target in excess of 4.5% real, but with few other constraints; and
   
   (c) £20m passive gilts for reinvestment in actively managed corporate bonds.

14 JULY 2003: INVESTMENT STRATEGY SUB-COMMITTEE MEETING

6 AUGUST 2003: INVESTMENT STRATEGY SUB-COMMITTEE MEETING
5. STRUCTURE OF THE SCHEMES

The Chairman referred to a letter dated 25 May 2005 she had received from the Company advising that it has been considering the Schemes' ongoing positions in the light of escalating costs, increasing volatility and risk plus the burgeoning regulatory requirement in the area of pension provision.

As part of this review, a comparison of the pension arrangements currently being offered by competitors had also been considered.

All in all, the Company feels the time has come to secure the Bhs Schemes' positions now, rather than face the prospect of having to take drastic action in the future.

Accordingly, changes to future service accruals and members' contribution rates are being proposed.

The Company's review had commenced prior to the results of the 2005 "desktop" valuations becoming available. The significant deterioration in the Bhs Pension Scheme's funding position from that disclosed in 2003, together with the now forecast increase in on-costs, must be regarded as additional incentives for the Company to gain control over its pension costs.

The Company will formally communicate with the Trustees when it has had the opportunity to properly analyse the results of the 2005 valuation roll-forwards.

It was acknowledged that this matter will need to be addressed by the full Trustee Board, which is scheduled to meet on 16 June 2005.

With there being no further business to discuss, the Meeting closed at 4:45 pm.

\[Signature\]

CHAIRMAN

Augwv. 23. 2005
MINUTES OF A MEETING OF THE TRUSTEES OF THE Bhs PENSION SCHEMES HELD AT
MARYLEBONE HOUSE, 129 – 137 MARYLEBONE ROAD, LONDON NW1
ON THURSDAY 8 JUNE 2006

PRESENT:
Dr Margaret Downes
Universal Pension Trustees Limited
Bhs Pension Trustees Limited
Margaret Hannell

Chairman
Stuart James
Ian Allkins
William Benson
Paula Winship

Secretary

IN ATTENDANCE:
Roger Urwin
Joel Wardle
Paul Burbidge
Watson Wyatt Limited
Watson Wyatt Limited
Watson Wyatt Limited

COMMENCEMENT TIME: 9:00 am
Global tactical asset allocation – Goldman Sachs

The Secretary circulated a short paper summarising the position to date:

- Mr Philip Green had met with representatives of Goldman Sachs on 24 May 2006 and expressed himself happy that Goldman Sachs be appointed for this mandate.
- Mr Green was supportive for up to £40m of the Schemes’ combined assets being invested in a global tactical asset allocation portfolio.
- Goldman Sachs had proposed two alternative fee bases.

Watson Wyatt’s recommendation would be to accept that which has a lower base fee and higher performance fee, but to ascertain whether Goldman Sachs might agree to apply a more challenging trigger before the performance fee is activated.

Watson Wyatt will negotiate this point with Goldman Sachs.

It was agreed that £30m be applied to this mandate by disinvesting the entire Morley portfolio of approximately £37m and depositing the residual c. £7m of bond assets with Legal & General.

Watson Wyatt will ask Goldman Sachs to supply a draft investment management agreement and terms of business for consideration.
(b) **Comparison of 2005 and 2006 funding updates**

The Trustees compared the results of the 2005 and 2006 funding updates and agreed that the results were broadly similar.

Since March 2006 corporate bond yields have moved from 5.1% to 5.5%, which has probably added £10m to the cost of the Scheme's liabilities.

(c) **Correspondence between the Company and the Trustees**

Further to the meeting held on 16 May 2006, Mr Paul Coackley had been sent a copy of the funding updates undertaken as at 31 March 2006, together with a letter from the Trustees and dated 25 May 2006.

In this letter it was stated that a prudent valuation basis needs to be adopted but that this is likely to produce an increase in the Scheme's deficit and hence a rise in the Company's contributions to eliminate the deficit over a ten-year period. The point was also made that the Trustees' favoured basis, whilst still prudent, was less demanding than FRS17 funding and will therefore activate the Pension Regulator's 'trigger' for possible, closer investigation.

The Trustees pointed out that in order to reach agreement on the statement of funding principles and the valuation assumptions for the two Schemes, the Trustees are required to take a view on the strength of the Company's covenant and would need to seek financial information from the Company in due course.

The Company was also made aware of the Pension Regulator's pronouncements on sponsors' provision of contingent assets to reduce scheme risk and / or to support a scheme's liabilities.

Mr Coackley responded on 31 May 2006, pointing out that the Company did not consider FRS17 an appropriate benchmark when considering valuation assumptions and funding requirements. The Company counselled against assuming investment returns would remain at the highs recently experienced and also stated that a sensible balance needs to be deployed which might suggest the adoption of a slightly more optimistic post-retirement investment return. Mr Coackley asked that the Trustees review their salary growth assumptions, particularly given the Schemes are now closed to new entrants.

Mr Coackley concluded by reiterating that the Company is committed to the ongoing funding of the Schemes on sensible, commercial terms. However, given the Schemes' current positions, he did not feel that constraining the Company's trading activities by establishing separate escrow accounts was an appropriate route to follow.

The Trustees were of the view that the previously adopted salary growth assumptions were valid but agreed that assuming a 1% more optimistic investment return for the next three years was justified, given the Schemes' past experience and investment approach. This would suggest a future Company contribution requirement of £7m a year for the Scheme and £400,000 a year for the SMS.

Paul Burbidge agreed to draft a response from the Trustees to Paul Coackley's letter of 31 May 2006 and the Secretary will circulate this to the Trustees for prior comment and agreement before it is despatched.

Messrs Roger Urwin and Joel Wardle were thanked for their input and left the meeting at this point.

Dr Margaret Downes left the meeting at this point and Mr Stuart James took over as Chairman.
MINUTES OF A MEETING OF THE TRUSTEES OF THE Bhs PENSION SCHEMES HELD AT MARYLEBONE HOUSE, 129 - 137 MARYLEBONE ROAD, LONDON NW1 ON FRIDAY 24 NOVEMBER 2006

PRESENT: Universal Pension Trustees Limited Stuart James, Chairman
        Bhs Pension Trustees Limited Ian Allkins
        Margaret Hannell William Benson
        Paula Winship

IN ATTENDANCE: Roger Urwin Watson Wyatt Limited
                Joel Wardle Watson Wyatt Limited
                Paul Burbidge Watson Wyatt Limited

APOLOGY FOR ABSENCE: Dr Margaret Downes

COMMENCEMENT TIME: 10:15 am

1. APOLOGY FOR ABSENCE

Notwithstanding Dr Downes' absence, the meeting was declared quorate and Stuart James agreed to act as Chairman.

It was agreed that Dr Downes was to be consulted on all decisions taken and that any issues which were less than straightforward would be deferred until her view was obtained.

2. MINUTES

The minutes of the meeting held on 16 August 2006 were agreed and were signed by the Chairman.

3. MATTERS ARISING

(a) Audits – year ended 31 March 2006

Margaret Hannell reported that the Accounts Committee met with PricewaterhouseCoopers ("PwC") following the 16 August 2006 Trustees' meeting.

PwC had pronounced all the accounts “clean” and had no issues of any significance to report or draw to the Trustees' attention.

Dr Downes and Mr Allkins signed the Financial Statements of the Bhs Pension Scheme, the Bhs Senior Management Scheme and the Bhs FURBS and Mr Allkins and Miss Hannell signed in respect of the Bhs Pension Investment Fund.

As PwC were awaiting Bank confirmations which they had only just requested, the auditor did not sign the Accounts at that stage but did so a couple of weeks later, once the outstanding information was received.

The Trustees acknowledged that they had received copies of the signed Financial Statements between meetings.
No Internal Dispute Resolution Procedures have been instigated or serious complaints raised and, so far as we are aware, there have been no referrals to the Pensions Advisory Service, the Pensions Ombudsman or the Pensions Regulator.

6. **AGE DISCRIMINATION LEGISLATION**

Margaret Hannell explained that legislation outlawing discrimination in the workplace was introduced from 1 October 2006 but implementation of the pension-related aspects has been deferred until 1 December 2006, to give more opportunity for greater consultation.

A Mayer, Brown & Maw summary of the more recent guidance (issued just two days previously) was circulated, together with a summary of the issues and implications for the two Bhs Schemes.

Subject to the Actuary confirming no additional costs are involved and there will not be a negative impact on the Schemes’ funding positions, the Trustees provisionally agreed:

(a) **Bhs Pension Scheme and Bhs Senior Management Scheme**

(i) to allow those who remain in Company employment to continue contributing to the Schemes and earning additional pension beyond the age of 65;

(ii) to remove the age 70 cut-off date by which all pensions must be put into payment;

(iii) that members who die in service before and after age 65 to be provided with the same level of life cover;

(iv) that members who opt-out and draw pension under the flexible retirement provisions introduced from April 2006 will not be allowed to re-join the Schemes – the member needs to have and must be considered and accepted this point in deciding to take advantage of flexible retirement

(b) **Bhs Pension Scheme**

(i) to make no change in the member contribution arrangements for those who joined before April 1995 and who are still on the “tilted scale”;

(ii) to make no change to the Rule that enables members to drop from a 6% to 4% member contribution (and corresponding change in future service accrual rate) but not to increase their contributions from 4% to 6%;

(c) **Bhs Senior Management Scheme**

(i) member contributions for those in the Executive category will reduce to 6% once a two-thirds pension has been accrued or thirty years’ pensionable service has been completed, whichever comes sooner;

Further guidance relating to the operation of Inland Revenue limits is said to be awaited.

7. **MAY 2007 INCREASE TO PENSIONS IN PAYMENT**

The Trustees ratified the increase to pensions in payment in line with the Schemes’ Rules.

The Trustees also agreed to ask the Company if it was minded to make a further, discretionary increase.
8. **2006 BENEFIT STATEMENTS**

The Secretary circulated examples showing the layout and information being included in this year’s new style statement.

Members’ individual statements are scheduled to be despatched in the following week.

Next year’s statements will include a combined, State pension benefit forecast.

9. **MEMBER-NOMINATED TRUSTEE ARRANGEMENTS**

Discussions are to commence in Spring 2007, in anticipation of the current opt-out expiring in October 2007.

Paul Burbidge joined the meeting at this point

10. **ACTUARIAL and FUNDING MATTERS**

(a) **Trustees’ power to set contribution rates**

The Trustees noted the contents of the letter dated 28 September 2006 from Edward Jewitt of Mayer, Brown, Rowe & Maw confirming that the power to set contribution rates rests with the Trustees, after consulting with the Actuary.

(b) **Finalising the actuarial valuations**

Paul Burbidge pointed out that the Statements of Funding Principles must be agreed between the Trustees and the Company before the actuarial valuation reports are finalised.

The ultimate deadline for completion of the valuation process is 30 June 2007 but once the valuation reports are formalised, the Schedules of Contributions and the Recovery Plan must be agreed and signed within a few days.

The importance of ensuring that all the supporting paperwork is finalised before the valuations themselves are signed is therefore quite plain.

The Trustees approved the content and format of the formal actuarial valuation reports, the Schedules of Contributions and the Recovery Plan (Bhs Pension Scheme only).

As far as the Statements of Funding Principles are concerned, whilst accepting that the guidance requires fairly prescriptive wording to be used, Mr James raised an issue about the section covering shortfall elimination and asked Mr Burbidge to consider alternative wording referring to shortfall being eradicated as soon as the employer can reasonably afford, having regard for their other commercial commitments and the Company’s ability to make ‘better’ use of the additional sums involved.

Mr Burbidge agreed to come back on this point.

The Trustees noted that Mr Paul Coackley had been advised of the final valuation results, as well as the fact that the outcomes and contribution requirements are all in line with former indicative results, as previously discussed with him.

(c) **Presentation by Mr Paul Coackley**

Stuart James updated Mr Coackley and confirmed that the final valuation findings were in line with the provisional outcomes which had been previously communicated.
There is a deficit of £18.6m in the Scheme which needs to be eliminated. Mr Coackley was asked how the Company would feel about paying higher additional payments in the early years of the ten-year proposed recovery period. Mr Coackley responded that the deficit was not huge in the context of the value of the business but nevertheless he felt the Company could do better by investing the additional money in the business itself and he hoped this gave the Trustees greater comfort about the strength of the Company’s covenant.

Mr Coackley then gave an overview of the business prospects, commenting that Bhs has a special, niche position in the market and is well-positioned out-of-town.

Quality has been forsaken by some of our rivals but cheap product is unsustainable. Bhs has always maintained a quality bias and is well placed to capitalise on this when the customer reverts.

Last year the business moved into fashion, which is not our forte and lessons have been learned. The overall breadth of range has been reduced but its depth has been enhanced and the business has reverted to its original “statement” focus.

Profits are expected to be stabilised, leading to a small increases for the 2007 year end.

The business is generating greater cash flow than last year and the balance sheet is very strong, with EBITDA of £100m a year.

The business is focussed to ensure return on investment is ahead of our competitors: the business works to recover outgo within a year to eighteen months, whereas three to three-and-a-half years is the “norm” for others in the retail sector.

Developing out-of-town, acquiring new space, refurbishing the existing portfolio and promoting an internet option are the main business targets at present.

Negative goodwill of £150m, deriving from the Company’s purchase in 2000 being at a price substantially less than the business’s worth, is an anomaly within the Accounts. If this value is stripped out, profits would be at about £230m.

In conclusion, Mr Coackley reasserted that the business is very cash-generative, prudently managed and risk-averse, with debt averaging around £30m to £70m net of a £30m rent-roll a year.

The Chairman thanked Mr Coackley for his clear and precise presentation and asked if similar conversations could take place on a regular/annual basis and Mr Coackley expressed himself very happy to oblige.

Mr James pointed out that the Scheme’s proposed Statement of Funding Principles provides for payment of the lower, 9.6% rate of Company contributions (which allows for three years’ excess investment returns) to apply for an additional twelve months to 31 March 2010, to give time for the outcome of the 2009 valuation to be resolved. This extra year was being given in the expectation that when the future, new rate of contribution has been agreed on the back of the 2009 valuation, payment will be backdated to 1 April 2009.

Mr Coackley confirmed that it would indeed be the Company’s intention to continue the practice of backdating and collecting arrears of contributions to the effective valuation date.

Mr Coackley withdrew from the meeting at this point.
MINUTES OF A MEETING OF THE TRUSTEES of the Bhs PENSION SCHEMES
HELD IN THE BOARDROOM, Bhs LIMITED, 129 - 137 MARYLEBONE ROAD,
LONDON NW1 on TUESDAY 13 FEBRUARY 2007

PRESENT:  Dr Margaret Downes  Chairman
           Stuart James  Universal Pension Trustees Limited
           Ian Allkins  Bhs Pension Trustees Limited
           William Benson  "  "  "
           Paula Winship  "  "  "  "
           Margaret Hannell  Secretary

IN ATTENDANCE:  Roger Urwin  Watson Wyatt (Investment Consultancy)
                 Joel Wardle  "  "  "  "  "
                 Chandra Vadgama  Bhs Pensions Accountant

COMMENCEMENT TIME:  10:15 am

1. MINUTES

The Minutes of the meeting held on 24 November 2006 were agreed and were signed by
the Chairman.

2. MATTERS ARISING
Goldman Sachs — represented by Carolina Minio-Paluello, Pepijn Heins and Anna Roads, who commented as follows:

➤ Goldman Sachs have found the period since their appointment "extremely challenging" and have been disappointed that their five GTAA strategies – equity country selection; fixed income country selection; currency selection; global asset class timing and sector timing – have all been negative, even though each of the strategies are totally independent of each other.

➤ In the four months following inception, the portfolios lost 6%; performance in January 2007 was up 2½% but February's returns have so far been "flattish".

➤ Being short in US Treasury stock and Japanese bonds whilst being long in European bonds significantly detracted from performance.

➤ However, holding Japanese equities at the expense of US stocks was a positive contributor to performance.

➤ Rebalancing is being undertaken more frequently – on a daily/weekly basis, rather than every four to five week.

➤ Goldman Sachs do not believe their process of assessing valuations – looking at the macro position, momentum and currency – is "broken" and tracking error is in fact very close to the Manager's targets.
Size is not an issue and transaction costs are within expectations.

So long as they feel able to substantiate their view, Goldman Sachs is more than willing to hold contrarian positions.

The Trustees were of the view that Goldman Sachs' presentation and printed report contain a great degree of statistical material but were short on substance and data that was pertinent to the Schemes' holdings.

The attribution analysis was, however, felt to be clear and helpful.

Roger Urwin agreed to feed back to the Manager accordingly.
6. ACTUARIAL MATTERS

(a) Correspondence with the Company following the 24 November 2006 Trustees’ meeting – the Trustees noted that the Company was unwilling to accelerate the funding of the Scheme deficit beyond the ten years it had already committed to.

Dr Downes acknowledged receipt of a copy of Bhs Limited’s full Accounts for the year ended 1 April 2006 and reported that they contained a “clean” Auditor’s Report.

(b) Correspondence with the Company regarding the 2007 pension increase – the Company advised that it was not inclined to agree to a discretionary increase to pensions in payment this year in view of the fact that changes in pension increase terms had only taken effect a year earlier.

(c) Statements of Funding Principles – the text of the latest versions of the Statements, as circulated with the agenda, were approved and signed by Paul Coackley for Bhs Limited and by Dr Downes on behalf of the Trustees.

(d) Final actuarial valuation reports – copies of the final valuation reports for the Scheme and the SMS, which had been signed by the Scheme Actuary, were tabled at the meeting.

(e) Schedules of Contributions – the Schedules were approved and signed by Paul Coackley for Bhs Limited and by Dr Downes on behalf of the Trustees; it was noted that the Scheme Actuary’s certifications of appropriateness had already been supplied.

(f) Bhs Pension Scheme Recovery Plan – this document was approved and signed by Paul Coackley for Bhs Limited and by Dr Downes on behalf of the Trustees.

The relevant paperwork will now be submitted to the Pensions Regulator and Margaret Hannell will send the Trustees individual copies of all these signed documents.

Margaret Hannell will also liaise with Bhs Finance regarding payment of the arrears of contributions to the Scheme.

Appropriate member communications will be drafted and circulated to Trustees in due course.

(g) 2007/2008 PPF levies – the PPF Board has published its consultation document on the 2007/2008 levy estimate.

This suggests the amount to be collected will be more than double that taken in respect of the current year.

Watson Wyatt can calculate the Schemes’ estimated levies in a couple of months’ time, once the level of the re-balancing adjustor has been clarified.

(h) Revised statutory transfer value basis – the Government published its response to the DWP proposal on 18 January 2007.

The proposal is that transfer values will continue to be calculated on the basis of the expected cost to the scheme of providing the deferred pension. This is expected to have a broadly neutral impact on transfer values in general.

Trustees will be responsible for determining actuarial assumptions, on a “best estimate” basis, having taken actuarial advice.

Trustees will need to provide more information (but as yet unspecified in nature) to Members.

The Government is to lay regulations later in the year, to enable the new routines to take effect from 6 April 2008. Developments will be monitored for review later in the year.
MINUTES OF A MEETING OF THE TRUSTEES OF THE Bhs PENSION SCHEMES HELD AT MARYLEBONE HOUSE, 129 – 137 MARYLEBONE ROAD, LONDON NW1 ON TUESDAY 12 JUNE 2007

PRESENT: 
Dr Margaret Downes 
Universal Pension Trustees Limited 
Bhs Pension Trustees Limited 
Margaret Hannell 
Chairman 
Stuart James 
Ian Aikins 
William Benson 
Paula Winship 
Secretary 
IN ATTENDANCE: 
Roger Urwin 
Paul Burbidge 
Watson Wyatt Limited 
Watson Wyatt Limited 

COMMENCEMENT TIME: 10:15 am

1. MINUTES

The minutes of the Trustees' meeting held on 13 February 2007 and an Investment Committee meeting held on 9 May 2007 were agreed and were signed by the Chairman.

2. MATTERS ARISING

(b) Goldman Sachs
The Trustees were disappointed to note the continued under-performance of Goldman Sachs, following a six-month period of negative sentiment in the markets in which they seek to add value.

Watson Wyatt continue to rate GSAM highly and have sympathy with their view that markets are "abnormal"; fixed interest markets are clearly not operating within usual parameters and this is an area where the manager has particularly suffered.

In response to the question, Roger Urwin commented that a review would be warranted if there was no recovery by eighteen months after their appointment – or earlier if there are any significant changes within the organisation.

Margaret Hannell was asked to invite GSAM to the 14 August 2007 Investment Committee meeting instead of 23 October as previously scheduled. William Benson and Paula Winship were invited to sit in on this meeting if they so wish.

(c) Member-nominated trustee arrangements
Dr Downes reported that, following the communication sent to active, deferred and retired members in May 2007, no-one had stood against or objected to Bhs Pension Trustees Limited's appointment as Member-Nominated Trustee.
MINUTES OF A MEETING of the Bhs PENSION SCHEMES’ ACCOUNTS COMMITTEE
HELD AT Bhs LIMITED, MARYLEBONE HOUSE, 129-137 MARYLEBONE ROAD, LONDON
NW1 on TUESDAY 14 AUGUST 2007, COMMENCING at 2:10pm

PRESENT: Dr Margaret Downes  Chairman of the Trustees
           Ian Allkins  Bhs Pension Trustees Limited

IN ATTENDANCE: Andrew Evans PricewaterhouseCoopers (Audit Partner)
                Sara Bennett PricewaterhouseCoopers (Audit Manager)
                Margaret Hannell Secretary to the Trustees
                Chandra Vadgama Bhs Pensions Accountant

1. 31 MARCH 2007 AUDITS OF THE Bhs PENSION SCHEMES AND THE Bhs PENSION INVESTMENT FUND

Mr Evans outlined the scope of PricewaterhouseCooper’s ("PwC") audit work, as set out in the Report to the Trustees which had been previously circulated.

Mr Evans remarked that controls are strong, the record-keeping environment within the Department is excellent and the additional Accounts resource is an added benefit.

Checks undertaken during the course of the audit confirm that benefits have been calculated accurately and paid to the correct beneficiaries.

The requested Bank confirmations had all come through in a timely manner and caused no issues to be raised.

All in all, the auditors were pleased to report a clean audit outcome with no issues of late contribution payments or member benefit issues to bring to the Trustees’ attention.

2. CONTROL OBSERVATIONS – FROM 2006 AUDITS

(i) Accounting procedure manual: PwC noted that, with the appointment of a new Accounts Assistant, drafting of the accounting procedure manual is at an advanced stage and will continue to be progressed towards finalisation.

(ii) Reconciliations between the custodian and the investment managers: The managers now include formal confirmations about their reconciliation processes in their quarterly reports.

3. Bhs PENSION SCHEME – SCHEDULE OF CONTRIBUTIONS

Following resolution of the March 2006 triennial valuations Watson Wyatt, the Scheme Actuary, had drafted revised Schedules of Contributions ("SoCs") for the Scheme and the SMS. These were signed by Dr Downes (for the Trustees) and Paul Coackley (for Bhs Limited) on 13 February 2007.

The outcome of the 2006 valuations was that the Trustees and the Company had formally agreed to the following contribution payment programmes, in confirmation of previous tripartite discussions which had taken place involving the Scheme Actuary:

> **Bhs Pension Scheme**: the Company will pay regular contributions of 9.6% of members’ earnings plus deficit contributions of £2.5m a year for an anticipated ten year period – commencing with effect from 1 April 2006 in both cases; and

> **Bhs Senior Management Scheme**: the Company will continue paying regular contributions at the rate of 7%.
It was agreed that the text of the Bhs Pension Scheme SoC might benefit from the inclusion of an additional phrase to emphasise the fact that the new 9.6% rate of Company contributions became payable with effect from 1 April 2006. This has been duly done and a copy of the relevant Scheme SoC is attached.

This additional text will be initialled on behalf of the Company and the Trustees when the Financial Statements are signed.

4. **REPRESENTATION LETTERS**

Dr Downes and Mr Allkins agreed the draft Letters of Representations which will be signed by Miss Hannell and Mr Vadgama in respect of their administration of the Schemes and the Fund.

Representation Letters on behalf of the Trustees of the Schemes and the Administrator of the Fund will be signed by Dr Downes and Mr Allkins in the case of the Schemes and by Mr Allkins and Miss Hannell in the case of the Fund, once the Financial Statements are signed. Copies will then be passed to PwC.

5. **THE FINANCIAL STATEMENTS**

The following have been authorised to sign the Financial Statements:

- Bhs Pension Scheme
  - Bhs Senior Management Scheme
  - Bhs FURBS (not requiring audit)
  - Dr Downes and Mr Allkins

- Bhs Pension Investment Fund
  - Mr Allkins and Miss Hannell

6. **VAT ON INVESTMENT MANAGER EXPENSES**

The meeting closed at 3:15 pm

[Signature]
CHAIRMAN
October 23, 2007
Bhs Pension Scheme

Schedule of Contributions following the 2006 valuation

This schedule specifies, for the period from the date this schedule is certified by the Scheme Actuary until 31 March 2016, the rates and due dates of Employer and employee contributions to the Scheme. It is subject to review from time to time as required by legislation and by the Scheme’s Trust Deed and Rules and following actuarial valuations and interim reviews.

1 Regular Employer contributions

In relation to Members not covered by SMART:

Employers shall contribute at the rate of 9.6% of Members’ Earnings for full members until 31 March 2010 and at the rate of 17.5% thereafter.

In relation to Members covered by SMART:

Employers shall contribute at the rate of 9.6% of Members’ Earnings before any SMART adjustment until 31 March 2010 and at the rate of 17.5% thereafter.

In addition, the Employer will pay:

Members who commenced pensionable service after 1 May 1995 and have chosen to accrue benefits on 1/60th’s basis: 6% of Earnings before SMART adjustment

Members who commenced pensionable service after 1 May 1995 and have chosen to accrue benefits on 1/80th’s basis: 4% of Earnings before SMART adjustment

Members who commenced pensionable service on or before 1 May 1995, have chosen to accrue benefits on 1/60th’s basis and are aged 40 or over on 1 January 2006: 6% of Earnings before SMART adjustment

Members who commenced pensionable service on or before 1 May 1995, have chosen to accrue benefits on 1/60th’s basis and are aged less than 40 on 1 January 2006: 4% of Earnings before SMART adjustment from January 2006, 5% of Earnings before SMART adjustment from January 2007, 6% of Earnings before SMART adjustment from January 2008

Members who commenced pensionable service on or before 1 May 1995, have chosen to accrue benefits on 1/80th’s basis and are aged less than 30: 2% of Earnings before SMART adjustment

Members who commenced pensionable service on or before 1 May 1995, have chosen to accrue benefits on 1/80th’s basis and are aged 30 to 34 inclusive: 3% of Earnings before SMART adjustment
Members who commenced pensionable service on or before 1 May 1995, have chosen to accrue benefits on 1/80ths basis and are aged 35 or greater: 4% of Earnings before SMART adjustment.

These contributions shall be paid to the Scheme no later than 19 days after the end of the four-week pay period to which they relate. These contributions cover benefits and non-investment management related administration expenses. For the avoidance of doubt, the Employer will contribute at the rate of 11% of Members’ Earnings from 1 April 2006 until this schedule is certified. After the date that the schedule is certified, the difference between the contributions paid since 1 April 2006 of 11%, and 9.6% as set out above will be deducted from Employer contributions otherwise payable in the period to 31 March 2007.

**Other Employer contributions**

In addition to the contributions shown above, the Employers shall pay the following:

a. Contributions under a Recovery Plan of £192,308 per four-week pay period, paid to the Scheme no later than 19 days after the end of the four-week pay period, plus a lump sum representing this amount from April 2006 until the month this schedule comes into effect, paid by the 19th day of the following month.

b. Additional contributions as may be required under the Trust Deed and Rules in specific circumstances, for example augmentations. The amounts of such contributions to be advised by the Scheme Actuary and the due dates to be agreed by the Trustees and Employer.

c. Such other contributions as agreed by the Trustees and Employer, including PPF levies.

2 **Employee contributions**

Employees who are Members shall contribute to the Scheme at the following rates:

*In relation to Members not covered by ‘SMART’*

Members who commenced pensionable service after 1 May 1995 and have chosen to accrue benefits on 1/60ths basis: 6% of Earnings

Members who commenced pensionable service after 1 May 1995 and have chosen to accrue benefits on 1/80ths basis: 4% of Earnings

Members who commenced pensionable service on or before 1 May 1995, have chosen to accrue benefits on 1/60ths basis and are aged 40 or over on 1 January 2006: 6% of Earnings

Members who commenced pensionable service on or before 1 May 1995, have chosen to accrue benefits on 1/60ths basis and are aged less than 40 on 1 January 2006: 4% of Earnings from January 2006, 5% of Earnings from January 2007, 6% of Earnings from January 2008

Members who commenced pensionable service on or before 1 May 1995, have chosen to accrue benefits on 1/80ths basis and are aged less than 30: 2% of Earnings
Members who commenced pensionable service on or before 1 May 1995, have chosen to accrue benefits on 1/80th's basis and are aged 30 to 34 inclusive: 3% of Earnings

Members who commenced pensionable service on or before 1 May 1995, have chosen to accrue benefits on 1/80th's basis and are aged 35 or greater: 4% of Earnings

Members covered by 'SMART' do not make basic contributions to the Scheme.

These contributions shall be deducted from Members' pay and paid to the Scheme by the Employer no later than 19 days after the end of the four week pay period to which they relate.

Active Members may make Additional Voluntary Contributions of such amounts and on such dates as they may decide in addition to the above contributions.

The terms Employer, Member and Earnings have the meanings assigned to them in the Trust Deed and Rules of the Scheme. The term 'SMART' has the meaning referred to in the announcement to members dated March 2006.

Date of schedule (for reference purposes): 13 February 2007

Agreed on behalf of the Trustees

Name  DR MARGARET DOWNES
Signed
Date  13 FEBRUARY 2007

Agreed on behalf of the Employers

Name  PAUL COACKLEY
Signed
Date  13 FEBRUARY 2007
4. MANAGER PRESENTATIONS

(a) Goldman Sachs – represented by Carolina Minio-Paluello and Anna Roads, who commented as follows:

- Global equity markets had a strong second quarter and returned 5%. Germany, Finland, Norway and the Netherlands were the main out-performers.
- Global fixed interest markets, on the other hand, produced negative returns during the same period – Switzerland, Sweden and ‘Euroland’ being the chief detractors.
- Relative to most currencies the US dollar weakened, particularly in comparison with the Canadian and New Zealand dollars.
- Global equity markets significantly out-performed fixed income markets and, in the US, large-cap out-performed small-cap stocks and the technology sector out-performed that of industrial.
- GSAM’s policy of being long in equities and short in bonds proved beneficial up to the end of June 2007, but the manager’s switch into long bonds after the quarter end was not enough to mitigate the fall in equities which then occurred; July and August have proved to be challenging months. The portfolios lost 3% in value in July and are currently 7% down in August 2007 – but the manager asserted that a quick recovery can easily reverse this position.
- During a roller-coaster period, seven sigma events occurred in a few days; GSAM stated that a three standard deviation event does not worry the firm unduly.
- A lot of positions are being unwound. GSAM is scaling back risk and trying to make up ground cautiously. The manager said that so far, the risk and liquidity management techniques it is deploying are working well.
- GSAM will hold its position in the expectation that fundamentals must return. Since appointment, GSAM has lost the Schemes £5m. Carolina Minio-Paluello commented that “history shows the faster you go down, the faster you go up”.
- GSAM expects a strong rebound over the next few weeks as positions unwind, followed by a gradual period of recovery which may last for up to a year.
- Roger Urwin identified the Committee’s concerns as: lack of transparency of GSAM’s positions; the size and the capacity of the manager’s product; perceived lack of breadth, with positions being too concentrated and how GSAM deals with extreme investment decisions and it is on these points that the Committee’s confidence needs building. GSAM will respond to these issues and advised that the Trustees need to sign a non-disclosure agreement before GSAM will provide detailed information on the structure on the portfolios.
- Following GSAM’s departure, Roger Urwin reiterated that we are twelve months into GSAM’s appointment and it would be sensible to give the manager eighteen months to prove itself. GSAM is a quality firm, but recent market conditions have not favoured its investment approach.
MINUTES OF A MEETING OF THE TRUSTEES OF THE Bhs PENSION SCHEMES HELD AT
MARYLEBONE HOUSE, 129 – 137 MARYLEBONE ROAD, LONDON NW1
ON TUESDAY 20 NOVEMBER 2007

PRESENT:  
Dr Margaret Downes  
Universal Pension Trustees Limited  
Chairman  
Stuart James  

Ian Allkins  
Bhs Pension Trustees Limited  
William Benson  
Paula Winship  
Secretary  

Margaret Hannell  
IN ATTENDANCE:  
Roger Urwin (items 1 to 3)  
Watson Wyatt Limited  
Paul Burbidge (items 4 to 10)  
Watson Wyatt Limited

COMMENCEMENT TIME:  
2:00 pm

1. MINUTES

The minutes of the Trustees' meeting held on 12 June 2007 and the Investment Committee meeting of 23 October 2007 were agreed and were signed by the Chairman.

Copies of minutes of the Accounts Committee and the Investment Committee meetings held on 14 August 2007 had also been distributed with the agenda packs.

2. MATTERS ARISING

(a) Audits – year ended 31 March 2007
Margaret Hannell reported that the Accounts Committee had met with PricewaterhouseCoopers ("PwC") on 14 August 2007. PwC had pronounced all the accounts "clean" and had no issues of any significance to report or draw to the Trustees' attention.

Dr Downes and Mr Allkins signed the Financial Statements of the Bhs Pension Scheme, the Bhs Senior Management Scheme and the Bhs FURBS and Mr Allkins and Miss Hannell signed those of the Bhs Pension Investment Fund.

During the course of the Accounts Committee meeting there had been some discussion on the wording of the latest Bhs Pension Scheme Schedule of Contributions.

In the event, it was agreed to add to the text of the Schedule to make it plain that the revised Company contribution rate and the Recovery Plan had been introduced retrospectively, with effect from 1 April 2006.

The Financial Statements were duly signed by PwC and the Trustees acknowledged that they had received copies between meetings.

(b) Communications – 2007 Members' Newsletter and Summary Funding Statements
The Secretary reported that these publications had been circulated to all members at the end of September 2007 and had generated the usual, muted response and that no issues of any significance had been raised.
3. INVESTMENT MATTERS

(a) Movements in the Schemes’ asset values to 30 September and 31 October 2007
The Schemes’ assets continue to appreciate in value, even allowing, in the case of
the Scheme, for increased draw-downs resulting from members’ choosing to
receive higher cash lump sums.

The Schemes benefitted from having no exposure to the sub-prime mortgage
market or to hedge funds, which have been the major under-performers recently.

Global tactical asset allocation (GTAA) has been badly hit by recent market
activity, with our investment in Goldman Sachs Asset Management (GSAM)
suffering further, severe falls in value, particularly during August and September
2007. Roger Urwin commented that GSAM places considerable reliance on
statistics and the assumption that past patterns will repeat themselves. However, the size of the GSAM organisation seems to impede its being able to
move quickly enough to extricate itself from adverse market situations. The
GTAA market is also becoming increasingly over-crowded with new players and
this seems to have stymied GSAM’s activities. Notwithstanding the manager has
good people and resources, Watson Wyatt has just downgraded GSAM from a 2
to 3 rating (indicating it is not expected to be able to meet its benchmark).

Bond managers, on the other hand, fared better as a result of recent market
conditions.

(b) GSAM – ongoing role
Roger Urwin was asked to comment on GSAM’s likely, future prospects and
whether there are any market conditions which might support their approach
and philosophy. Mr Urwin remarked that a bounce-back could have been
anticipated in September or October 2007, but this had not materialised.

Another view put forward is that there is too much leverage in the GSAM fund
and this has served to undermine the manager’s performance and ability to
deliver.

Ultimately, GSAM’s future success is a “probability call”, with the expectation for
an upturn being more negative than positive.

After debating the matter for some time, the Trustees agreed to discharge
GSAM with immediate effect and to invest 50% of the realised assets with
Southeastern and the other 50% in a Legal & General credit index.

Margaret Hannell was asked to make the appropriate arrangements. The switch
is likely to take two to three weeks to complete, given the timing of GSAM and
L&G’s future dealing dates.
Roger Urwin withdrew from the meeting at this point.
Paul Burbidge joined the meeting at this point.

4. **PRESENTATION BY PAUL COACKLEY, BHs CHIEF OPERATING OFFICER**

The Trustees had a lengthy discussion with Mr Coackley on current trading and an update on planned, future developments within the business. Some of the main issues discussed were:

Mr Coackley advised that continued investment in the business has been the key focus recently, with fifteen major re-fits having been completed at a cost of £20m and three more in the pipeline.

The Company has also committed to spend a further £10m after Christmas and up to Easter 2008 to refresh twelve more stores. This will be followed by two further exercises: one in the summer of 2008 followed by another after Christmas 2008.

It is anticipated that the refurbishment programme will cost £100m or more by the time it is completed in two to three years; time.

Customer feedback on the newly refurbished stores has been extremely encouraging and like-for-like trading has shown a 10% uplift.

The business remains cash-generative, with a large amount of this revenue being channelled back into development opportunities. Two new Home Stores are under construction – one in Cardiff and the second in Bournemouth – with being planned for Folkestone.

High rental costs make new store openings prohibitively expensive. Mr Coackley explained that this does deter the Company from opening in some new venues, for instance White City. On the other hand, some urban regeneration programmes – Nottingham, Crewe and Swindon were given as examples – have given fabulous returns.

Mr James advised Mr Coackley that the Pensions Regulator has engaged the Trustees in correspondence about the recently agreed BHs Pension Scheme Schedule of Contributions and Recovery Plan. Mr Coackley accepted that any unplanned dividend announcements would not be viewed positively in this climate and agreed to look over the Trustees’ response to the Regulator to check that it covered all the relevant points.
In closing, Mr Coackley confirmed that, having started very well in April 2007, summer 2007 had turned out to be a “corrid”. The next six weeks up to the festive season are critical as this is the period when the majority of sales are made. The business is in good shape stock-wise and a tight rein is being maintained in next year’s planning programmes.

Mr Coackley was thanked for his presentation and agreed to meet and update the Investment Committee after Christmas.

5. ACTUARIAL MATTERS

(a) Correspondence with the Pensions Regulator
The Pensions Regulator had sent a letter (dated 17 October 2007) asking for further background on how the Trustees and the Company had settled on the latest Schedule of Contributions and Recovery Plan in respect of the Bhs Pension Scheme.

Paul Burbidge commented that 10% to 15% of defined benefit schemes have been sent this type of letter and its seems to be triggered by those who have opted for a ten year Recovery Plan – although he knows of schemes that have proposed an eight or nine year period and are being similarly ‘investigated’.

The draft response which had been prepared by the Secretary was discussed and several helpful comments were made on how the reply might be improved upon and made more informative.

Margaret Hannell and Paul Burbidge will work on a revised draft, which will be circulated to all Trustees before it is despatched. The aim is to respond to the Regulator during the first week of December.

(b) Actuarial factor review
Watson Wyatt have prepared their final, formal advice letter following the discussions which took place earlier in the year.

A copy has been forwarded to the Company and its endorsement is awaited.

(c) Funding updates – as at 30 September 2007
Desktop updates produced by Watson Wyatt indicate that the Schemes’ ongoing funding levels have declined a little – mainly due to investment returns being lower than assumed but also reflecting adjustments in financial assumptions to reflect future, anticipated economic conditions:

<table>
<thead>
<tr>
<th></th>
<th>31 March 2006 Triennial valuation</th>
<th>30 June 2007 Desktop update</th>
<th>30 September 2007 Desktop update</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bhs Scheme</td>
<td>95.0%</td>
<td>98.5%</td>
<td>93.7%</td>
</tr>
<tr>
<td>Bhs SMS</td>
<td>115.0%</td>
<td>119.9%</td>
<td>114.8%</td>
</tr>
</tbody>
</table>

(d) Regulatory review of cash equivalent transfer values
On 25 October 2007, the Minister for Pensions Reform announced that new regulations governing cash equivalent calculations will come into effect on 1 October 2008, six months later than had previously been announced.

The Trustees agreed to delay making any changes to their transfer value routines until the full impact of the new regulations is known and therefore anticipated having something to consider and agree at their June 2008 meeting.

(e) PPF levies – 2007/2008
The Trustees noted that an invoice for just over £11,000 had been received in respect of the Bhs SMS levy. This was in line with the expected amount due so had been paid during November 2007.

An invoice for the Bhs Scheme levy is awaited.
MINUTES OF A MEETING OF THE TRUSTEES of the Bhs PENSION SCHEME and the
Bhs SENIOR MANAGEMENT SCHEME HELD IN THE BOARDROOM,
Bhs LIMITED, 129 - 137 MARYLEBONE ROAD, LONDON NW1 on TUESDAY 8 APRIL 2008

PRESENT:

Dr Margaret Downes  Chairman
Ian Allkins
William Benson
Arthur Walford
Margaret Hannell

IN ATTENDANCE:
Roger Urwin
Chandra Vadgama

Chairman Bhs Pension Trustees Limited
" " " Independent trustee
Secretary
Watson Wyatt Limited
Bhs Pensions Accountant

COMMENCEMENT TIME: 12:00 noon

1. MINUTES
The minutes of the meeting held on 15 February 2008 were approved and were signed by the Chairman.
4. **VIEW FROM THE SPONSOR**

Ian Allkins referred to recent conversations he had had with Sir Philip Green in the course of which Sir Philip had expressed the following views:

- he is positive on the prospects for the Far East and Emerging Markets;
- but feels there is little value in Europe;
- there is compelling evidence to reduce UK positions – but where is the best place to invest the proceeds?
- Fixed interest holds no particular interest – but some corporate bonds are worthy of consideration, provided the stock selection call is right;
- certain so called ‘distressed’ debt situations are of interest because some ‘good’ companies are being inappropriately under-valued.

Sir Philip remains risk-averse and concerned about what the future may hold in the area of pensions legislation. The ever-increasing regulatory burden is felt to be unhelpful and the perception of having no control over the movement of the Schemes’ liabilities is equally perturbing.

At a combined cost of c. £150m, buy-out of the Schemes’ liabilities is prohibitively expensive, although that must be the ultimate aim.

The Trustees were pleased to receive Sir Philip’s views and felt that it was extremely helpful to have an insight from the Company.

In the circumstances, it was agreed to continue to work towards getting the Scheme solvent on an ongoing basis – hopefully in eight years; time, if the aims of the current Recovery Plan are met.

Ian Allkins said he was aware that some businesses are looking at enhanced transfer value exercises which, with the assistance of the employer, could serve to reduce a scheme’s liabilities.

The Chairman said she was aware of such incentive arrangements but said that this is a Company issue and the Trustees would need to consider any such proposal very carefully.
The Trustees should consider setting a risk budget and monitoring their management of risk. Roger Urwin agreed to draft a structure and proposal for consideration at the next meeting.

Arthur Walford asked for clarification on the Investment Committee’s mandate and noted that its brief entailed fact-finding, interviewing managers and making proposals to the full Trustee Board. It was acknowledged that valuable time could be lost if Trustee approval had to be sought outside Investment Committee meetings. It was noted that, as has been the case in the past when urgent issues have needed to be addressed by the entire Board, this meeting had in fact been extended to include all Trustee representatives with the exception of Roger Harte, the recently elected member representative. The Trustees therefore determined and agreed that, in future, all their meetings would be full Trustee Board meetings.

Assessment of the strength or weakness of the Company’s convent and its willingness and ability to contribute to the Schemes should be an ongoing process. It was noted that, in this regard, Paul Coackley had presented to the Board at its meeting in November 2007 and committed to providing regular future updates on the Company’s financial position and related matters.

The Trustees acknowledged that it is important for the Company to have regular and accurate information on the Schemes so that it is able to fully consider all its financial options. Paul Burbidge (the Actuary) should be working on the Schemes’ annual funding updates as at 31 March 2008 and Margaret Hannell will liaise with him to see what additional information he can provide. The Secretary also commented that she is waiting for LiabilityWatch (a Watson Wyatt desk-top funding tool) to be installed which should enable funding estimates and such like to be available at our finger-tips.

A question was raised as to whether the Schemes can borrow for the purposes of making investments. Mayer Brown subsequently advised that EU law which came into effect on 30 December 2005 prevents schemes borrowing money, except where the purpose is to provide temporary liquidity.

PRESENT: Dr Margaret Downes Chairman
Bhs Pension Trustees Limited
Ian Allkins
Roger Harte
Arthur Walford Independent Trustee
Margaret Hannell Secretary

IN ATTENDANCE: Roger Urwin Watson Wyatt Limited
Paul Burbidge Watson Wyatt Limited

APOLOGY FOR ABSENCE William Benson – Bhs Pension Trustees Limited

COMMENCEMENT TIME: 10:15 am

1. MINUTES

The minutes of the Investment Committee meeting held on 14 October 2008 were agreed and were signed by the Chairman.

2. MOVEMENT IN THE SCHEMES’ ASSET VALUES TO 31 OCTOBER 2008

Schedules giving a “snap shot” of the rolling asset values at each month end, together with the accumulated draw-downs made to meet benefit payments and expenses, were enclosed with agenda packs.

The latest reporting showed that the overall value of the Scheme’s invested assets had dropped to £288.2m as at 31 October 2008, whilst that of the SMS was just over £68.8m.

It was noted that the reductions in certain manager’s values were as a result of the transitions forming part of the partial asset re-organisation, rather than pure falls in asset values.

Margaret Hannell was asked to provide the Trustees with a schedule showing manager-by-manager draw-downs made as well as changes in asset values since April 2008.

3. WATSON WYATT “DASHBOARD” REVIEW

Roger Urwin took the Trustees through the first set of dashboard papers. The Trustees were pleased to learn that the report was being provided free of charge on this occasion.

It was noted that the purpose of the dashboard approach, which will be considered on a quarterly basis, is to:

a) provide background analysis and guidance to assist the Trustees in their decision-making;
b) highlight routine and important matters as opposed to urgent issues which require action to be taken; and
c) quantify the degree of “value at risk” inherent in various investment approaches the Trustees might or might not take.
(iii) **Appointment of a funding committee**

The Trustees decided *not* to appoint a funding committee for the purposes of the 2009 valuation, but rather to complete the process collectively.

6. **COMPANY FINANCIAL UPDATE**

The Trustees were pleased to receive a presentation on the Company's financial position from Paul Coackley, Bhs Limited Chief Operating Officer.

Mr Coackley made the following points:

- The middle market is having a very tough time and we are very much "in the eye of the storm" at present.
- The Company is managing its finances extremely prudently with costs and inventories being significantly reined-in both this year and next year.
- A challenging couple of years in terms of trading are envisaged, with the result being that we must be strong and sensibly focused.
- Headcount has reduced and tight stewardship is being maintained.
- The Company's Balance Sheet is strong, with net bank debt being just £30m at the March 2008 year end.
- We need to do all we can to maintain the Schemes, although Mr Coackley stated that the Company cannot sustain any increase on the current level of contributions.
- The point was made that, of a workforce of 15,000+, just c.2,300 are active members of the Schemes.
- Out-of-town retail opportunities are being considered but will only be executed in respect of transactions that will be good for the business.
- In the year to March 2008, profits of £30m were generated on turnover of £850m. Profits for the year to March 2009 will be below £30m.
- Except where increases have been necessary to reflect National Minimum Wage legislation, no pay increases or bonus payments have been made to staff this year.
- A new, three-year bank facility was negotiated in December 2007 and the banks are exerting no pressure on the Company.
- Like-for-like sales were up 18% during the previous week on the back of a 20%-off promotion day.
- The strong message is that the business is being tightly and prudently managed and strong controls must be exercised in all areas and that any proposed increase in pension costs will be unsustainable.

Mr Coackley was thanked for his presentation and left the meeting.

Paul Burbidge reminded the Trustees that in setting Recovery Plan(s) on the back of the 2009 actuarial valuations, it will be important to maintain a careful paper-trail to satisfy any enquiries made by the Pensions Regulator and Trustees will need to have absolute certainty that they have "pushed" the Company to pay as much as it can afford to the Schemes.

7. **PENSION PROTECTION FUND LEVIES**

Watson Wyatt estimate that the levy charges for 2009/2010 are likely to be Scheme £365,000 and SMS £12,800.

The comparable amounts for 2008/2009 were £403,300 and £11,800 respectively.
1. MINUTES

The minutes of the Trustees’ meeting held on 25 November 2008 were agreed and were signed by the Chairman.

2. MATTERS ARISING

(c) Change in deferred pension revaluation rates
The Trustees noted that the requisite changes are being made to the pensions systems and member communications to reflect the change in revaluation rate to the lesser of RPI or 2.5% a year for service completed from 6 April 2009.

(e) Review of service level agreement
The Chairman will, in due course, comment on the proposed amendments suggested by the Secretary

(f) Trustees’ Conflict policy
Arthur Walford will provide the Secretary with his comments on this draft document outside the meeting so that this issue can be further discussed at a future Trustees’ meeting.
4. PREPARING FOR THE MARCH 2009 ACTUARIAL VALUATIONS

The Chairman related a conference call she had taken part in with Paul Coackley, Ian Allkins and Margaret Hannell on 10 February 2009. In short the Company has taken a preliminary look at the Schemes’ funding positions in anticipation of the 2009 triennial valuations and the indicative results are not favourable. Dr Downes referred the Trustees to the contents of Paul Coackley’s letter to the Trustees dated 7 November 2008, alluding to the forthcoming valuations and stating that the Company currently contributes £6.5m a year to the Schemes and cannot countenance any increase beyond this level.

The Trustees were informed that Spencer Bowman of Watson Wyatt has been advising the Company whilst Paul Burbidge has been retained as the Trustees’ adviser. The Company has commissioned actuarial updates as at 5 December 2008 which show that both Schemes’ funding positions have continued to deteriorate and the indications are that amortising the deficit over any reasonable period, when coupled with future service costs based on the current benefit structures will, in all likelihood, result in costs which are some way in excess of the Company’s current pensions budget. Following the conference call Paul Coackley wrote to Dr Downes on 13 February 2009 and copies of this letter were circulated.

This letter commented on the fact that since Paul Coackley had made his financial presentation to the Trustees in November 2008, the hoped-for recovery in the Company’s trading position had not materialised and the business will have to take serious steps to reduce expenditure wherever possible. This has already resulted in a pay freeze and will shortly involve consultation with staff regarding a reduction in headcount.

Paul Coackley’s letter summarised the results of Watson Wyatt’s interim, December 2008 funding update and reiterated that the Company cannot sustain an increase in its current contributions to the Schemes. The Company wants to understand the Trustees’ views on the Schemes’ current funding positions as, from its perspective, the only viable options would seem to be to:

- close the Schemes to future pension build-up for active members;
- agree assumptions on medium-term asset returns with the Trustees; and
- determine an appropriate deficit recovery period with the Trustees.

The letter emphasised that the Company wants to work with the Trustees to ensure that everything possible is done to ensure the long-term survival of the Company and to protect members’ accrued benefits.
Ian Allkins provided further insight by stating that, for the year ended March 2009, the Company’s profit before interest and tax would be significantly lower than last year and the trading environment is exceptionally difficult and is likely to remain so for some time. Hard decisions have had to be taken, commencing with a deferral of the October 2008 annual pay review and a fundamental review of structure and the total employment position. In the Company’s view, all this needs to be considered in the light of the fact that current “active” members of the Schemes represent a very small [around 13%] proportion of total employees.

Paul Burbidge then took the Trustees through the December 2008 funding updates that Spencer Bowman had prepared for the Company.

Both Schemes had experienced significant falls in asset values on the back of the global financial ‘crisis’ and this has been the chief contributor to their respective, material deteriorations in solvency.

Paul Burbidge also commented that funding assumptions will inevitably need to be strengthened for the purposes of the 2009 valuations and even modest adjustments would result in a significantly increased deficit which would probably utilise the Company’s entire pensions budget – even without future service benefit costs having been assessed.

The Trustees noted that the Company had obtained quotations for future service benefit changes which could generate cost savings.

The Trustees agreed that it was important to discuss and consider all available options and to work with the Company to secure and preserve the best outcome for all members.

The Trustees immediate concerns involved acting in haste based on current, worst-case financial scenarios, but acknowledged that the position of deferred and retired members must also be taken into account.

Paul Burbidge was asked to provide some supplementary figures and options for the Trustees, incorporating alternative costings and variable deficit recovery patterns and payment periods.

The Trustees asked that this summary be produced by 20 February 2009 and agreed that a copy should be made available to Paul Coacley.

The Trustees will meet again on 2 March 2009. Paul Burbidge will dial-in as he will be abroad on holiday and Spencer Bowman will attend to represent Watson Wyatt.
MINUTES OF A MEETING OF THE TRUSTEES of the Bhs PENSION SCHEMES
HELD AT MARYLEBONE HOUSE, 129 - 137 MARYLEBONE ROAD, LONDON NW1
ON MONDAY 2 MARCH 2009

PRESENT:  
Dr Margaret Downes  
Ian Allkins  
William Benson  
Roger Harte  
Arthur Walford  
Chairman  
Bhs Pension Trustees Limited  
"  "  "  "  "  
IN ATTENDANCE:  
Margaret Hannell  
Spencer Bowman  
Paul Burbidge (by telephone)  
Secretary to the Trustees  
Watson Wyatt Limited  
Watson Wyatt Limited  

COMMENCEMENT TIME:  
2:00pm

1. MINUTES

The Trustees will advise the Secretary of their comments on the draft minutes of the meeting held on 17 February 2009, which were circulated prior to this meeting.

2. FUTURE FUNDING OPTIONS

The Trustees discussed the contents of a paper prepared by Paul Burbidge which had been based on the Schemes’ funding positions as at 5 December 2008.

The following comments and observations were made:

(a) Both Schemes’ funding positions have deteriorated quite markedly on the back of the falls in global markets. Given experience since 5 December 2008, the uniform view was that the position as at 31 March 2009 was likely to be even worse.

(b) It was acknowledged that the funding assumptions used for the purposes of the March 2006 valuations will need to be significantly strengthened for this year’s triennial reviews – particularly in the area of mortality assumptions. Basis II of Paul Burbidge’s paper reflects a 5% hardening of mortality assumptions, but even these rates might be regarded as towards the less prudent end of typical valuation assumptions, whilst the pre-retirement discount rate of 7.2% which has been utilised was also categorised as “at the top end of the optimistic range”.

(c) The Trustees therefore expressed the view that it is unlikely to be appropriate to assume any investment out-performance, although this will be reconsidered in the light of financial circumstances applying at the valuation date.

(d) Paul Burbidge advised that the twelve month deferral of a pay review, coupled with a reduction in headcount, should not have a material impact on funding positions, albeit contributions would be collected on a reduced salary roll.

(e) The Rules of both Schemes entitle members to take early retirement as of right from age 50. The Actuary commented that depending on the level of take-up, this could create a strain on the Schemes given pre-2006 service benefits from the more generous 3% a year early retirement discount factor.

(f) Ian Allkins confirmed that the Company has not paid a dividend for several years.

(g) The independent trustees sought clarification on the recently announced plans to review the opportunities for operational integration between Bhs Limited and Arcadia Group Limited. It was noted that given the similarities in their respective operations, there are clearly several areas of overlap between the two businesses.

The review has only just begun and its findings will be evaluated over the next couple of months. There are currently no plans to merge the two companies and the expectation is that they will continue to operate as separate legal entities.

(h) The Chairman speculated that the outcome of the operational review could have financial consequences that might impact the affordability of the Schemes for the Company.
In any event, Dr Downes expressed the view that this is something the Pensions Regulator will probably expect the Trustees to have considered and evaluated.

Arthur Walford made the point that it will be very important to follow and to be seen to have followed due process throughout valuation negotiations with the Company.

Spencer Bowman referred to the Pensions Regulator's guidance that trustees should have regard for a company's "covenant" – that is its ability as well as its willingness to contribute to a scheme – in assessing a scheme's technical provisions. Seemingly the Regulator is willing to accept less prudent assumptions and extended recovery periods where the scheme's sponsor is judged to have a strong balance sheet.

Watson Wyatt's role is to help the Trustees understand the degrees of prudence and relative sensitivities of a range of possible valuation assumptions – but the Actuary does not have a part to play in leading contribution negotiations with or in interpreting the Company's covenant.

The Company has reiterated that its budget for pension contributions will not extend beyond £6.5m a year, as previously advised during 2008.

On the basis of the Watson Wyatt paper, the Trustees noted that merely eliminating the deficit over a fifteen year period, even if the Regulator were to permit a recovery period of such lengthy duration, would utilise the entire £6.5m allocation in its entirety.

Watson Wyatt had prepared costings on the basis of assumed changes in the Schemes' benefit structures and possible increases in member contributions. However the Trustees were cautioned that, on such terms, the Schemes might not represent good value to many and, as a result, members could well decide to opt-out, which would result in the future service costs becoming even more expensive and unsustainable.

Given the Rules allow the Company to reduce or suspend its contributions to the Schemes, Mayer Brown had advised the Trustees (in September 2006), that they do not have a unilateral power to set contribution levels but rather they need to negotiate and agree rates with the Company.

Margaret Hannell agreed to circulate a copy of this advice to all Trustees.

Having given detailed consideration to all the issues and closely Interrogated Watson Wyatt's figures, the Trustees reluctantly agreed that continuing to allow defined benefit accrual in the future was no longer a viable option.

The Trustees accepted that their first duty is to protect the benefit 'promises' in respect of the pensions that members have earned to date and to seek to eliminate accumulated deficits over as quick and reasonable a period as possible.

It was noted that if defined benefit accrual is to cease, then money purchase or defined contribution will be the future pension offer.

The expectation is that this will be on terms that reflect those applying to new joiners to the business:

- **Staff:**
  - Employee contributions up to 5% of pay are matched by the Company

- **Senior Managers:**
  - Employee contributions up to 6% of pay are double-matched by the Company

3. **DISCUSSION WITH PAUL COACKLEY**

Paul Coackley joined the meeting and discussed options and the Company's views with the Trustees:

- For reasons which included risk-containment, Mr Coackley said that the Company felt it had no option but to cease future defined benefit accrual and to offer defined contribution pension arrangements in its place.

- The Trustees had already noted that the Company's £6.5m a year pension budget would be fully expended in eliminating the surplus over any conceivable time period.
Given this and having listened to the Company’s views, the Trustees acknowledged that there is no future for defined benefit accrual within the Company.

The Chairman advised that the Trustees need to assess reasonable affordability to the Company, particularly given the recent announcement of the Bhs/Arcadia operational integration review and she went on to say that the Pensions Regulator will no doubt expect the Trustees to investigate this issue in any event.

Mr Coackley said he was comfortable with this and will be happy to provide whatever information may reasonably be required.

Mr Coackley went on to say he would prefer that this matter be speedily addressed and resolved.

The Chairman asked Mr Coackley whether the Company could offer any alternative, non-cash security to the Trustees which might support lengthening the recovery period to upwards of twenty years.

Mr Coackley suggested that providing such collateral would probably not find favour with the Company’s bankers and that he would prefer not to pursue this line.

Mr Coackley was thanked for his time and withdrew from the meeting.

4. NEXT STEPS

(i) The Trustees agreed that it was important to consider all options — even if these are subsequently discarded on the grounds they are not workable.

(ii) It was agreed that a quick, high-level financial overview be commissioned.

Margaret Hannell will draft a brief which will be circulated to all Trustees in the next couple of days, with the aim of getting the final version out to potential providers by the end of the week.

(iii) The Trustees were invited to let Margaret Hannell know of organisations to approach, who might be suitable candidates to be included in this process.

6. DATE OF NEXT MEETING

- WEDNESDAY 1 APRIL 2009;
- commencing at 12:00 noon
- in the Boardroom at Marylebone

With there being no further business to discuss, the Meeting closed at 4:00pm.

[Signature]

CHAIRMAN

[Signature]

April 1, 2009
MINUTES OF A MEETING OF THE TRUSTEES of the Bhs PENSION SCHEMES HELD AT MARYLEBONE HOUSE, 129 - 137 MARYLEBONE ROAD, LONDON NW1 ON MONDAY 1 APRIL 2009

PRESENT: Dr Margaret Downes Chairman Bhs Pension Trustees Limited
         Ian Allkins " " " "
         William Benson " " " "
         Roger Harte " " " "
         Arthur Walford Independent Trustee

IN ATTENDANCE: Margaret Hannell Secretary to the Trustees
                Paul Burbidge Watson Wyatt Limited

COMMENCEMENT TIME: 12:00 noon

1. MINUTES

   The minutes of meetings held on 17 February and 2 March 2009 were agreed and were signed by the Chairman.

2. DUN & BRADSTREET RATING

   Paul Burbidge reported that Bhs Limited's "failure" score was 97 as at 31 March 2009.

3. MATTERS ARISING FROM PREVIOUS MEETINGS

   (a) Review of the Service Level Agreement: the Agreement has been updated and the revised draft is awaiting review.
   (b) Trustees' conflict policy: progress has been delayed owing to other more pressing matters; the intention is that the policy be reviewed and tabled for discussion at the meeting in June.
   (d) Preparation for the 2009 actuarial valuations: the in-house team are keeping pace with the production timetable agreed with Watson Wyatt and there are no issues to report at this stage.

4. FINANCIAL PRESENTATION BY BAKER TILLY – represented by Bruce Mackay and Mark Oldfield

   At their meeting on 2 March 2009, the Trustees had agreed that an independent financial assessment of the sponsor's covenant should be commissioned.

   A brief had been agreed by the Trustees and various firms were invited to tender. Following consideration of the submissions received, Baker Tilly was duly appointed to undertake this review for the Trustees.

   The Trustees noted that representatives of Baker Tilly had met and spoken with Paul Coakley and that a good deal of corporate, financial and pensions information had been supplied to assist Baker Tilly in their task.

   Each Trustee had been circulated with a copy of Baker Tilly's report. Messrs Mackay and Oldfield took the Trustees through the report and made the following comments and observations:
As set out in the brief and given the limitations of timescales and available information, this must be regarded as a “high level” review – although Baker Tilly did comment that even a more detailed assessment would be unlikely to alter this report’s main findings.

The Company’s overall covenant strength was graded as Moderate, but with signs of weakening given the poor economic environment for retail. On Baker Tilly’s scale, Moderate is defined as: “Covenant factors viewed as mixed; potential for employer default though probably not high risk nor near term”.

Paul Coackley has reaffirmed that the Company’s affordable pensions budget is no more than £6.5m a year, including defined contribution (DC)/Stakeholder costs.

The Company has estimated that DC costs alone could be £2.5m a year if the majority of defined benefit members take-up Stakeholder following closure of the Schemes. Effectively, therefore, this leaves a net £4m a year to fund the Schemes’ deficits.

Watson Wyatt had previously estimated that eliminating deficits of c. £84m over ten years could cost between £8.7m and £11.7m a year, so £4m a year will not make much of an impact over any short-term or reasonable period.

Paul Burbidge remarked that the Pensions Regulator seems to be taking a more conciliatory approach and has publicised a desire to be accommodating in agreeing more flexible and perhaps longer duration recovery plans to reflect the current economic conditions and the financial difficulties being experienced by some scheme sponsors.

Baker Tilly advised that the Company had shared its three-year 2010/2012 business plan and that this indicates free cash flows of approximately £5m a year. The Trustees noted this and commented that they could seek to negotiate additional deficit funding in future, more profitable years.

The Bhs and Arcadia businesses are currently undergoing a review of opportunities to benefit from operational integration. Paul Coackley had commented that its Bank (Lloyds TSB) is supportive and interested to see what economies may be achieved. Paul Coackley had expressed the view that close ties between the businesses should be viewed positively, particularly as it would allow Bhs access to Arcadia’s financial strength.

Baker Tilly’s view is that the Bhs business does not appear to be in imminent danger unless the Bank chooses not to support it. The Bhs Group has significant net assets in the form of property, none of which are currently subject to charges. The Trustees speculated that they could ask the Company to consider giving the Trustees a contingent charge over some of these properties.

The Company’s turnover for the last three years was said by Baker Tilly to be “modest at best” and the view expressed was that the Group will do well to generate £35m a year EBITDA over the next three years, given the current climate.

In conclusion, Baker Tilly recommended that the Trustees should:

a. negotiate recovery plans with the Company based on the net of DC contributions of approximately £4m a year; and
b. seek a commitment from the Company to make additional payments based on future excess free cash flow in more prosperous years; and
c. try to obtain further, alternative security wherever and if at all possible.

The Trustees compared Pension Protection Fund (“PPF”) coverage levels with the Schemes’ solvency or technical provisions. Paul Burbidge advised that the formula for calculating PPF levels is prescriptive and derived from gilt yields (which have recently been at historically low levels) whereas technical provisions are based on scheme-specific assumptions set by trustees and, in the case of the Bhs Schemes, high-yielding corporate bond yields have been used to date.

Accordingly, there is no level playing field basis for comparison between these two measures.

The Trustees agreed that Paul Coackley and the Company should see a copy of the full Baker Tilly report. In order to release a copy of the report to the Company, Baker Tilly will need Paul Coackley to sign a “hold harmless” letter. The Secretary and Baker Tilly will liaise outside the meeting to get this arranged.

Baker Tilly were thanked for their clear and helpful presentation and complimented on the degree of detail and insight contained in their report and withdrew from the meeting.
5. **NEXT STEPS**

(a) The Trustees felt that deficit contributions of £4m a year on their own were unlikely to be acceptable and alternative options need to be considered and proposed to the Company.

(b) Paul Burbidge agreed to draft a schedule of potential scenarios with associated financial costs and this will be circulated to all Trustees. The Trustees will then be invited to comment and propose their own, further suggestions.

(c) The Trustees' will then write to Paul Coackley with their proposals.

(d) The Trustees will meet Paul Coackley to discuss the list of proposed, alternative scenarios.
MINUTES OF A MEETING OF THE TRUSTEES of the Bhs PENSION SCHEMES
HELD AT MARYLEBONE HOUSE, 129 - 137 MARYLEBONE ROAD, LONDON NW1
ON FRIDAY 8 MAY 2009

PRESENT: Dr Margaret Downes Chairman
          Ian Allkins  Bhs Pension Trustees Limited
          William Benson  "  "  "
          Roger Harte  "  "  "  "
          Arthur Walford Independent Trustee
IN ATTENDANCE: Margaret Hannell Secretary to the Trustees

COMMENCEMENT TIME: 9:00 am

1. MINUTES

The minutes of the meeting held on 1 April 2009 were agreed and were signed by the
Chairman.

2. LEGAL ADVICE AND CONSIDERATION OF THE TRUSTEES’ POSITION IF THE
COMPANY PROCEEDS WITH ITS PROPOSAL TO CLOSE THE SCHEMES

All the Trustees participated in a detailed discussion of Mayer Brown’s updated legal
advice dated 7 May 2009, a copy of which is attached to these minutes. The following
comments and observations were made:

(a) In letters dated 1 May 2009 and personally sent to each affected member, the
Company has initiated a 60-day consultation process advising of its proposal to
close the Scheme and the SMS to future, defined benefit pension build-up.

(b) Furthermore, in the communication to Scheme members, the Company has
given notice that it intends to seek members’ agreement to make contractual
changes to break the link between their accrued pensionable service and future
increases in pensionable salary if the Bhs Pension Scheme is closed to future
accruals.

The Rules of the Bhs SMS do not contain such a link between future service and
pay increases, so this point is only relevant to Scheme members.

(c) Given pensions earned to the date of cessation would be treated in the same way
as ‘normal’ leaving service deferred pensions and would be subject to statutory
revaluation providing for annual escalation in line with the increase in the Retail
Prices Index (“RPI”) capped at 5% a year, the view was expressed that affected
members could ultimately receive a superior benefit as a deferred pensioner
because RPI is expected to rise over time whereas pay increases are under the
control of the Company.

The Trustees were reminded that the Company has applied a pay freeze for the
past two years.

(d) Margaret Hannell was asked to circulate copies of the letter and the Q&As the
Company has sent to affected members of the Scheme and the SMS.

(e) Mayer Brown’s advice confirms that the Trustees do have the appropriate power
and can agree to end future service pension accruals in both the Scheme and the
SMS.

The Trustees do not have the power to break the salary link for members of the
Scheme but it was noted, however, that the Company is addressing this aspect
itself, as part of its consultation with affected members.
It was acknowledged that the question the Trustees need to ask themselves is should they exercise their power and consent to the cessation of future final salary pension accrual.

It was noted that in the course of the several meetings which have taken place during the past two to three months, many of the points relevant to this issue have already been discussed in some detail and addressed, in particular:

25 November 2008 Trustees’ meeting
- The trigger to this discussion was the annual Company financial update in November 2008, when Paul Coackley notified the Trustees that, despite tight stewardship, the business is experiencing extremely tough and volatile times, with profits continuing to decline significantly.
- Mr Coackley asserted that the Company cannot sustain an increase in its current aggregate pensions budget of £6.5m a year.
- He went on to say that the Company has deployed stringent measures to reduce expenditure and this has been manifest by a prolonged pay freeze and planned consultation with staff with a view to reducing headcount.

13 February 2009 letter from Paul Coackley to the Trustees
- Since the November 2008 meeting, the Company’s circumstances have unfortunately worsened; the hoped-for recovery has not materialised and the prognosis is for even more difficult times ahead, with the Company being unlikely to meet profit targets which had originally been viewed as cautious and achievable.
- Paul Coackley remains adamant that the Company’s pensions budget cannot exceed £6.5m a year. He referred to updated funding assessments produced by Watson Wyatt in December 2008, which indicated that both Schemes’ funding positions had suffered marked deteriorations since March 2006, which would clearly lead to a sharp increase in the Company’s future pension costs.
- Mr Coackley concluded by saying that the Company cannot afford to keep the Schemes open to future accruals and he asked to work with the Trustees to help ensure the long-term survival of the Company and the protection of members’ pension benefits.

17 February 2009 Trustees’ meeting
- The Trustees were advised that, for the year ended March 2009, the Company’s profits before interest and tax would be significantly lower than those of the previous year and the trading environment is exceptionally challenging and is expected to remain so for some considerable time.
- Hard decisions have had to be taken, commencing with a further deferral of the October 2008 annual pay review plus a fundamental review of structure and total employment arrangements.
- The Trustees considered the funding updates produced by Watson Wyatt as at December 2008, which indicated that the two Schemes are in deficit to the tune of £83m+ on what could arguably be said to be a fairly optimistic set of assumptions – and which Watson Wyatt suggest are likely to need further strengthening for March 2009 valuation purposes in any event.
- The Trustees were advised that the Company wants to offer a Stakeholder arrangement as an alternative for the future and, given the Company has estimated that potential Stakeholder costs could be £2.5m a year out of its pensions budget of £6.5m a year, this means that just £4m a year is potentially available to fund final salary pension benefits – for past and future service.
- It was clear to the Trustees that, over any reasonable timeframe, £4m a year will not even cover the interest due on the deficit recoveries.
- The Trustees agree that the Company is an interested party and they need to take account of its views too.
- Indeed all reasonable options should be considered by the Trustees and the Company, to secure the best outcome for members of the Schemes.
2 March 2009 Trustees' meeting
- The Trustees gave in-depth consideration to alternative, future service-defined benefit structures which would also require members to increase their contributions to the Schemes.
- However based on advice, analysis and illustrations produced by Watson Wyatt, the Trustees concluded that neither an attractive nor a value-for-money package could be constructed, given the sums the Company is willing or says it is able to pay to the Schemes.
- The situation was not improved by Watson Wyatt intimating that the Schemes' positions had probably worsened since the December 2008 funding updates were made.
- Watson Wyatt produced figures on two bases: Basis I reflected the assumptions used in 2006, whilst Basis II added 5% to liabilities to mitigate increasing longevity. Paul Burbidge of Watson Wyatt has said that Basis II is towards the less prudent end of typical valuation assumptions and a pre-retirement discount rate of 7.2% could be categorised as "at the top end of the optimistic range". Accordingly, the Trustees expressed the view that it might not be appropriate to assume any investment out-performance, although this will be reviewed in the light of financial circumstances prevailing at the valuation date.
- Paul Coackley joined the meeting and reiterated the Company's desire to close the final salary Schemes for reasons which included risk containment and to offer members defined contribution for the future.
- Having given the entire matter detailed consideration and worked through all the available options, given the budget that the Company says it has to offer, the Trustees concluded that final salary pension accrual could no longer be sustained and the protection of all 25,000 members' accrued benefits needs to be considered, not just the future service position of c. 2,200 contributing members.
- The Trustees acknowledged that their focus should be on addressing all members' accumulated benefit 'promises' and seeking to repair the past service deficits as speedily and efficiently as possible.
- It was agreed that an independent financial assessment of the Company's covenant be commissioned. Paul Coackley expressed himself happy to assist and this appraisal was subsequently undertaken by Baker Tilly, whose findings were discussed at length on 1 April 2009

1 April 2009 Trustees' meeting
- Baker Tilly expressed their views clearly and unambiguously:
  - the Company's covenant was moderate but is deteriorating;
  - its profitability has declined markedly in the past two/three years;
  - turnover for the last three years was said to be "modest at best"; and
  - the business will do well to meet its estimated £35m a year EBITDA over the next three years, given the current climate.
- The Trustees were loathe to accept too low an initial contribution for deficit repair, given the lengthy recovery period which will then ensue.
- Baker Tilly suggested some avenues the Trustees might consider and explore with the Company for deficit repair as well as opportunities to seek additional security from the Company.
- The Trustees agreed that the Company should be given a copy of Baker Tilly's report.

30 April 2009 letter from the Trustees to Paul Coackley

(g) On 30 April 2009 the Chairman wrote to Paul Coackley to seek the Company's reaction to a range of potential contribution payment programmes – which included back-end loading – and to gauge the Company's ability and willingness to give additional security and guarantees to the Trustees.
The Trustees will discuss the contents of this letter with Mr Coackley during the course of this 8 May 2009 meeting.

(h) The Trustees registered that, more recently, Watson Wyatt had intimated that the Schemes' solvency levels have probably worsened since the December 2008 figures were produced.

Indeed this meeting noted that aggregate asset values had declined by £13.3m between 30 November 2008 and 31 March 2009 so, all things being equal, the position at the 31 March 2009 valuation date is likely to be even worse than that disclosed by the December 2008 previews.

(i) The Trustees were interested to know what pension terms the Company is proposing to offer for the future, albeit accepting that this is ultimately a matter for the Company to determine, as part of its employee benefit package.

Given the Company's fixed £6.5m a year budget for pension costs it was acknowledged that any enhancement to the proposed Stakeholder terms will only result in a diminution of the residual funds available to finance the Scheme and the SMS, which would be counter-productive to repairing the deficits in these Schemes.

(j) The Trustees have considered guidance published by the Pensions Regulator, the most recent being issued during February 2009, which has been especially pertinent to their ongoing discussions with the Company;

(k) The Trustees are aware and Mayer Brown's advice reinforced the point that the Company can achieve its objective of ending final salary accrual by a variety of means, if it is determined so to do.

Paul Coackley has, on more than one occasion, emphatically stated that the Company believes closing the Schemes to future accruals is the only viable option given the business's commercial and financial predicament.

Mr Coackley also affirms that any pension cost increase above £6.5m a year cannot be countenanced as this would jeopardise opportunities to return the business to profitability and, in all likelihood, would result in further redundancies and job cuts, to add to those that have already had to be imposed.

(l) The Trustees felt that if they are to agree to the cessation of future final salary pension build-up, then the Company should be asked to make some concessions to reflect the benefits which members would lose as a consequence – for instance early retirement on medical grounds.

(m) The Trustees acknowledge the difficult position that the Company finds itself in but, at the same time, they feel it is important to secure as much of the free cash-flow as is available in order to start funding the elimination of the accumulated deficits.

3. DISCUSSION WITH PAUL COACKLEY

Paul Coackley joined the meeting and had a full and candid exchange with the Trustees, during which the following points were addressed and made:

(a) The Chairman opened up the discussion by saying it would be difficult for the Trustees to settle for aggregate, annual Company payments of £6.5m [less Stakeholder costs]. She asserted that a rather higher sum was needed and opined that the Pensions Regulator might not find a recovery plan based on this lower level to be acceptable either.

(b) Paul Coackley commented that if there was more money available, he would be happy to let the Trustees have it, but the fact is there are no such surplus funds.
Dr Downes pointed out the reference in Baker Tilly’s March 2009 report to £8m of free cash-flow, in excess of the annual pensions budget of £6.5m.

Mr Coackley explained that this was predicated on assumed 1.5% year-on-year growth to generate £33m EBITDA, thereby producing £8m of free cash-flow. However, this figure takes no account of tax payable and working capital needed to grow the top line.

Mr Coackley went on to say that the hoped-for returns had not actually materialised, the EBITDA base is now only £30m, meaning £5m of anticipated revenue has failed to be generated.

In retrospect Mr Coackley suggested that, given current markets, seeking to achieve 1.5% a year growth over the next period will be an extremely challenging aim.

In short, there is currently no free cash-flow in the business and the £8m referred to in Baker Tilly’s report is quite simply “not there.”

It was noted that the contribution payment options quoted in the letter from the Trustees to Mr Coackley were derived from the more prudent Basis II used in the Watson Wyatt updates. Dr Downes explained that the Trustees had abandoned Basis I some time ago and stated that although Basis II does not assume any investment out-performance, it was derived from assumptions which are still towards the optimistic end of the spectrum.

Paul Coackley emphasised that the £6.5m a year pensions budget was a finite sum but that the Company is committed to generating this amount for at least the next three years. However, Mr Coackley went on to enforce the point that if a greater allocation is requested to improve the Stakeholder offer, then less will be available to repair the defined benefit Schemes’ deficit positions, given there is only a fixed sum to go around.

On recovery plans: the Trustees acknowledged that the Pensions Regulator has been publicising a more pragmatic approach whilst the ongoing, difficult economic conditions prevail.

Reference was made to the content of the previously circulated Pensions Regulator’s February 2009 “Statement to Employers sponsoring DB pension schemes”, which suggested that the Pensions Regulator is currently taking a more conciliatory approach to back-end loaded contributions and recovery periods that extend to fifteen and even beyond twenty years in certain cases, where the Pensions Regulator deems this to be in the best interests of the particular scheme and sponsor.

Mr Coackley promised that if a free cash-flow position materialises or improves, then the Company will look favourably at increasing its contributions to the Schemes as part of the 2012 valuation discussions.

The Trustees were reminded that the Company is being “stripped to the bone” and operational needs must take precedence if the business is to recover and, as an employer, the Company must take into consideration the needs and prospects of all its 14,500 employees.

Mr Coackley emphatically asserted that the Company has never walked away from its obligations to the Schemes and made the point that, as unpalatable as it may seem, there is no winner in this scenario and clearly both the Company and the Trustees are feeling the pain.

Mr Coackley committed to keeping the Trustees informed of ongoing developments within the business.
As to providing any contingent guarantees or additional security: Mr Coackley said that the Company cannot make any future commitments at this stage as it can only sensibly address the here and now. Mr Coackley again made the point that the Company will revisit all these aspects when the 2012 actuarial valuations are undertaken.

The Trustees were told that the Arcadia/Bhs review of operational integration is still ongoing and it will take two to three years to come to fruition. At the moment the synergies are all “on paper”, so it is premature to predict what the outcome might be.

Mr Coackley once again stressed that the Company urgently needs capital and investment to take it forward, so any increase in EBITDA must be channelled into the business – at least in this crucial short-term period.

The business is facing a rocky three years ahead and cannot accept any constraints or shackles on its business or commercial operations.

Mr Coackley assured the Trustees that if Stakeholder costs are less than the Company’s estimated £2.5m a year, then the Company will make any “excess” available to the Scheme and the SMS.

The £2.5m assumes that 70% to 80% of those currently in the Scheme and the SMS will join the Stakeholder and contribute 5% a year into it.

Mr Coackley said that he would personally be pleased if the Company’s contribution to the Scheme and the SMS could be closer to £5m than £4m a year.

On asking why the Company will not give any security over properties, the Trustees were advised that the business is in a difficult position. Mr Coackley stated that the Company’s bank funding and covenants are currently being reviewed and negotiated and, given the ongoing discussions with the Banks, he is in no position to discuss providing the Trustees with any form of guarantee or additional security at this time.

The Trustees said that if the Company were to grant security to banks or other creditors, this would be extremely concerning to them, given it would push the Scheme and the SMS further down the line of creditors.

In due course and when the position is clearer, Mr Coackley said he would be happy to have a discussion with the Trustees on the possibilities for providing guarantees and security in respect of the Schemes.

Mr Coackley asked to be reminded about the anticipated valuation timetable and how this interacts with the proposed closure of the Schemes and was advised that:

i. Provisional valuation results will be available in June 2009;

ii. if the Scheme and the SMS close to future accruals in August 2009, the Company should have a good idea of Stakeholder take-up and contribution commitments by September 2009;

iii. the actuarial valuations must be finalised and recovery plans and schedules of contributions completed and submitted to the Pensions Regulator by 30 June 2010.

Mr Coackley and the Trustees agreed to meet during July 2009, to discuss the preliminary valuation results of the Scheme and the SMS.
(r) Mr Coackley volunteered that, given the misunderstanding over the £8m free cash-flow position quoted in their report, he would be happy to meet or speak with Baker Tilly again to clarify matters.

(s) The Chairman pointed out that closure of the Schemes would result in contributing members losing valuable benefits such as ill-health early retirement cover. Mr Coackley said the Company would look favourably on maintaining such benefits, subject to cost constraints.

Margaret Hannell was asked to draw up a wish list and to obtain costings so this can be considered further.

Mr Coackley was thanked for his time and withdrew from the meeting.

4. OVERVIEW AND NEXT STEPS

Any suggestion that bank loans might become secured would be viewed as unwelcome by the Trustees, given the severe diminution in protection this would afford the Schemes.

The following actions were agreed:

(A) Margaret Hannell to:
   a. Review, update and re-circulate the 2009 valuation timetable.
   b. Identify what benefits would be lost if the Schemes closed to future accruals, draw-up a wish list and obtain costings for retaining such benefits for those who are opted-out of the Schemes at the closure date.
   c. Confirm how the Schemes' asset values compare on a PPF valuation basis.
   d. Distribute copies of the Q&As and letters sent to members regarding the Company's proposal to close the two Schemes.

(B) Baker Tilly to be asked to speak with Paul Coackley again and to advise the Trustees with regard to the following issues:
   a. The zero rather than £8m free cash-flow position expounded by Paul Coackley: What had Baker Tilly understood the position to be?
   b. Was the free cash-flow figure quoted in their report before capex, working capital and tax?
   c. What it would take, on a sensible set of assumptions, to get free cash-flow up to £10m a year [noting that Paul Coackley had suggested that like-for-like growth of 4% a year would be required].
   d. To advise if there is anything the Trustees can do to improve their position in the line of creditors, or to protect themselves to ensure they are not demoted behind other parties.
   e. To confirm what the Schemes' position would be if the Company went into Administration whilst:
      (i) the Trustees rank pari passu with other creditors; or
      (ii) in the event the Trustees stood behind other creditors.

The Trustees need answers to these questions as soon as possible.

(C) Mayer Brown to be asked to comment on
   a. What can the Trustees do to prevent security being given to other parties ahead of themselves?
   b. Is there any action the Trustees should be taking in the immediate future?
   c. What would be the most likely outcome(s) if the Trustees did not consent to amend the Rules to end future final salary accruals in the Schemes?

The Trustees need answers to these questions as soon as possible.
MINUTES OF A MEETING OF THE TRUSTEES of the Bhs PENSION SCHEMES
HELD AT MARYLEBONE HOUSE, 129 - 137 MARYLEBONE ROAD, LONDON NW1
ON TUESDAY 19 MAY 2009

PRESENT:
Dr Margaret Downes
Ian Allkins
William Benson
Roger Harte
Arthur Walford
Margaret Hannell
Chairman
Bhs Pension Trustees Limited
“ “ “ “ “ “
Independent Trustee
Secretary

IN ATTENDANCE:
Roger Urwin
and Naomi Burger
Watson Wyatt Limited
(for items 1 and 2)

COMMENCEMENT TIME: 10:15 am

1. MINUTES
Some amendments were requested to be made to the draft minutes of the meeting held
on 8 May 2009. Margaret Hannell will attend to this and re-circulate them for approval.

2. INVESTMENT MATTERS
5. DISCUSSIONS ON FUNDING

A copy of the Chairman's 13 May 2009 email to Paul Coackley had been circulated to all Trustees. In this Dr Downes had highlighted the Trustees' extreme concern at the possibility that a charge might be given over any Company assets which could prioritise banks and other creditors ahead of the Schemes' Trustees.

Dr Downes had requested an urgent meeting or conversation with Mr Coackley and it was hoped this would take place later the same day.
In the meantime, Mr Coackley had responded to Dr Downes on 15 May 2009 to say that he was not in a position to provide further information to the Trustees but he emphasised his desire to strengthen the financial position of the Bhs Group, to secure its future and hence its ability to support the Schemes.

Mayer Brown’s legal advice of 15 May 2009 was also discussed and the Trustees endorsed its recommendations:

- to ask the Company to engage with the Trustees voluntarily to explain what it is planning and how the Schemes’ interests are being protected;
- ask for ‘mitigation’ for the Schemes – for instance, equivalent security to that being offered to the banks;
- if the Company does not co-operate, consider accelerating the March 2009 valuation exercise; adopting a more conservative investment strategy; contacting the Pensions Regulator or declining to agree to close the Schemes to future accruals – if this will help engage the Company;
- if security is being granted imminently and the Company will not engage with the Trustees, then contact the Pensions Regulator immediately; and
- be ready to re-engage with Baker Tilly, who had previously provided an independent financial assessment in respect of the Company.

On the point about refusing to agree to the cessation of future defined benefit pension build-up, the Trustees accepted that they had previously agreed to this request.

In re-appraising that decision the Trustees acknowledged the deficits are so significant and Company resources are so limited that, given the Trustees’ first duty is to protect members’ accrued rights by seeking to close the widening gap between the Schemes’ technical provisions and their asset values, the only viable option open to the Trustees is to reluctantly agree to cease future accruals.

As regards breaking the link to future increases in pensionable salary; the Trustees noted that this was not on their agenda as the Company had already addressed this as part of its consultation with members and the Trustees are not being called upon to deliberate on this point.

Dr Downes felt it would be helpful if Eversheds were asked to read and comment on the advice recently provided by Mayer Brown and to advise if they had any other suggestions to make. Margaret Hannell will liaise with Jerry Goodwin.

Margaret Hannell was asked to confirm who are the directors of Bhs Limited [and subsequently advised that they are Sir Philip Green, Paul Coackley, Ian Allkins and Christopher Coles (non executive)].

It was noted that Paul Coackley had questioned some of the content of the Baker Tilly report – in particular saying that the Company does not have £8m of free cash-flow.

Baker Tilly will be asked to explain how this figure was derived and whether it is gross or net of tax and capital expenditure.

Baker Tilly will also be invited to give a hypothetical analysis of how the Trustees would stand in the event of the Company’s insolvency or being placed in administration – on the assumption:

a. the Trustees rank pari passu with other creditors; or
b. the Trustees stand behind other creditors.

It was noted that Watson Wyatt’s quotes for maintaining certain benefit provisions – such as medical retirement terms – are awaited. Margaret Hannell is following up.

Dr Downes was called away from the meeting to have a conversation with Paul Coackley.
MINUTES OF A MEETING OF THE TRUSTEES of the Bhs PENSION SCHEMES
HELD AT MARYLEBONE HOUSE, 129 – 137 MARYLEBONE ROAD, LONDON NW1
ON FRIDAY 12 JUNE 2009

PRESENT:  
Dr Margaret Downes  
Ian Allkins  
William Benson  
Roger Harte  
Arthur Walford  
 
Chairman  
Bhs Pension Trustees Limited  
"  "  "  "  "  "  "  "  "  
Independent Trustee

IN ATTENDANCE:  
Paul Coackley  
Margaret Hannell  
 
Bhs Limited Chief Operating Officer  
Secretary to the Trustees

COMMENCEMENT TIME:  
9:00 am

1. PURPOSE OF THE MEETING

The Trustees were advised that Mr Coackley wished to discuss some proposals with them
that sought to address the commercial difficulties the Company is currently facing and the
potential impact of these changes for the Bhs pension schemes.

The Trustees acknowledged and agreed that strict confidentiality will be maintained over
all and any information they receive in connection with this matter.

2. PAUL COACKLEY'S PRESENTATION

Mr Coackley took the Trustees through a short slide presentation:

(a) Mr Coackley advised that, for the twelve months to 31 March 2009, the Company
had generated an operating loss of £5m and maintenance of £30m EBITDA would
require like-for-like growth of 1%.

The annual interest element of the EBITDA was £5m and the Company had
ended the year with no free cash-flow on fairly prudent assumptions and had just
about been able to meet its current pension commitments.

(b) If trading continues at this level through to the “big” trading weekends of the
Christmas period, then the outlook for the Company will be very severe.

(c) The Company is currently in breach of its banking covenants but its Bank has
allowed a temporary waiver in order to allow all options to be considered.

(d) Mr Coackley said that if Bhs is to continue as a standalone business, its Bank
(HBOS) will require security over borrowings covering all Bhs Limited’s assets as
well as applying more onerous terms as regards arrangement fees and margin.

Mr Coackley expressed the view that this would have the net result of further
weakening the Company’s covenant and reducing its free cash-flows.

(e) Mr Coackley went on to say that, critically, unless the Company’s financial
position is stabilised, any further deterioration would call into question its future
viability as an ongoing concern, thus asserting that “standing still is not an
option”.

(f) The Trustees were then taken through an outline of the Company’s proposal to
remedy this situation: a transaction for the operational integration of Bhs
Limited into the Arcadia Group – Project Footprint.

This will involve:
i. A new company, Taveta Investments (No 2) Limited, being established.
ii. It is intended that Taveta (No 2) will acquire Bhs Limited’s share capital as part of an arm’s length transaction.
iii. Both Arcadia Group Limited and Bhs Group Limited [including Bhs Limited] will then come under the common ownership of Taveta Investments (No 2) Limited.
iv. This will enable Bhs Limited, under the umbrella of Taveta (No 2), to access the more favourable banking facilities that Arcadia Group Limited already enjoys.
v. The ongoing, joint banking facilities will be secured on both the Arcadia and Bhs Groups.
vi. The Bank already has a first, fixed and floating charge over Arcadia and a similar charge would be given by Bhs Limited.
vii. Each of the two businesses would be liable for the full indebtedness of Taveta as well as each other. This would mean, in effect, that Arcadia would be supporting Bhs’s overdraft and vice versa.

(g) In commenting on the strength of the Arcadia Group, Mr Coackley made the following points:

i. Arcadia’s year end is 31 August. The Arcadia Group has current, forecast revenue of £2bn; EBITDA of £335m and is expected to generate an operating profit of £265m as at 31 August 2009.
ii. Arcadia owns a series of well-known and renowned High Street brands, including TopShop and TopMan.
iii. The parent company has secured debt of £570m which represents 1.7x EBITDA – which was described by Mr Coackley as being “lowly geared”.
iv. The Arcadia Group is considered to have a value in excess of £2bn and to have a very bright future ahead of it.

(h) Mr Coackley outlined the implications for the Bhs Schemes, as he saw them:

i. The proposal would deliver the Bhs Schemes’ Trustees the comfort of knowing that the Principal Company, Bhs Limited, belonged to a stronger parent with adequate banking lines.
ii. Compared to the existing, stand-alone scenario, Bhs would have access to effective financing which would “buy time” for Bhs for the foreseeable future.
iii. Meanwhile, over the short to medium term, synergies from the operational integration review should also begin to manifest themselves.
iv. As far as the Bhs Schemes are concerned, there would be no change in Principal Employer or Scheme structures.
v. Bhs Limited will report the “change in control” of the Company to the Pensions Regulator.
vi. The Company has been advised by Nabarro LLP (solicitors) and PricewaterhouseCoopers that the transaction does not constitute a “Type A” Event for either Bhs or Arcadia.
vii. The reason given was that the proposed arrangements, including the giving of a charge over assets where previously bank borrowings had been unsecured, was not materially detrimental to the ability of Bhs Limited to meet its pension liabilities to the Bhs Schemes.

viii. If anything, Mr Coackley opined that the Company’s ability to meet its pension obligations would be enhanced if the transaction goes ahead, despite the Schemes remaining unsecured creditors behind a newly-secured creditor.
ix. There are no plans to merge the Bhs Schemes into the Arcadia Group pension schemes or vice versa.
x. Bhs would remain exclusively responsible for its pension schemes.
xi. Mr Coackley asserted that this transaction had to be concluded in order to secure the viability of the business;
xii. and to protect the futures of 14,500 Bhs employees.
Mr Coackley then went on to explain the next steps:

1. Each of the Boards of Bhs and Arcadia plan to approve these proposals at Board meetings to be held towards the end of June (25 June in the case of Bhs Limited).
2. Completion is expected to take place during July 2009.
3. The Company is willing, with its advisers, to meet the Trustees and their advisers in order to share information.

Dr Downes reiterated that the Trustees wish to work with the Company in everyone’s best interests, but acknowledged that each party has a different set of priorities: Paul Coackley’s role means he is looking out for the Company’s best interests, whilst the Trustees are responsible for taking care of members’ best interests.

The Chairman recalled an observation made by Paul Burbidge, the Scheme Actuary, that the March 2009 actuarial valuation results are likely to be much worse than the December 2008 funding updates. The funding assumptions will also need to be re-visited but, at the same time, the valuation results will need to take account of the expected cessation of future service accruals.

It was noted that the preliminary results of the March 2009 valuations will be available towards the end of July 2009.

It could also be the case that a more prudent investment policy might be followed when the Schemes are placed in run-off and this would have the effect of dampening future investment performance.

Dr Downes said that the Trustees had three concerns:

1. Can they be assured or agree that this transaction is not a ‘Type A’ Event which might require application to the Pensions Regulator for Clearance? The Trustees will require advice on this point, but would not involve the Pensions Regulator without advising the Company first.

2. Notwithstanding it would have access to Arcadia’s preferential banking facility, if the transaction goes through, Bhs would still be standing on its own, without cross-support for the deficit recovery and ongoing contribution payments, so the Bhs Schemes would be in no better a position than they are at present.

3. However, the Company will have given security as the quid pro quo for the more favourable banking arrangements, as a result of which the Bank would sit ahead of the Schemes as the largest unsecured creditor whereas, at the moment, the Schemes rank equally with the Bank.

Therefore, the Chairman explained, advice would have to be sought as to whether the Schemes would be worse off, as a result of the Company giving security to the Bank.

Mr Coackley re-affirmed that no support was proposed from Arcadia or Taveta, (other than access to the new bank facilities) and went on to say that the integration was the best possible outcome for Bhs and was really the only viable option the Company could consider and, if the transaction did not proceed, then it would be a “huge, lost opportunity for Bhs”.

Turning to ongoing levels of contributions, the Chairman affirmed that the present offer of £4m a year to repair the past service defined benefit deficits was totally inadequate. Mr Coackley said he was not prepared to discuss this issue today, preferring instead to await the outcome of the actual valuation results in July.
Mr Benson asked whether completion of the proposed transaction increased the likelihood of securing additional funding for the Bhs Schemes. Mr Coackley said that from a banking perspective, the Company would be more secure. Additionally, its trading position was expected to improve by the inclusion of Arcadia Brands into Bhs stores. Mr Coackley went on to say that the outcome is “up in the air” at present and the cost benefits cannot be quantified until they materialise in another two to three years’ time. It should also be borne in mind that significant “up front” costs will need to be expended to generate these hoped-for, longer-term benefits.

The Chairman asked whether the figures Paul Coackley had provided and which had been discussed with Baker Tilly had been produced on the basis of Bhs being a stand-alone business; Mr Coackley said that they had.

Dr Downes explained that the level of ongoing Company contributions to the Schemes remained a critical issue. Mr Coackley responded by saying that store restructuring costs are likely to be significant, there will also be some redundancy expenses but the biggest unknown – albeit this will be a substantial outlay – is in the area of logistics and IT. However, all this is necessary expenditure in order to secure longer-term benefits for the Bhs business.

On being asked for how long the Company is saying it can only afford to pay £4m a year to the Schemes, Mr Coackley said this would be addressed when the valuation results are being discussed and, at this time, it is fruitless to speculate whether the Company can afford to pay £6.5m; £5m or £4m a year. A more productive discussion can take place later in the year, once the valuation results are known and the quantum of costs for the replacement Stakeholder arrangements have become clear. The benefit of the Arcadia trials in Bhs outlets will also be assessed after the Christmas trading period.

Dr Downes said that the Company is presently paying just £6.5m a year towards all its various pension arrangements and much greater flexibility will be required. Mr Coackley said he would prefer to pay £5m a year, but he was not in a position to commit to anything else at this juncture.

Dr Downes re-emphasised that contributions are of immense importance and an open discussion must take place in due course – not one that assumes £6.5m a year is the cap for all pension costs.

Mr Harte asked, if Arcadia is making £265m at the operating level, what benefits are to be made available to Bhs and the Bhs Schemes? Mr Coackley said the answer was “none” and reinforced that these proposals were only about banking facilities and no more.

Mr Benson asked if Bhs Limited would be giving security over all its assets as part of this transaction. Mr Coackley responded in the affirmative.

Mr Coackley finished up by saying that he hoped the Company and Trustees could work together in the right spirit and then withdrew from the meeting.

Margaret Hannell was also obliged to leave the meeting at this point.

3. SUMMING UP

The Trustees expressed the following thoughts and views:

(a) The Chairman was of the view that the discussion with Paul Coackley had shown some longer-term hope, but in the short-term there are security and contribution hurdles to identify and overcome.

(b) Mr Benson said he felt that if the transaction did not go ahead, then Bhs’s trading position would deteriorate, which would not help the Company.
(c) Mr Allkins said that the deficit is a known and recognised fact; the Company cannot walk away from it and, even with the payment of far larger contributions, there was likely to be a significant deficit in the Schemes for some considerable time to come.

(d) Dr Downes said that in the short-term a way had to be found to make higher contributions to the Schemes - as a minimum, £7m a year - in addition to funding the separate money purchase arrangements.

(e) Mr Harte said he felt that the integration with Arcadia would be hugely beneficial for Bhs, but critically the Schemes need more cash over the next three years too.

(f) Mr Allkins commented that current trading is far worse than it had been when the funding update was prepared in December 2008, but Bhs is still offering the £6.5m a year pension contribution that it had nominated at that time.

(g) An immediate issue is whether Bhs should give its Bank security in exchange for extending its banking facility; is this really the only option available to Bhs as a stand-alone business?

(h) Dr Downes said that our advisers will have to satisfy us, the Trustees, that neither giving security to the Bank, nor the proposed corporate transaction itself, constitute Type A Events. It could be that we have to take a view from the Regulator.

(i) Mr Allkins' view was that, on the face of it, the proposals are good for Bhs. But in the longer-term, will the Schemes be better off or worse off as a result of the transaction? Would this structure improve or weaken the Schemes' position? What are the alternatives?

(j) Dr Downes agreed and expressed the view that the giving of security to the Bank, thereby putting it ahead of the Schemes as a creditor, seemed inevitable.

(k) The Trustees need to be advised on the implications for the Schemes of giving the security, the corporate transaction and future contributions levels.

(l) Mr Benson asked if the Schemes would be able to recover any cash higher up the corporate ownership network.

(m) Dr Downes said she thought that only in the most extreme of cases would the Pensions Regulator be likely to seek to enforce a claim higher up the parent company chain.

4. **NEXT STEPS**

The Trustees discussed and agreed that they should:

(a) First ask Eversheds whether or not these proposals constitute a Type A Event.

(b) In light of the proposed giving of security by the Company, should the Trustees be doing anything and, if so, what?

(c) Aside from the security issue, does the proposed transaction impact negatively or positively on Bhs - now or in the future?

(d) What covenant and other related issues need to be discussed with the Bhs Actuary – particularly having regard for the valuations being undertaken as at March 2009?

(e) What evidence might be required to ascertain whether, in fact, the Company covenant becomes stronger rather than weaker?
(f) Mr Allkins has said that, on balance, he thinks the overall impact of the transaction is likely to be beneficial for the Schemes. We should not forget that the levels of Company contribution input, now that financial results are flat, are proposed to be the same as when the Company was making £100m a year in profits.

(g) Ideally we need adviser feedback by 18 June, in advance of the Trustees' next meeting on 23 June and a week before the Bhs Limited Board meeting.

(h) The Trustees need to know whether an approach should be made to the Pensions Regulator and, if so, what precisely should be said to the Regulator.

(i) The Trustees also need a wider view of the impact and the future ability of the Company to meet its pension obligations.

Arthur Walford will brief Margaret Hannell on Monday 15 June so that the Trustees’ advisers can commence their investigations.

5. **DATE OF NEXT MEETING**
   - **TUESDAY 23 JUNE 2009**;
   - commencing at 10:30 am
   - in the Boardroom at Marylebone

With there being no further business to discuss, the Meeting closed.

[Signature]

CHAIRMAN

**June 23, 2009**
MINUTES OF A MEETING OF THE TRUSTEES of the Bhs PENSION SCHEMES
HELD AT MARYLEBONE HOUSE, 129 - 137 MARYLEBONE ROAD, LONDON NW1
ON TUESDAY 23 JUNE 2009

PRESENT: Dr Margaret Downes
          Ian Allkins
          Roger Harte
          Arthur Walford

Chairman
Chairman
Chairman
Independent Trustee

IN ATTENDANCE: Paul Coackley
               Paul Burbidge
               Jeremy Goodwin
               Mark Oldfield
               Margaret Hannell

Chief Operating Officer – for item 1 only
Watson Wyatt
Eversheds – for items 4 and 5
Baker Tilly – for items 4 and 5
Secretary to the Trustees

APOLOGY: William Benson

Bhs Pension Trustees Limited

COMMENCEMENT TIME: 10.30 am

1. PROJECT FOOTPRINT – DISCUSSION WITH PAUL COACKLEY

Mr Coackley asked for an update as to how the Trustees’ due diligence process was proceeding.

(a) He was especially keen to know that Baker Tilly had as good a grasp of the purpose of Project Footprint as Eversheds.

(b) The Chairman pointed out that for the Trustees to have a full understanding of the objects and potential ramifications of the Project, Baker Tilly would have to ask some searching questions of the Company and its advisers.

(c) The Company has said that Bhs’s purchase by Taveta Investments (No 2) Limited (“Taveta”) and its assimilation into the Arcadia Group is intended to underpin the business in the short-term and ensure its ongoing viability in the long-term and, as an result, the future position and the viability of the Bhs Schemes can be better protected.

(d) The Chairman reminded Mr Coackley that the issue of ‘security’ needs to be addressed. Mr Coackley replied that security only becomes a concern in the case of insolvency and, when Bhs is part of Arcadia, insolvency will not be an issue.

(d) Mr Coackley said that cross-guarantees between the Bhs and Arcadia businesses mean that if Bhs defaults, then it will have a call upon the assets of Arcadia and this in itself will motivate Arcadia to ensure that Bhs does not fail. Mr Coackley asserted that, whatever happens, Arcadia Group and Taveta cannot walk away from Bhs and its liabilities, including its pension schemes.

(e) The Trustees need to ascertain whether the Bhs Schemes and their members could be in a worse position as a result of the amalgamation and are calling upon Eversheds and Baker Tilly to advise them in this area and also on the consequences were there to be an insolvency.

The Trustees are particularly concerned that the Schemes will be pushed further down the line of creditors as a result of the Company giving security to its bankers.

(f) Dr Downes asked what is the likely outcome if, in five years’ time, Bhs were to fail? Mr Coackley responded that the future is impossible to predict and all we can do is look at the here and now, but that this scenario does not present a “pretty picture” for the Bhs business.

(g) Mr Coackley re-emphasised how strong and profitable a business Arcadia is and said that given it is worth £2.3bn, even after all the debt has been paid down, there would still be surplus funds available for all Taveta’s subsidiaries.
Mr Coakley reiterated that Bhs will have to give security to its bankers if it continues as a stand-alone business so its position and that of the Schemes must be better if Bhs is part of a larger group. In the current climate, banking facilities are very difficult to manage and, on a stand-alone basis, Bhs would be obliged to re-finance its business and this would come at a very expensive price.

The Chairman said that the Trustees' advisers will need to convince the Trustees that Bhs will have access to the assets of Taveta/Arcadia Group and that, consequently, Bhs will be in no worse a position after the reorganisation. Dr Downes said she also wanted to know what the position would be in the event of Bhs's insolvency.

Arthur Walford asked Mr Coakley to consider the large PPF levy payable as a result of the Schemes' deficit positions being a quid pro quo for giving the Trustees security or collateral. Mr Coakley was also asked if he would consider giving the Trustees a letter of credit or some other form of guarantee. Mr Coakley said that the Company's bankers will not allow guarantees to be given by Arcadia or Bhs to the Bhs Schemes.

The Chairman advised Mr Coakley that the Trustees will continue their process of due diligence and will advise the outcome in due course. Mr Coakley said he would be happy to arrange for PricewaterhouseCoopers and Nabarro to meet with the Trustees to provide any further clarification they may need.

Mr Coakley was thanked for his time and withdrew from the meeting at this point.

2. MINUTES

The minutes of meetings held on 8 May, 19 May and 12 June 2009 were approved and were signed by the Chairman.

3. 31 MARCH 2009 FUNDING UPDATE

Paul Burbidge presented his 31 March 2009 funding update. The following comments and observations were made:

(a) Basis A in this summary mirrors Basis II of the December 2008 funding updates, i.e., liabilities were increased by 5% to mitigate increasing longevity. Basis B in this summary produces liabilities close to PPF levels. Due to the way PPF liabilities are determined, these values were at historically high levels at 31 March 2009 compared with calculations undertaken at other dates.

(b) Assets had declined in value by approximately £10m compared to December 2008; equities had performed in line but property had fallen and some managers had underperformed. Paul Burbidge reminded the Trustees that assets must be valued on a basis consistent with market values as at the valuation date.

(c) There has also been considerable change in Retail Prices Index assumptions: 2.3% at December 2008, 2.5% at March 2009 and now 3.0% at June 2009. A move of +/- 0.5% in RPI impacts liabilities by approximately 8%.

(d) Watson Wyatt's approximate updates had produced the following results:

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<th>Bhs Pension Scheme</th>
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<th>Bhs Senior Management Scheme</th>
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<tr>
<td></td>
<td>Basis A £m</td>
<td>Basis B £m</td>
<td>Basis A £m</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td>278</td>
<td>278</td>
<td>65</td>
</tr>
<tr>
<td><strong>Liabilities (Note 1)</strong></td>
<td>375</td>
<td>534</td>
<td>74</td>
</tr>
<tr>
<td><strong>Deficit</strong></td>
<td>97</td>
<td>256</td>
<td>9</td>
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These revealed deteriorations in both Schemes' funding positions from those identified as at December 2008. The Scheme's ongoing deficit has worsened by c. £18m and that of the SMS by c. £5m.

Paul Burbidge commented that the Pensions Regulator had written to the actuarial profession on 22 June 2009 reminding scheme actuaries to be "prudent and not overly optimistic" in assumption-setting.

It could be said that our assumptions are towards the optimistic end of the spectrum and we might consider using more conservative assumptions to assess the Technical Provisions and then incorporate more optimistic future return assumptions for the purposes of the Recovery Plan.

The figures being considered today are indicative only and the valuation outcome figures which the Trustees are to consider in July 2009 will look at a range of assumptions.

The Trustees agreed to let Paul Coackley have a copy of this report.

It was agreed to defer consideration of retaining certain risk benefits – such as medical retirement and dependants' benefits – until the July 2009 meeting, when they can be considered in the context of the valuation results.

4. PROJECT FOOTPRINT – DISCUSSION WITH TRUSTEE ADVISERS

Jeremy Goodwin of Eversheds (the Schemes' recently appointed legal advisers) and Mark Oldfield of Baker Tilly were welcomed to the meeting.

The advisers reported on their progress to date; the following points were made and discussed:

(a) At a meeting on 18 June 2009 involving Paul Coackley, PricewaterhouseCoopers ("PwC") and Nabarro, Paul Coackley had run through the slides presented to the Trustees on 12 June 2009. This had been a very high-level review with no specifics, numbers or facts being imparted and the meeting was said to be very much "Company managed".

(b) All answers were supplied orally and, once again, were high-level in nature. Attempts by Eversheds and Baker Tilly to drill-down for further information and requests for written responses and substantiating data met with brusque and negative responses; unfortunately the hoped-for, open exchange with PwC, had not been forthcoming.

(c) Jeremy Goodwin made the point that where applications for clearance are made, trustees are handed a big responsibility because the Pensions Regulator will ask if they are happy that the effect of the transaction will not be detrimental to scheme members.

(d) However, in this case, the Company has asserted that the transaction is not a Type A event and hence clearance is not an issue.

(e) Baker Tilly talked through their interim advice note to the Trustees, based on information gleaned to date. Baker Tilly expressed frustration at the Company's lack of responsiveness in provided further data and evidence to support its statements about the inevitability of Bhs having to give security to its bankers and also the financial data underlying the rationale for the merger with Arcadia and how Bhs would fare within the proposed new, shared banking facility.

(f) Eversheds had prepared a draft response to Nabarro, the Company's legal advisers. This sought to establish whether the proposed transaction might be a Type A event and also to differentiate between the current Bhs covenant and the post-reorganisation covenant.

(g) Eversheds also pressed the point that the Trustees will need to be convinced that the Company's grant of security is inevitable.

(h) Both sets of advisers said they would continue to seek further evidence from the Company and its advisers in support of the statements it has been making.
(l) The Trustees are also extremely concerned to know how Bhs would be positioned in the case of insolvency and whether Taveta could walk away without obligation to Bhs and the Bhs Schemes?

Jeremy Goodwin confirmed that a Section 75 debt would become payable by Bhs Limited to bridge the buy-out deficiency and, if Bhs Limited had insufficient resources to pay that debt, then Arcadia could become liable in its place.

Alternatively, Contribution Notices or Financial Support Directions could be imposed by the Pensions Regulator.

However, the Trustees should not rely on this degree of protection and it was interesting to note that the Company seemed to have a differing point of view in this area.

(j) Taveta is a shell company so is unlikely to have any assets or intrinsic value, only the shareholdings.

(k) The feeling was that the Trustees should try to seek “compensation as a hedge against uncertainty”.

(l) The Trustees discussed and agreed:

a. to continue, through their advisers, to pursue their requests for more concrete data;
b. to amend the draft letter from Eversheds to Nabarro, reinforcing the request for the grant of security or guarantees;
c. the Trustees said they would like this letter to be sent out today;
d. to take advantage of the Company’s offer for another meeting between the Trustees’ advisers and PwC;
e. once PwC’s input has been received, Baker Tilly to provide further advice and to cover various insolvency scenarios; and
f. not to approach the Pensions Regulator at this stage – but to keep this option open.

5. CONFLICTS

Margaret Hannell was asked to send Eversheds a copy of the most recent copy of the Trustees’ conflicts policy.

Ian Allkins and Jeremy Goodwin are to discuss the issue of conflicts outside the meeting.

The Trustees all expressed the view that it was more helpful to have Mr Allkins’s input and for him to attend all Trustee meetings. However, if the time ever comes that either he or the Chairman feel it appropriate to do so, then Mr Allkins will withdraw from a meeting.

William Benson joined the meeting.

6. FINANCIAL REPORT

(a) 21 March 2009 year end – audit and accounts preparation

The Trustees noted that the PricewaterhouseCoopers (PwC) audit team had completed their second on-site review the previous week and, so far, no issues or concerns have been raised by the PwC team.

PwC have been supplied with draft Accounts and an audit review meeting involving PwC and the Administrators will take place on 3 July 2009.

(b) Accounts Committee

It was agreed that Dr Downes, Ian Allkins and Margaret Hannell would form the Accounts Committee, to meet with the PwC Audit Partner on 28 July 2009 for the purpose of going through the audit findings and, all being well, signing the Financial Statements in respect of the Bhs Pension Scheme, the Bhs Senior Management Scheme, the Bhs Pension Investment Fund and the Bhs FURBS.
MINUTES OF A MEETING OF THE TRUSTEES of the Bhs PENSION SCHEMES
HELD AT MARYLEBONE HOUSE, 129 – 137 MARYLEBONE ROAD, LONDON NW1
ON WEDNESDAY 26 AUGUST 2009

PRESENT:  
Dr Margaret Downes  
Chairman  
Bhs Pension Trustees Limited  
Ian Allkins  
"  
William Benson  
"  
Arthur Walford  
"  
Margaret Hannell  
"  
APOLOGY FOR  
ABSENCE:  
Roger Harte  
Bhs Pension Trustees Limited  
IN ATTENDANCE:  
Roger Urwin & Naomi Burger  
Watson Wyatt Limited  
COMMENCEMENT TIME:  
10:30 am

I. MINUTES

The minutes of a meeting of the Trustees and of the Accounts Committee, both of which had taken place on 28 July 2009, were agreed and were signed by the Chairman.

(b) Exchange with the Pensions Regulator following Bhs Limited’s submission of a Notifiable Events form

- The Trustees noted an email exchange relating to the July 2009 acquisition of the entire issued share capital of Bhs Group, the parent of Bhs Limited, the Principal Employer in respect of the two Schemes, by Taveta Investments (No. 2) Limited, the owner of Arcadia Group Limited.
- There appears to be no action required of the Schemes’ Trustees at this time.

(c) Correspondence with the Company

- Due to Sir Philip Green’s absence on holiday, Paul Coackley has not been able to respond to the Trustees’ three letters spanning the period 31 July to 12 August 2009.
- In the main these cover: consenting to provide medical retirement pensions for certain categories of deferred pensioners while they remain in Company service; agreeing the Schemes’ Technical Provisions, then their Recovery Plans; a request for the Company to maintain its current level of contributions (reduced by Stakeholder costs) to the Schemes pending agreement of new Schedules of Contributions and Recovery Plans; to backdate payment of additional deficit contributions to April 2009 and to pay the Schemes’ PPF levies.
- The Secretary agreed to follow this up with Mr Coackley.

(d) Closure of the Schemes to future accruals on 15 August 2009

- The Secretary distributed copies of the signed Closure Deeds and confirmed that all exiting members had been sent confirmation of their deferred pension benefits and associated rights by 15 August 2009.
- Dr Downes, on behalf of the Trustees, asked that the Bhs Pensions Office administration team be thanked for all their hard work leading up to and beyond the closure of the Schemes.
- The payment of deficit contributions of £2.5m a year to the Bhs Scheme will be unaffected by its closure, but “normal” contributions will cease after the Period 5 payment is received towards the end of August 2009.
Margaret Hannell will liaise with the relevant Finance Departments to ensure that appropriate arrangements are in hand for contribution receipts both before and after the switch of the Company’s accounting operations from Bhs Luton to Arcadia Leeds.

3. **INVESTMENT MATTERS**

(a) **Company contributions and the impact on investment policy**

- Arthur Walford reiterated that the Company has informed the Trustees that it will pay no more than £6.5m (less Stakeholder-related costs) in respect of the two Bhs defined benefit Schemes.
- Margaret Hannell advised that based on Stakeholder applications received to date, the potential Stakeholder cost to the Company, in respect of former members of the defined benefit Schemes, is currently of the order of £850,000 a year.
- Roger Urwin pointed out that investment thinking will be very much impacted by whether the Company will pay more to the Schemes, or if the Trustees are reliant on investment returns only.
- Dr Downes questioned whether the Trustees should accept Paul Coackley’s assertion that contributions have to be restricted, given this could lead to a 27 year recovery period, which is far too long.
- Roger Urwin commented that the methodology of Paul Burbidge (the Schemes’ Actuary) seemed prudent in the context of the view of investment risk and return taken in the Technical Provisions.
- The Actuary’s initial assumptions assume an overall investment return of 6.2% which, when added to payments of £4m/£5m a year from the Company, suggest that the Schemes’ Technical Provisions would be made good in 27 years.
- Roger Urwin’s best estimate is that the current asset mix should generate a return of 7.2% which, if met, would clear the deficits in fifteen years, but there is likely to be much volatility along the way.

(b) **Investment considerations**

- Roger Urwin advocated progressing towards self-sufficiency and the ultimate buy-out of members’ benefits, expressing the view that affordability and willingness to pay can sometimes overwhelm investment considerations.
- Whilst current circumstances might lead us to adopt a more conservative investment policy, given the Schemes are so far short of PPF funding levels, a question was raised as to whether the Trustees should actually aim much higher and optimistically from an investment perspective, in an effort to meet PPF levels as quickly as possible.
- Roger Urwin commented that adopting what might be perceived as an extreme approach could leave the Trustees open to legal challenge.
- Indeed in any discussion about taking more investment risk, careful consideration needs to be given to the consequences if the strategy fails and the Schemes end up in an even worse position.
- The Trustees were reminded that the Government has the ability to reduce PPF benefits at any time, so there can be no guarantee that current levels of PPF cover will always apply in the future.
- In conclusion the Trustees agreed that such an approach could be viewed as contentious and, quite possibly, morally hazardous and is therefore best avoided.
- Ian Allkins affirmed that the Trustees should aim to fully cover all members’ benefits to buy-out levels rather than to view the PPF as a fall-back option.
- Roger Urwin expressed the view that in a more optimistic scenario and not allowing directly for risk, assuming mid-stream returns from best estimate assumptions, supplemented by Company contribution payments of £4m to £5m a year, should enable the Schemes to carry on and to ultimately meet their liabilities.
- On the other hand, the Trustees should also have a contingency plan which reflects less optimistic scenarios, such as a decline in the Company’s covenant and/or investment returns falling below mid-stream expectations.
- At present, the Schemes are somewhat defensively positioned, but are still prone to severe market volatility.
(c) Deficit recovery

- Ian Allkins expressed the view that the objective should be to recover the combined Schemes' deficits of £135m over a reasonable period.
- He also commented that he felt more optimistic about the Company's covenant position and prospects subsequent to its integration with Arcadia Group Limited.
- The Trustees agreed to push the Company to pay the excess over its Stakeholder costs to the two Schemes and also to seek some form of protection or security from the Company.
- In debating what type of security to seek, the Trustees agreed that they probably need input from Paul Burbidge in this area.
- Furthermore, if the Company wants the Trustees to aim for more optimistic investment returns, the Trustees need to know how the Company will underwrite this, or indeed any failure to achieve the hoped-for, higher returns.
- Ian Allkins asked whether there were any means at the Trustees' disposal to ensure the deficits did not deteriorate any further.
- Roger Urwin replied that the associated costs are very expensive, but that this should not deter the Trustees from exploring all such opportunities.

(d) Risk issues

- It was agreed that mortality swaps are still priced expensively, given the comfort they purport to provide.
- The Trustees felt that it would be better to hedge to achieve some risk reward.
- Buy-in quotes are currently being priced at gilts plus 40bps to 50bps.
- Taking out interest and inflation risk could be done by working the swaps market more aggressively – but this is not such a helpful strategy given the Scheme's deficit is so relatively large and its allocation to equities is at quite a low level.
- It is for these reasons that swaps have not really featured in the Trustees' past strategy considerations.
- If there was more room for manoeuvre, the Trustees could look at swaps, but the Schemes' funding levels do not really support this at present and return-seeking assets have been preferred.
- Investment arrangements and covenant are increasingly important now that future service accruals have ceased.

(e) Next steps

- Roger Urwin was asked to include in his strategy paper a discussion of 'protections' using derivatives.
- Arthur Walford requested that a review of currency hedging be undertaken in respect of the Schemes' US and European equity holdings.
- The manager line-up should also be reviewed: two-thirds of the current appointees are performing adequately, but there are questions marks over others.
- Realistic investment return targets should also be reassessed – although Roger Urwin commented that both he and Paul Burbidge would say that these need to have regard for the downside risks to the Schemes too.
- Roger Urwin agreed to produce a matrix of five 'strawmen' for discussion at the next meeting on 13 October 2009.
- These would be intended to illustrate:
  - How the current strategy and manager line-up might be finessed by using currency hedging and also by considering property and alternative investments.
  - Reducing risk by moving to more liability-matching assets such as gilts – while bearing in mind that this approach would lead to reduced investment returns and a recovery period which could extend to twenty years or longer.
  - Underpins to support any move the Trustees might make from their current, already optimistic investment approach, to a policy that anticipated an even higher investment return.
  - A combination of the first and third approaches.
  - Further protection or security the Trustees might be able to negotiate.
MINUTES OF A MEETING OF THE TRUSTEES of the Bhs PENSION SCHEMES
HELD AT MARYLEBONE HOUSE, 129 – 137 MARYLEBONE ROAD, LONDON NW1
ON TUESDAY 24 NOVEMBER 2009

PRESENT:
Dr Margaret Downes
Ian Allkins
Slobhan Forey
Roger Harte
Mark Healey
Phil Kitchen
Arthur Walford
Margaret Hannell

Chairman
Bhs Pension Trustees Limited

IN ATTENDANCE:
Roger Urwin & Naomi Burger
Paul Burbidge

Watson Wyatt Limited
Watson Wyatt Limited

Secretary

COMMENCEMENT TIME: 10:30 am

1. NEW DIRECTORS: Bhs PENSION TRUSTEE LIMITED

Slobhan Forey, Mark Healey and Phil Kitchen were congratulated on their appointments to the Board of Bhs Pension Trustees Limited and welcomed to their first Trustees’ meeting.

2. MINUTES

The minutes of the Trustees’ meeting held on 13 October 2009 were agreed and were signed by the Chairman.

3. INVESTMENT MATTERS

(a) LiabilityWatch calculations

- Margaret Hannell advised that Watson Wyatt have now recalibrated the calculation routines so that, from 31 March 2009, they will reflect the preliminary outcomes of the 2009 triennial valuations.
- It was acknowledged that schedules showing reworked values back to March 2009 had been circulated to everyone between meetings.

(b) Watson Wyatt letter confirming “satisfactory investments”

- Subject to some minor corrections to the text, the latest draft was approved and Naomi Burger was asked to finalise this advice letter and to forward it to Margaret Hannell.
Paul Burbidge commented that the Pensions Regulator ("TPR") tends to focus on technical provisions and is averse to schemes under-estimating their liability positions at the valuation date.

TPR accepts that, in the current climate, many sponsors are experiencing trading difficulties but trustees need to demonstrate that they have followed a rigorous approach and done their best to secure as much in the way of contributions and security as they can.

Ultimately, TPR would rather a business continues in existence and improves its position rather than fails and looks to place its pension liabilities in the Pension Protection Fund.

As far as back-end loading is concerned, seemingly if that is all that can be afforded, then that would appear to be acceptable to TPR – provided a robust, pre-agreed programme for increasing payments has been set with a good degree of certainty that the sponsor can indeed afford the uplifted contributions.

If the Company does not offer any security or collateral, the Trustees may conclude that its covenant has worsened and this could be an argument for strengthening the funding assumptions, thereby increasing the Technical Provisions, but then taking account of investment out-performance to reduce the recovery period, so the net timeframe transpires to be the same.

The Trustees said they would welcome an update on the Arcadia/Bhs operational integration programme as the Arcadia/Taveta position seems quite opaque but, in any event, the Trustees recognise that their only source of additional funding is Bhs Limited and they have no recourse to Arcadia.

7. PRESENTATION BY PAUL COACKLEY

Paul Coackley joined the meeting and provided the following update to the Trustees.

- TRADING: Last year's poor trading has been surpassed by an even worse year this year due to warm and wet weather on the back of a soft economic background: "everyone on the high street is working hard to stand still" he said.
- The timing of a back-of-week Christmas has also skewed trade and made circumstances very difficult – this is affecting all mid-range retailers and indeed clothing retailers.
- The next four to five weeks, leading up to Christmas, is when Bhs makes the bulk of its sales. However, given the difficult trading conditions, the business has had to run far more promotional offers than it would have wished to do, which has been disappointing.
- Costs and inventories are being monitored very closely and everyone is "battening down the hatches" with the result the stores and head office environment is very challenging.

- OPERATIONAL INTEGRATION: The process is proceeding as planned.
- Back office activities have been consolidated quite quickly with the move of the Bhs Accounts function from Luton to Leeds having almost been concluded.
- Other operations, such as systems and logistics, will take a little longer to transition.
- 31 Bhs stores are operating with an Arcadia brand presence; a further fifteen inserts should be signed-off by Christmas, then another 80/90 by the end of August 2010.
- Initial feedback from the current 31 inserts is very positive and consumers appear to be comfortable with the concept.
- The next twelve to eighteen months are crucial, whilst the full benefit of the inserts is analysed and transferred to the bottom line. Paul Coackley fervently made the point that after this challenging period, Bhs should recover and find itself in a much better place and take its position as a strategic part of the new group with Arcadia.
- Arcadia is working hard to support the Bhs business but it too is finding life quite tough at the moment – particularly for its middle-market brands.
- Asked about the likely impact of the forthcoming reinstatement of VAT from 15% to 17½%, Paul Coackley said he expected retailers to absorb the increase within their existing pricing structures.
• **MARCH 2009 ACTUARIAL VALUATIONS:** Turning to the preliminary valuation findings, Paul Coackley confirmed that the Company can agree the assumptions used under what has been termed “Basis A” in the Watson Wyatt report dated 10 August 2009 and he will send the Trustees a letter to confirm this in the next couple of days.

• The Company will then be keen to move to determine Recovery Plans with the Trustees. In this regard, the Company intends to work towards agreeing Recovery Plans that reflect all viewpoints as well as contribution levels that the Company can afford, given its short to medium-term prospects.

• The Company wants as short a recovery period as possible.

• Paul Coackley emphasised that the Company takes its responsibilities very seriously and it would be his hope that matters can be moved on at a pace with a view to agreeing these points before Christmas, if this can be achieved.

• **PRICEWATERHOUSECOOPERS ("PwC"):** The Company has appointed PwC to advise and assist it in concluding the valuations and needs to speak with PwC to further consider its options.

• Paul Coackley hopes that the Company’s formal response on proposed Recovery Plans could follow seven to ten days after these discussions have taken place and acknowledges that the Trustees will need to consider the Company’s proposals before they can respond.

• **PPF LEVIES:** Paul Coackley confirmed that the Company will continue to pay the Scheme’s PPF levies.

• **ONGOING CONTRIBUTIONS:** The Trustees reminded Mr Coackley that their only receipt is £2.5m a year deficit funding which is being paid to the Bhs Pension Scheme under the Schedule of Contributions agreed on the back of the 2006 valuation.

• Accordingly the Trustees are obliged to use income and liquidate assets in order to meet benefit payments, thereby losing investment opportunities.

• **ILL-HEALTH RETIREMENTS:** As far as the continued provision of ill-health pensions are concerned, the Company acknowledges that implementing such an option will not increase its costs, but it is conscious that not offering this benefit could “save” the Company around £1m, which will have a corresponding impact on the Schemes’ deficits.

• This question is therefore still being considered and the Company will advise the Trustees of its decision in due course.

• **Bhs LIMITED AUGUST 29 AUGUST 2009 ACCOUNTS:** The Accounts have yet to be finalised and if this remains the position in the New Year, a copy of the draft Accounts can be made available on a confidential basis.

• Paul Coackley warned the Trustees that “they won’t look pretty”, particularly given they cover a seventeen month period and include just one (2008) Christmas.

• **INVESTMENT STRATEGY:** Taveta Investments (No 2) Limited, the owner of Arcadia and Bhs, wishes to undertake a fundamental review of investment strategy and how it best “manages” pensions in respect of the two businesses.

• The Board of Taveta has appointed PwC as its agents to advise on investments, funding and liability management in respect of the Bhs and Arcadia pension arrangements.

• Long-term, Taveta would like to secure all members’ pension benefits through a buy-out but it needs to understand the timescales involved and the feasibility for the Bhs and Arcadia Schemes.

• Paul Coackley would like the Bhs Trustees or a sub-committee of the Trustees to meet with PwC sooner rather than later and ideally before Christmas.

• Roger Urwin said he would be happy to meet with Richard Slater (PwC’s investment specialist) whenever it would be mutually convenient.

• The Trustees closed by confirming they will be happy to work with the Company’s appointed advisers and to progress matters as quickly as possible.

Paul Coackley was thanked for his presentation and left the meeting.
8. **NEXT STEPS**

(a) The Chairman reported on a meeting she and Arthur Walford had had with Paul Coackley earlier in the day.

Dr Downes said she had stressed to Mr Coackley that the Trustees could not accept Recovery Plans that were over-long and she had said that the Company and its advisers should be charged with coming up with proposals that include security.

Mr Coackley had responded to say that he did not think that the Board would agree to this but that he would nevertheless ask the question.

(b) There was some debate about how much the Company might offer to pay to the Schemes and whether this might be £5m a year in addition to PPF levies and the Company’s Stakeholder contributions.

(c) It was noted that PwC had asked for a substantial amount of data and information on the Schemes to assist them with their feasibility study.

Margaret Hannell was authorised to supply the requisite data and information and to respond to any questions raised by PwC.

(d) The Schemes currently pay out a dozen or so transfer values in a year and the current basis results in the amounts that are paid being greater than they need to be.

In fairness to members who retain their benefits in the Schemes, if the Schemes are faced with paying hundreds of transfer values, the basis may need to be adjusted so that transfer values are reduced. Paul Burbidge commented that this is, however, awkward to achieve.

The Trustees would expect the Company to finance the excess costs in the event an enhanced transfer value exercise is undertaken.

(e) It was agreed that a working party be formed to meet with PwC.

The working party will comprise Dr Downes, Ian Allkins, Mark Healey, Arthur Walford, Roger Urwin, Paul Burbidge and Margaret Hannell.

The Secretary was asked to arrange a meeting with PwC at an early opportunity. [A meeting was subsequently arranged to take place on 30 November 2009.]

9. **ADMINISTRATION REPORT**

The latest Report was discussed, with no particular comments or action points being raised.

All the decisions of the Discretionary Benefits Committee, as documented in the Report, were ratified by the Trustees.

No Internal Dispute Resolution Procedures have been instigated and, so far as the Administrators are aware, there have been no referrals to the Pensions Advisory Service or the Pensions Ombudsman.

The Governance Statement recorded the fact that Bhs Limited had sent a Notifiable Events form to the Pensions Regulator, covering its acquisition by Taveta Investments (No 2) Limited in July 2009.
MINUTES OF A MEETING INVOLVING A SUB-GROUP OF THE TRUSTEES OF THE Bhs PENSION SCHEMES, PAUL COACKLEY AND PRICEWATERHOUSECOOPERS, HELD AT PLUMTREE COURT, LONDON EC4 ON MONDAY 1 FEBRUARY 2010

PRESENT: Dr Margaret Downes, Chairman
          Ian Allkins, Bhs Pension Trustees Limited
          Roger Harte, ""
          Arthur Walford, Independent Trustee
          Margaret Hannell, Secretary
          Paul Coackley, Director, Bhs Limited
          Chris Ringrose, PricewaterhouseCoopers ("PwC")
          Richard Cousins, ""

COMMENCEMENT TIME: 3.30 pm

1. INVESTMENT

It was acknowledged that the Company, via PwC, had confirmed that it is broadly in agreement with the Trustees' proposed investment changes, as detailed in the paper produced by Roger Urwin of Towers Watson and dated 16 November 2009.

This matter will be tabled for discussion and ratification at the forthcoming Trustees' meeting on 16 February 2010, which Roger Urwin will be attending.

2. COMPANY RECOVERY PLAN PROPOSAL

Having emphasized the very confidential nature of its contents, Paul Coackley took the Trustee representatives through a paper dated 1 February 2010 and supplemented the paper's contents with the following remarks:

(a) The Company is performing more poorly than it was when Baker Tilly performed their financial assessment in the summer of 2009.

(b) Christmas 2009 trading was extremely disappointing. Sales of heavy knits and costs also suffered due to unseasonably mild weather at the "wrong time".

(c) All costs are being diligently managed and payroll and discretionary spend has been severely curtailed.

(d) On the sale of ten leasehold stores to Primark, Paul Coackley remarked that this was "a good piece of business for Bhs". Mr Coackley commented that the stores themselves were loss-making, so the transaction will serve to reduce the rent-roll and, longer-term, it will save money, thereby generating cash for the business.

Whilst the Company and its advisers may have decided that this was a rather routine action that could be reported on in the normal course of the Company's quarterly updates to the Trustees, Dr Downes contested that this was in fact more significant than part of day-to-day commercial life and insisted that the Trustees must be kept informed and given prior notification of future such transactions.

It was not a matter of judging whether the Trustees should be informed because the issue is a Type A or 'notifiable' event, but rather in the spirit of maintaining an open and transparent relationship between the Company and the Trustees.
Paul Coackley commented that benefits are starting to be felt with the involvement of new, more brand-focused and customer-orientated Arcadia management and, coupled with the benefit of the store inserts programme, positives are expected to flow though for the 2010/2011 financial year, to bring Bhs back to profitability.

In the meantime, however, the forecast is for Bhs to report a loss of £12m for the year ended August 2010 – against a profit of £6m for the period to August 2009.

In answer to the question posed, Mr Coackley affirmed that Bhs will not be paying a dividend to its shareholders in respect of the year ended August 2010.

Ian Allkins stressed that the Trustees need as much financial information as the Company can provide in order to back up these figures and to save the Trustees having to request more data and/or spending money, that could be put to better use, on further Baker Tilly-type covenant investigations.

Paul Coackley advised that the Bhs accounts to August 2009 have been audited but have not yet been signed and he will seek Board agreement to letting the Trustees have a copy of the statutory accounts when they have been signed. This will hopefully be following the March 2010 Board meeting.

During December 2009, the Company had endorsed the proposed valuation assumptions which had produced Technical Provisions (TPs) which resulted in deficits of £135m across the two Schemes.

Mr Coackley insisted that cash constraints do not allow the Company to exceed its current expenditure on pensions. This was said to be £6.5m a year of which Stakeholder payments (including contracted-in National Insurance Contributions) are £2.5m a year. Mr Coackley asserted that “the Company can only pay what it can afford”.

The Company’s proposal for addressing the deficits arising in both the Bhs Pension Scheme and the Bhs SMS is:

<table>
<thead>
<tr>
<th>Year beginning</th>
<th>Annual deficit contribution (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 September 2009</td>
<td>4.0</td>
</tr>
<tr>
<td>1 September 2010</td>
<td>5.0</td>
</tr>
<tr>
<td>1 September 2011</td>
<td>6.0</td>
</tr>
<tr>
<td>1 September 2012</td>
<td>7.0</td>
</tr>
<tr>
<td>1 September 2013 onwards</td>
<td>Increasing at 10% per annum compound thereafter</td>
</tr>
</tbody>
</table>

Mr Coackley said he hopes to be able to pay the £4m proposed for the financial year 2009/2010 as an immediate lump sum, so that it will include a part-prepayment.

PwC had estimated that this payment pattern should eliminate the deficits over twenty years.

Richard Cousins of PwC opined that the recovery periods “might even be seventeen years, if post-valuation market movements are taken into account”.

Despite repeated and persistent requests, Mr Coackley insisted that “there are no options available to provide security from the wider group”.

In addition to the Trustees’ initial dissatisfaction with such lengthy recovery periods, Dr Downes expressed concerns about the Pensions Regulator’s likely reluctance to accept recovery periods approaching twenty years.
Dr Downes said that the full Trustee board will need to consider the Company's offer and will plan to come back to the Company with its own counter-proposals as quickly as possible.

The point was once again made that Paul Burbridge, the Scheme Actuary, had previously adjudged the assumptions underpinning the Technical Provisions as being at the hopeful end of the spectrum.

Paul Coackley and the PwC team invited the Trustees to come back with their views shortly and then withdrew from the meeting.

3. **WORKING PARTY DISCUSSION**

The following comments and observations were made:

(i) Recovery periods closer to fifteen years – or seventeen at most – would be far more acceptable – and indeed should be considered as a pre-requisite if the Company does not provide any form of collateral or financial security.

(ii) Towers Watsons to be asked to produce figures/options which generate shorter duration recovery periods.

These might assume deficit contributions starting at £4m – or more preferably £5m – a year.

(iii) Consideration needs to be given to the apportionment of the payments between the Bhs Scheme and the SMS.

(iv) Despite being rebuffed on the collateral/contingent asset point, the Trustees should pursue this line – maybe looking to seek security over some property and/or subordinated/contingent assets?

(v) The Company's assessed £1.5m a year ex-Scheme/SMS Stakeholder costs will reduce over time. The Trustees should therefore ask the Company to commit to making corresponding uplifts in its deficit contribution payments.

(vi) The Company should also be asked to undertake that if longer-term financial savings are better than forecast, the Company will reflect this in a further increase in deficit contributions.

4. **NEXT STEPS**

Towers Watson will be asked to have their supplementary figures ready by Monday 8 February, in advance of a conference call which will take place on the morning of Wednesday 10 February 2010. This call will involve all Trustee Directors and their appointed advisers.

The meeting closed at 5.40pm.
MINUTES OF A MEETING OF THE Bhs PENSION SCHEMES' INVESTMENT COMMITTEE
HELD AT MARYLEBONE HOUSE, 128-137 MARYLEBONE ROAD, LONDON NW1
ON THURSDAY 20 MAY 2010

PRESENT:
Dr Margaret Downes
Sliebhan Forey
Roger Harte
Mark Healey
Arthur Walford
Margaret Hannell

Chairman
Bhs Pension Trustees Limited

IN ATTENDANCE:
Chandra Vadgama
Roger Urwin

Bhs Pensions Accountant
Towers Watson

APOLOGY FOR
ABSENCE:
Phil Kitchen, Bhs Pension Trustees Limited

SECRETARY

COMMENCEMENT TIME: 10:15 am

1. MINUTES

Subject to making some minor amendments, the minutes of the meeting held on 13 April 2010 were agreed and were signed by the Chairman.

2. MATTERS ARISING

(a) 26 April 2010 letter to Paul Coakley:

The Secretary summarised the contents of the letter dated 26 April 2010 from the Chairman to Paul Coakley.

This letter made reference to the greater emphasis which will attach to the Schemes' investment strategy going forward, following the cessation of future accruals and asked whether the Company had any plans to progress the "liability management" exercises previously alluded to by Richard Slater of PricewaterhouseCoopers.

The Company has not formally responded to this letter but the Chairman was invited to meet with Paul Budge, Arcadia Group Finance Director.

(b) 12 May 2010 meeting with the Company

The Chairman reported on the meeting she and the Secretary had had with Paul Budge and Barbara Gentles, as follows:

- Paul Budge will present the Trustees with financial updates on a regular basis.
- Bhs's performance has improved, but it will take time to assess whether the Arcadia brand inserts programme has proved to be successful.
- As a result of harmonisation with Arcadia's accounting cycle, Bhs's year end has moved from end-March to end-August and therefore the 2008/2009 Bhs accounts cover a seventeen month period.
- These accounts span just one all-important Christmas trading period and given like-for-like comparisons are virtually impossible, they could be regarded as less than meaningful.
- The Chairman will be provided with a copy after filing, at the end of May 2010.
- The new corporate structure means there are no Bhs Group consolidated accounts as such, given Bhs is now treated as a subsidiary company of the Taveta Group.
- Mark Healey volunteered that he could probably reconcile the subsidiary accounts to the management accounts when they become available later in the year (in October/November 2010) to give a little further insight for the Trustees.
- At that time, Paul Budge would also be invited to give the Trustees a financial update presentation.
MINUTES OF A MEETING OF THE TRUSTEES of the Bhs PENSION SCHEMES
HELD AT MARYLEBONE HOUSE, 129 – 137 MARYLEBONE ROAD, LONDON NW1
ON TUESDAY 29 JUNE 2010

PRESENT:
Dr Margaret Downes
Roger Harte
Mark Healey
Phil Kitchen
Arthur Walford
Margaret Hannell

Chairman
Bhs Pension Trustees Limited

“A”

“P”

“P”

“A”

“A”

IN ATTENDANCE:
Siobhan Forey
Paul Burbidge

Bhs Pension Trustees Limited
Watson Wyatt Limited

APOLOGY

COMMENCEMENT TIME: 10:30 am

1. CONFLICTS OF INTEREST

None of the Trustees or Trustee Directors identified any item on the agenda which they felt could might cause them to have a conflict of interest.

2. MINUTES

The minutes of the Investment Committee meeting held on 20 May 2010 were agreed and were signed by the Chairman.

3. MATTERS ARISING

(a) Deeds of amendment providing for medical retirement from “active deferred” status

The Secretary reported that the Deeds had been signed by all the relevant parties and she was awaiting receipt of certified copies from Eversheds.

(b) Bhs Limited Accounts for the period to 29 August 2009

The Chairman advised that she had been sent a copy of the Company’s accounts for the period to 29 August 2009, which was its first under the new ownership of Taveta Investments.

Dr Downes commented that these Accounts did not contain anything particularly significant and were probably typical of the first set of accounts under a new financial regime.

It was agreed that Paul Budge (Arcadia Group Finance Director) should be invited to give a financial update to the Trustees at their meeting on 30 November 2010.

4. COMPANY PROPOSAL – ENHANCED TRANSFER VALUE (ETV) EXERCISE

Dr Downes reported on a conversation she had had earlier in the day with Paul Budge, during which Mr Budge had said the Company would like the Trustees to co-operate in an ETV exercise which PricewaterhouseCoopers would co-ordinate and manage.

Mr Budge promised to write to the Chairman setting out further details on the Company’s ETV proposal and said that he would like PwC to meet with the Trustees within the next four to six weeks to outline the proposal.

The Trustees expressed themselves broadly comfortable with listening to what PwC have to say on this matter and said their preference would be to see the presentation pack in advance of the meeting itself. Margaret Hannell was asked to follow-up with the Company/PwC and to ensure that Paul Burbidge is in attendance.

[The date subsequently fixed for the PwC presentation was Tuesday 27 July 2010.]
5. UPDATE ON COMPANY PERFORMANCE

During his conversation with the Chairman earlier in the day, Mr Budge had advised that Bhs’s sales were up 7% like-for-like and “the business was doing quite nicely”.

There was some scepticism over a quoted sales growth figure of 7% and the view was expressed that “doing better” would probably be a more accurate description of the Company’s progress.

6. INVESTMENT MATTERS

The Trustees discussed the reports circulated with the agenda packs, including performance returns to 31 March 2010 and the progress of the Schemes’ asset values and the various funding positions illustrated by LiabilityWatch.

The following requests were made:
- An independent property valuation should be commissioned – the Secretary was asked to assess potential costs and options available; and
- Artemis should be invited to present to the October 2010 Investment Committee meeting

7. LEGAL MATTERS

(a) Refunds of surplus to employers

The Secretary referred to the Eversheds briefing paper which had been included in agenda packs and explained that a little known provision of the 2004 Pensions Act appears to prevent payment of surplus to an employer except where there has been an appropriate trustee resolution under s.251 of the 2004 Pensions Act.

Although repayment of surplus may seem unlikely at present, there may come a time when the Schemes are more than fully funded and it might be possible for a return of surplus to be made. Failing to pass the requisite trustee resolution before the deadline of 6 April 2011 may cause a problem in future.

The Schemes’ Rules currently permit repayment of surplus and it seems reasonable for the Trustees to pass an empowering resolution to allow those provisions to continue.

In considering their options, the Trustees concluded that passing this resolution might result in more generous funding from the Company in the future, as the employer would be less concerned about surplus being trapped in an over-funded scheme.

Three months’ notice of the Trustees’ intention must be given to members and the employer, to expire before 6 April 2011.

The Trustees debated this point and agreed to give the necessary notice to retain the option to refund surplus and to advise the Company that it was minded to do this in order that the Trustees can pass the appropriate resolution later in the year.

It was agreed that the best way to give effect to this communication would be to include appropriate text in the annual newsletter which is sent to all members in September of each year.

The Secretary was asked to liaise with the Company accordingly.
MINUTES OF A MEETING OF THE TRUSTEES of the Bhs PENSION SCHEMES
HELD AT MARYLEBONE HOUSE, 129 – 137 MARYLEBONE ROAD, LONDON NW1
ON TUESDAY 12 OCTOBER 2010

PRESENT: Dr Margaret Downes 
Slobhan Forrey
Roger Harte
Mark Healey
Phil Kitchen
Arthur Walford
Margaret Hannell

Chairman
Bhs Pension Trustees Limited
" " " " " "
" " " " " 
Independent Trustee
Secretary

IN ATTENDANCE: Paul Burbidge
Towers Watson

COMMENCEMENT TIME: 1:00 pm

This meeting was convened to give further consideration to the Company’s liability management proposals, which include running enhanced transfer value (ETV) and pension increase exchange (PIE) exercises

1. CONFLICTS OF INTEREST

None of the Trustees or Trustee Directors identified any items which they felt might cause them to have a conflict of interest.

2. INDEPENDENT FINANCIAL ADVISER (IFA) “BEAUTY PARADES”

Dr Downes gave a report on two IFA beauty parades that she and the Secretary had attended together with Alda Andreotti and Graham Cooper, representing the two Arcadia Pension Schemes.

The first presentation had taken place on 6 September 2010. This was chaired by Lord Grabher (Taveta Chairman) and attended by Chris Coles (Taveta non-executive director), Adam Goldman (Company Secretary), Barbara Gentles, Chris Ringrose and Richard Jarvis of PricewaterhouseCoopers (PwC).

Four firms were interviewed at this first presentation: Alexander Forbes, LECB, JLT and Oval. It was unanimously agreed that JLT and Oval had demonstrated far greater experience and capabilities in this area than Alexander Forbes and LECB.

Accordingly the short-listed JLT and Oval presented again on 4 October 2010 to the four Bhs/Arcadia Trustee representatives, together with Paul Budge and Barbara Gentles plus Richard Cousins and Richard Jarvis of PwC.

Dr Downes said her preference would be for JLT to be appointed as IFA whilst Ms Andreotti of Arcadia said she would have chosen Oval. However this is ultimately a Company appointment and fee structures are likely to be an important consideration, given it is the Company that is paying for members to be provided with independent advice. That having been said, Dr Downes advised that all three trustee representatives had agreed that they could work with either JLT or Oval.

The Company is currently progressing its negotiations with JLT and Oval.

3. GENERAL DISCUSSION ON ETV and PIE PROCESSES

Paul Burbidge commented that standard cash equivalent transfer values (CETVs) can be paid from both Schemes without this negatively impacting on the rights and expectations of those whose pension rights are retained in the Schemes.
(d) It is anticipated that ETV offers will be sent to Bhs deferred pensioners in tranches between December 2010 and March 2011.

(e) The Company anticipates the Trustees being involved in several areas:
* input into the IFA appointment;
* resolving any data issues;
* agreeing which members to include in the exercises;
* responding to the Company's proposals and details of the offers; and
* reviewing and agreeing verbal and written communications.

(f) PwC explained the need to offer ETVs which meet IFA’s critical yield requirements and went on to confirm that members will be able to take part of the transfer enhancement in the form of a [taxable and N1'able] cash payment.

(g) PwC said that Oval and JLT each have a different approach to setting critical yields. JLT’s could be described as more mechanistic, whilst Oval have regard for softer aspects such as the member’s desire to provide a contingent spouse’s pension.

(h) The Trustees noted that the illustrations provided by PwC are purely generic and it will not be possible to produce anything scheme-specific until the IFA(s) are appointed and have been able to undertake some modelling.

(i) The Trustees were concerned to know that requests to proceed with ETVs would be dealt with in a fair and equitable manner, given PwC’s comments that there is a finite budget for these exercises and the expectation must be that the Company will be keen to discharge some members’ liabilities over others. PwC envisage cases being dealt with in batches, with decisions being taken at the end of each batch processing period on which transfers will be allowed to proceed. The Company acknowledges that communications need to be carefully and precisely drafted to reflect this and the Company itself needs to be mindful of not breaching any discrimination legislation.

(j) PwC stated that, in general, 30% of those who are approached actually take up an ETV offer and they felt that the Bhs membership would conform to this ‘norm.

(k) Some members may be excluded on the basis of a de minimis pension value – perhaps where the deferred pension is less than, say, £200 a year. Members may not be invited to participate if they are within five years of Normal Retirement Date or are resident overseas. These parameters were said to be largely determined by the appointed IFA.

(l) There was some discussion about the need to potentially draw down large cash sums to meet bulk CETV payments. However, given the amount held in pooled and readily realisable assets, the Secretary said that this should not cause the Schemes undue cash-flow difficulties – depending on the sums involved.

(m) PIE offers are likely to be made to selected pensioners during January/February 2011.

(n) The areas of involvement for the Trustees would be broadly the same as those related to the ETV exercise.

(o) PwC confirmed that it is intended to include the value of spouses’ pensions in the PIE offer and that both the member and their spouse will need to formally sign before the PIE can take effect. The finer detail of the IFA’s involvement in the PIE exercise has yet to be determined.

(p) Once again, certain categories of pensioner are likely to be excluded from this exercise too, such as those living abroad, those on lower value pensions; those where the potential uplift would be less than, say, £50 a year and maybe those over a certain age.

(q) PwC said the Company would be happy to discuss any further membership categories where the Trustees might have concerns about inclusion or exclusion from the PIE exercise.

(r) The Trustees expressed the view that it would seem fair for at least two-thirds of the PIE “saving” to be used for the benefit of the member and asked that this be formally considered by the Company.

(s) Bhs members are scheduled to be approached first in connection with both the ETV and the PIE exercises, given the Arcadia Trustees are still addressing and resolving their March 2010 triennial valuations.

Mr Budge advised that Sir Philip will meet the proposed IFA and there is the possibility that a “trial run” might be undertaken to test the abilities of each of the IFAs.
Dr Downes asked when the Trustees might see a formal proposal from the Company;  
Mr Budge said he hoped this would be possible before the middle of November 2010.

The representatives of the Company and PwC were thanked for their presentation and left the meeting.

5. **NEXT STEPS**

The Trustees agreed to obtain a legal opinion from Jeremy Goodwin of Eversheds when the Company makes its formal proposal.

Depending on the timing of this, Mr Goodwin could be asked to attend the November Trustees’ meeting, or it might be necessary to hold a separate meeting to focus on this issue in isolation.

Margaret Hannell agreed to brief Mr Goodwin and to bring him up to date with progress in this area.

6. **DATES OF NEXT MEETINGS**

   (a) **INVESTMENT COMMITTEE**
   - TUESDAY 19 OCTOBER 2010,
   - in the Boardroom at Marylebone House,
   - commencing at 10.00am

   (b) **TRUSTEE BOARD**
   - TUESDAY 30 NOVEMBER 2010,
   - in the Boardroom at Marylebone House,
   - commencing at 10.00am

With there being no further business to discuss, the meeting closed at 4.00pm.

[Signature]

**CHAIRMAN**

30-11-2010
MINUTES OF A MEETING OF THE TRUSTEES of the Bhs PENSION SCHEMES
HELD AT MARYLEBONE HOUSE, 129 – 137 MARYLEBONE ROAD, LONDON NW1
ON TUESDAY 30 NOVEMBER 2010

PRESENT: Dr Margaret Downes Chairman
Slobhan Forey Bhs Pension Trustees Limited
Roger Harte “ “ “
Phil Kitchen “ “ “
Arthur Walford Independent Trustee
Margaret Hannell Secretary

APOLOGY
Mark Healey Bhs Pension Trustees Limited

IN ATTENDANCE: Paul Burbidge Towers Watson
Paul Budge, Group Finance Director – for item 5

COMMENCEMENT TIME: 10:30 am

1. CONFLICTS OF INTEREST

No Trustee or Trustee Director identified any item on the agenda which they felt might cause them to have a conflict of interest.

2. MINUTES

The draft minutes of meetings held on 12 October and 19 October 2010 were agreed and were signed by the Chairman.

3. MATTERS ARISING
(iv) The factors adopted in 2008 should be updated so that they are on a current “best estimate” basis.
(v) Demographic assumptions will be updated to be consistent with those adopted for the 2009 triennial valuations.
(vi) Existing commutation terms are based on unisex factors which are the same across the two Schemes; this approach was reaffirmed.
(vii) The strengthening of the mortality assumptions has been offset by a higher net discount rate and the resultant change in commutation factors would be only minimal: for ages between 50 and 60, the change would have ranged from -0.4% to +1.4%.
The Trustees therefore endorsed the Actuary’s recommendation to retain the current commutation factors, which would still be regarded as cost neutral.
(viii) Given no changes are to be made to the standard commutation factors, the Trustees agreed that no review of the “trivial” commutations factors was necessary either.
(ix) Cases of commutation on the grounds of serious ill-health will be referred to the Actuary on a case by case basis, as has applied in the past.
(x) For early retirement calculations: pension earned to January 2006 is reduced by 3% for each year of early payment whereas benefit accrued in respect of service from January 2006 is calculated on a cost neutral basis.
Once again, the factors generated as a result of the review were so close to those currently in use that the Trustees agreed to retain the current factors for the time being.
(xi) This was also the case for late retirement factors, so the Trustees agreed not to make a change in this area for the moment either.
(xii) Very few members have actually paid Additional Voluntary Contributions (AVCs) and the majority of those who have take their AVC proceeds as cash at retirement.
The Trustees are not obliged to offer AVC pension conversion terms – but would still wish to offer those with small AVC funds.
The Secretary will compile statistics on those holding AVC accounts and the Company's view will once again be sought.
Where pension conversion terms are offered via the Schemes, the feeling was they should reflect market annuity rates. The current AVC factors are 5% to 10% harsher to members than the indicative market rates but the Trustees acknowledged that members do have an alternative, open market option they may avail of.
Accordingly, the Trustees agreed not to make any changes to the current AVC pension conversion terms.

(d) Pension Regulator follow-up to 31 March 2009 actuarial valuations submissions
Dr Downes, Mr Walford, Paul Burbidge and Margaret Hannell have been asked to participate in a telephone conference call with representatives from the office of the Pensions Regulator on Monday 6 December 2010.
The Regulator has already requested and been supplied with copies of the actuarial valuation reports, schedules of contributions, recovery plans, statements of funding principles, actuarial advice received during the actuarial review and the Baker & Tilly covenant assessment reporting.
The Independent Trustees have been asked to report on the process adopted for the purposes of the 2009 valuations; their view of the employer covenant; how the valuation assumptions were arrived at and how the recovery plans and the contribution structure were set.
The Regulator is scrutinising both Schemes.
The Secretary was asked to provide a position paper as quickly as possible.
The general feeling was that the Regulator would probably take issue with the length of the recovery plans and the fact that contributions are back-end loaded.

(e) Pension tax changes – 14 October 2010 announcement
A reduced annual allowance of £50,000 is to apply from the 2011/2012 tax year, with the option to carry forward up to three years of unused annual allowances.
A factor of 16 will be used to value defined benefit pension rights; this is generally viewed as being at the lower end of the range forecast and is therefore less penal.
The quid pro quo, however, is that the Lifetime Allowance is to be reduced from £1.8m to £1.5m with effect from 6 April 2012. It was agreed that given the Schemes have closed to future accruals, any potential impact will be limited to the extent there is any effect at all.

5. COMPANY FINANCIAL UPDATE - MR PAUL BUDGE, GROUP FINANCE DIRECTOR

Mr Budge was welcomed to his first meeting with the Trustees of the Bhs Pension Schemes.

The Trustees had been circulated with a summary of the Taveta Group financial results for the 52 weeks ended 28 August 2010, which showed:

- Total Group operating profit of £279.6m, up 10.4% from £253.3m.
- Total Group pre-tax profit of £213.2m, up 6.4% from £200.3m.
- Total sales of the combined group were £2,777m. Total UK like-for-like sales were +1.3% on last year, split Arcadia +1.5%, Bhs +0.9%.
- Total cash generated was £386.2m, £42.8m more than last year.
- There has been continued capital investment in the total business, with expenditure of £112.6m.
- Closing Bank debt of £464.1m, a reduction of £146.3m for the combined business from £610.4m last year.

Commenting on these figures, Mr Budge advised that a significant share of the £112.6m of expenditure was attributable to the Arcadia brand inserts into Bhs stores: during the year 215 (mainly Wallis and Dorothy Perkins) concessions had been created in Bhs.

The Taveta Group now operates from 2,542 leasehold and freehold outlets as well as 579 franchised units trading in 37 countries.

As far as Bhs is concerned, like-for-like sales were up 0.9% on the year, whilst total trading was -0.6%, albeit on a reduced amount of space. Internet sales had grown by 100%.

The insert programme has been largely completed, with 246 Arcadia brand inserts now operating in 116 Bhs stores. Mr Budge confirmed that the inserts work exactly like any other concession operation: they impact on each respective business’s bottom line and are operated very much on commercial terms.

The new Bhs store format at Uxbridge is performing well, with sales up 30%. Accordingly, a £10m CAPEX has been earmarked for four further trial rollouts during 2011.

In response to the question, Mr Budge said that if the 2009 Bhs/Arcadia integration had not taken place, Bhs would probably have incurred an EBIT loss of £20m, or an EBITDA loss of £5m for the year to August 2010.

Looking to the future, total like-for-like sales for 2010/2011 are forecast to grow by 5% - mainly driven by internet business and the inserts programme.

The plan is for Bhs to get back to EBIT profit during 2010/2011.

On the operational side, four key appointments have been made with new directors of HR, Finance, E-Commerce and Commercial.

In closing Mr Budge said that Bhs was a “sound” business and that if cash is constrained, this is a short term issue and not one that should stymie future underlying growth.

Mr Budge was thanked for his presentation and left the meeting.
MINUTES OF A MEETING OF THE TRUSTEES of the Bhs PENSION SCHEMES
HELD AT MARYLEBONE HOUSE, 129 – 137 MARYLEBONE ROAD, LONDON NW1
ON TUESDAY 13 DECEMBER 2011

PRESENT:  
Dr Margaret Downes  Chairman  
Slobothan Forey  Bhs Pension Trustees Limited  
Phil Kitchen  "  "  "  "  
Arthur Walford  Independent Trustee  
Margaret Hannell  Secretary  

APOLOGY  
Mark Healey  Bhs Pension Trustees Limited  

IN ATTENDANCE:  
Richard de Dombal  
Paul Burbidge  Towers Watson  

Paul Budge, Group Finance Director – for Item 4  
Barbara Gentles, Commercial & International Finance Director

COMMENCEMENT TIME: 3.00 pm

1. CONFLICTS OF INTEREST

No Trustee or Trustee Director identified any item on the agenda which they felt might cause them to have a conflict of interest.

2. Bhs PENSION TRUSTEES LIMITED

(a) Roger Harte  
The Chairman announced that Roger Harte had taken-up full-time employment and resigned from the Board of Bhs PTL with effect from 29 November 2011.

An election will be undertaken in 2012, to find a replacement member-nominated trustee director.

The Trustees acknowledged the significant contribution Mr Harte had made during his time on the Board and the Chairman said that she had already sent him a letter of appreciation and wished him good luck for the future.

(b) Richard de Dombal  
Dr Downes welcomed Richard de Dombal, who was sitting in on this meeting prior to his formal appointment taking effect from 1 January 2012.

Margaret Hannell advised that the Company Secretarial Department has been informed of Mr Healey's departure and Mr de Dombal's appointment and will make the appropriate Companies House submissions to formalise these changes at the relevant time.
Mr Budge and Ms Gentles were invited to join the meeting.

4. **COMPANY FINANCIAL UPDATE – MR PAUL BUDGE, GROUP FINANCE DIRECTOR**

Mr Budge and Ms Gentles were welcomed to the meeting and the Trustees were given a set of confidential slides, including a summary of the Taveta Group financial results for the 52 weeks ended 27 August 2011, which had been released on 24 November 2011.

Mr Budge opened his presentation by informing the Trustees that retailing, as with many other sectors, was facing a challenging time at present, against a background of the worst economic conditions witnessed for many decades.

Since operational integration in July 2009 Bhs Limited, with its sister company Arcadia Group Limited, has been part of the larger Taveta Group.

The focus of Mr Budge’s presentation was on Bhs, as Principal Employer for the two Bhs Schemes:

- on an EBITDA (cash generation) basis, after adding back £32m depreciation, Bhs’s EBITDA loss had been £22.9m; the previous year had shown a profit, based on EBITDA, of £25m;
- on a management accounts EBIT basis, the business had lost £54.9m in the year to 27 August 2011, compared to the previous year’s loss of £8m;
- like-for-like retail sales were down −1.6% split −2.7% store retail but counter-balanced by internet sales which were up 40.6%;
- Bhs traded out of eight fewer stores than in the previous year, thus relinquishing 2.2% of sales space;
- trading margin suffered from pressure on cost prices – particularly cotton and raw materials – whilst the hike in VAT to 20% from January 2011 was an additional cost that had had to be absorbed by the business in a challenging market place;
- all this having been said, Mr Budge commented that Bhs’s performance was not outside the norm in the current environment.
There are 340 Arcadia brand inserts trading in 132 Bhs stores on a commercial basis; these generated sales of £77.9m, which contributed £13m to Bhs's profits.

The Group invested £23.8m of net capital in Bhs during the year, whilst cost savings resulted in "back of house" expenses being £6m less than if Bhs had remained standalone.

The forecast is for Bhs to reduce its EBITDA from (£23m) to (£11m) in the 2011/2012 financial year.

Capital expenditure of £10.4m has been approved to modernise five stores, open one new store and add three more inserts.

The Group is looking at several options:
- closing loss-making stores;
- seeking new concession partners in the areas of food and merchandise;
- improving margins; and
- further cost efficiency initiatives.

In his summing-up, Mr Budge restated that trading is very tough, but Sir Philip is still passionate and involving himself with getting the business back to profitability and several new ideas are being explored, as explained earlier.

Life for Bhs as a standalone business would be extremely difficult and the Trustees should take comfort from the protection and synergies that accrue to Bhs by being part of the larger Taveta Group. Mr Budge also sought to reassure the Trustees by announcing that Bhs is performing no worse than the rest of the market.

Mr Budge advised the Trustees that the Davenbush guarantee, which had been put in place in March 2011, had saved the Company a considerable amount in 2011/2012 Pension Protection Fund (PPF) levies.

However the PPF Board has recently announced that it is tightening its certification requirements with the result the existing Davenbush guarantee, in its current form, would not satisfy the PPF's proposed, new criteria.

Commenting on the Company's ongoing ETV exercise, Mr Budge stated that the outcome had been disappointing and take-up levels had been less than the corporate advisers had experienced in previous such exercises.

With the benefit of hindsight it was acknowledged that, given current market conditions and general uncertainty, this had not been the best time to communicate an ETV offer.

The Chairman reminded Mr Budge that the Schemes undergo their triennial valuations as at 31 March 2012.

Mr Budge said he would see about supplying Dr Downes with Bhs Management Accounts or other management information.

Mr Budge said he would also provide a post-Christmas update and was advised that upcoming meetings on either 21 February or 22 May might present timely opportunities.

Dr Downes thanked Mr. Budge and Ms Gentles for attending the meeting and for the information they had provided and they withdrew from the meeting.
1. CONFLICTS OF INTEREST

No Trustee or Trustee Director identified any item on the agenda which they felt might cause them to have a conflict of interest.

2. COMPANY FINANCIAL UPDATE

Paul Budge and Barbara Gentles were welcomed to the meeting.

Presentation slides were distributed and the following points were raised and discussed:

(a) Bhs Limited's financial statements will be filed at the end of May 2012 and copies will be made available to the Trustees at that time.

(b) Mr Budge acknowledged receipt of the Trustees' outline timetable for the March 2012 actuarial valuations, together with a copy of Towers Watson's approximate funding updates which had been undertaken as at 31 December 2011.

The Trustees noted that the Company will be confirming the appointment of its financial advisers when Sir Philip Green returns to the business at the end of March 2012 and comments will be feedback on the proposed timetable when this appointment has been confirmed.

(c) Bhs Limited made an EBITDA loss of £15m for the year ended August 2011.

(d) After adding back £35m depreciation, Bhs's EBITDA loss for this financial year is forecast to be £22.7m

(e) These figures compare to the statutory EBIT equivalent figures of £(55.7)m for the year to 25 August 2012, versus the previous year's £(46.9)m.

(f) Total like-for-like sales are expected to decline by 0.9% with Store like-for-like down -1.9%, although Internet sales (albeit off a small base) are forecast to grow by +45%.

(g) Trading margin is broadly in line with last year and showing steady improvement. Recent efficiency initiatives - rents are plateauing; operational costs are being driven down and the 2011 salary review has been deferred for a year - have driven costs below the comparatives for the previous year. There continues to be a strong focus on cost efficiency initiatives across the business.
(h) Mr Budge stated that Sir Philip is still very much behind the business and he remains committed to Bhs.

(i) Retail trading continues to be very challenging within an extremely competitive marketplace, although the Group’s performance is in line with the retail market in general. However a "bounce back" was achieved over the five-week Christmas trading period, when like-for-like sales growth of +5% was recorded.

(j) Like-for-like store sales (including the Arcadia Inserts) had been -1.8%, although this had improved since the anniversary of the January 2011 increase in VAT (from 17.5% to 20%) and are forecast to be -0.9% for the full year to August 2012.

(k) The Inserts programme is almost complete and Arcadia – predominantly Wallis, Burton and Dorothy Perkins – now trade 326 concessions in 141 Bhs stores, on commercial terms and generating annual sales of £88m.

(l) Capital expenditure of £17.4m has been approved and modernisations at Cheltenham and Bolton, plus low-cost modernisations at Staines and Telford, have recently been undertaken.

These are in addition to five full overhauls at Burton on Trent, Maidstone, Chesterfield, Cambridge and Reading during the second half of 2011.

New store openings were approved at Hartlepool and Newcastle whilst two space reduction projects at Lakeside Thurrock and Handford Dean were completed.

(m) Key appointments have been made within the business whilst other business initiatives, such as a food trial with Morrisons, are being contemplated.

(n) In closing, Mr Budge reinforced his message that the business recovery will take time, but that Sir Philip remains totally committed to the task.

(o) Mr Budge invited the Trustees to let him know if any additional information was needed or if the Trustees might need more detailed input from any specialists within the business (Matthew Kay, International or Steve Masterton, Internet).

Mr Budge and Ms Gentles were thanked for their presentation and left the meeting.

3. MEMBER-NOMINATED TRUSTEE SELECTION

The Chairman reported that she, Mr Walford and the Secretary had met two very good prospective candidates on 12 March. The outcome was that the three of them were unanimous in proposing Jason Hyde, Manager of Cribbs Causeway, Bristol as the new MNT. The other Trustees were happy to take this sub-committee’s recommendation.

The Secretary was asked to run this by Darren Topp (Bhs Stores Operations Director), to ensure there were no operational issues the Trustees might need to be aware of.

4. DATE OF NEXT MEETING – INVESTMENT COMMITTEE

- TUESDAY 22 MAY 2012
- commencing at 11:00am; in the Boardroom at Marylebone

With there being no further business to discuss, the meeting closed at 4.30 pm.

[Signature]

CHAIRMAN

26/06/2012
MINUTES OF A MEETING OF THE TRUSTEES of the Bhs PENSION SCHEMES
HELD AT THE OFFICES OF TOWERS WATSON, 21 TOTHILL STREET, LONDON SW1,
ON WEDNESDAY 31 OCTOBER 2012

PRESENT:
Dr Margaret Downes
Sibhan Forey
Richard de Dombal
Jason Hyde
Phil Kitchen
Arthur Walford
Margaret Hannell
Chairman
Bhs Pension Trustees Limited

IN ATTENDANCE:
Mihir Shah
Towers Watson (from item 4)
Secretary

COMMENCEMENT TIME: 11:00am

1. CONFLICTS OF INTEREST
No Trustee or Trustee Director identified any item on the agenda which they felt might cause them to have a conflict of interest.

2. MINUTES
Draft minutes of the Trustees’ meeting held on 9 October 2012 were agreed and were signed by the Chairman.

3. MEETING WITH THE COMPANY
The Chairman summarised a meeting she and Roger Urwin of Towers Watson had with Sir Philip Green on 24 October 2012.
At the meeting, Sir Philip had been accompanied by Paul Budge, Sibhan Forey, Sir Philip’s son Brandon Green and Amish Tanna of Goldman Sachs.
The exchanges had been very friendly and broadly covered the following areas:

(a) 2012 Pension Protection Fund (PPF) levy
Sir Philip feels very aggrieved that a PPF levy of £2.4m has been charged in respect of the Bhs Pension Scheme. Sir Philip advised that he had met Alan Rubinstein (Chief Executive of the PPF) but the positive overtones of that meeting had not been manifest in the PPF’s subsequent dialogue with the Company.
Sir Philip insisted that the PPF calculation methodology is flawed and he intends to take this further – “to the top of the Government”.

(b) Investments
Investment strategy remains a key focus; Sir Philip would prefer certainty of income over increases in capital values and mentioned his ideal of securing a running yield of 4% to 5% a year. Sir Philip also expressed the view that gilts should be avoided on current pricing – with his preference being good quality, long-term corporate bonds on a “buy and hold” basis.
Roger Urwin reminded Sir Philip that the Schemes presently have approximately 40% invested in corporate bonds in some shape or form and the Schemes’ investments have performed well to date.
Sir Philip advised that Goldman Sachs have been appointed to advise the Company and it was agreed that Dr Downes, Roger Urwin and Margaret Hannell will meet Stuart Cash of Goldman Sachs to progress discussions in this area.

(c) March 2012 Actuarial Valuations
Sir Philip did not address the 2012 valuations to any great extent, but indicated that he feels these exercises are not directly related to investment strategy.
Sir Philip reaffirmed his commitment to paying £10m a year into the Schemes in the future – it was acknowledged that the private company status of Bhs Limited means these payments are effectively being met by Sir Philip and his family.
PricewaterhouseCoopers (PwC) need to be engaged in the valuation discussions, given the 30 June 2013 deadline for submission is drawing closer.

Sir Philip reiterated that the Company’s budget for pension contributions will not stretch beyond £10m a year.

Dr Downes said she felt that if the Trustees can accommodate payments of £10m a year until business profitability improves, there could be the prospect of an increase in these payments in the future – although the Company had not given an implicit promise in this area. The Trustees touched on the possibility of adding a formula or trigger being incorporated into the Recovery Plans to provide for future contribution uplifts as the business improves?

Sir Philip emphasised his commitment to the business and to funding contributions over the long-term; in support of this, he made reference to contributions being maintained for his twenty+ year tenure, or as long as the Schemes need funding.

The Trustees acknowledged that these statements give a strong indication of the willingness and affordability on the Company being able to support the Schemes. Depending on the circumstances and assurances they are given the Trustees, at least at this stage, feel they could support a twenty year recovery period.

Richard de Dombal made the point that Company profitability had slumped over the past three years; no dividends have been paid and capital expenditure has personally been ploughed into the business by Sir Philip and his family.

Whilst accepting that the Trustees are ultimately responsible for determining how the Schemes’ assets are invested, it was also accepted that it is important for the Trustees to discuss this matter with the Company and to listen to the Company’s views and have regard for them when setting investment strategy.

The Trustees agreed that the next steps are:
- the delegation to meet with Goldman Sachs as soon as possible; and
- to follow up with PwC in order to progress the March 2012 valuation discussions.

Margaret Hannell was asked to:
- fix a date and time for the meeting with Goldman Sachs; and
- speak with Paul Budge about engaging with PwC on the valuation negotiations.

[The Goldman Sachs meeting was subsequently arranged to take place on 28 November 2012.]
MINUTES OF A MEETING OF THE TRUSTEES of the Bhs PENSION SCHEMES
HELD AT THE OFFICE OF TOWERS WATSON, 21 TOTHILL STREET, LONDON SW1,
ON TUESDAY 21 MAY 2013

PRESENT:

Dr Margaret Downes
Richard de Dombal
Jason Hyde
Phil Kitchen
Arthur Walford
Margaret Hannell
Chairman
Bhs Pension Trustees Limited

IN ATTENDANCE:

Mihir Shah
Chandra Vadgama
Towers Watson (to item 9)
Bhs Pensions Accountant

APOLOGY FOR
ABSENCE:

Siobhan Forey
Bhs Pension Trustees Limited

COMMENCEMENT TIME: 10:30am

1. CONFLICTS OF INTEREST
No Trustee or Trustee Director identified any item on the agenda which they felt might cause them to have a conflict of interest.

2. MINUTES
Draft minutes of the Investment Committee meeting held on 28 February 2013 were agreed and, subject to the correction of a couple of typographical errors, were signed by the Chairman.
5. 31 MARCH 2012 ACTUARIAL VALUATIONS and BAKER TILLY COVENANT ASSESSMENT

The Trustees noted the guidance published by the Pensions Regulator on 8 May 2013. This was aimed at trustees and sponsors of defined benefit schemes with valuation dates between September 2012 and September 2013 and a summary had been included in the agenda pack.

Dr Downes reported on a meeting she had had with Paul Budge (Group Finance Director) in the company of Barbara Gentles and the Secretary on 15 April 2013.

On behalf of the Company, Mr Budge once again questioned the need for the Trustees to commission an independent covenant assessment, given he has regularly briefed the Trustees on the Company's financial position and its ability to support the Schemes.

Mr Budge had also reminded the Chairman of previous conversations during which Sir Philip Green had insisted that the Company was unable to pay any more than £10m a year fixed in aggregate to the two Schemes.

Dr Downes acknowledged that while the Company had clearly articulated its willingness to contribute to the Schemes, the Trustees must independently assess the affordability aspect. Baker Tilly, who undertook a covenant review for the Trustees in 2009/2010, had been consulted and asked to scope out the work needed to complete such a review.

Dr Downes had outlined the information and level of assistance that would be required by Baker Tilly and had advised Mr Budge that this would involve no more than was appropriate in order that the Trustees can be given a clear understanding of the Company's financial position.

Mr Budge subsequently advised Dr Downes that, on this basis, the Company will engage with Baker Tilly and provide the financial and other data Baker Tilly need in order to provide a covenant assessment for the Trustees.

The first such meeting between Baker Tilly, the Company and its advisers has been arranged and will take place on 30 May 2013.

Baker Tilly will be asked to have their report available to present at the Investment Committee meeting which is to take place on 11 July 2013.

Mr Walford made the point that even though the Company has said it can afford to contribute no more than £10m a year, the Trustees should consider seeking increased payments at a future date.