TAVETA INVESTMENTS LIMITED

MEETING OF THE BOARD OF DIRECTORS

Present: Lord Grabiner (Chairman)
Baroness Brady
Sir Philip Green
Ian Grabiner
Paul Budge
Siobhan Forey
Chris Harris
David Shepherd

In attendance: Adam Goldman (Secretary)
Brandon Green

BOARD MINUTES

Minutes of the board meeting held on 29 January 2015 were approved.

SALE OF BHS

Sir Philip confirmed that Bhs Group Limited (and its subsidiaries) had been sold to Retail Acquisitions Limited on 11th March 2015. He reminded the board that Bhs had owed the Arcadia Group some £240m at the time of the sale, £200m of which had been written off. This would put the trustees of the Bhs pension schemes in a better position than would otherwise have been the case because the amount owed by Bhs to its creditors was reduced by the sum written off. A fixed charge over property and a floating charge over non-fixed assets of the Bhs Group had been granted to Arcadia in respect of the balance of £40m.

Sir Philip reported that the pension schemes' trustees and their advisers, KPMG, had confirmed that if a security package of £55m was made available to the schemes post-sale of Bhs, the schemes should be no worse off as a result of the transaction. This would be provided through an undertaking by Arcadia to pay £15m (£5m pa for 3 years) to the pension schemes, plus the security over the £40m balance of the inter-company debt referred to above.
Sir Philip added that further steps had been taken to improve the financial strength of Bhs post-sale: its rent bill for Marylebone House had been reduced from £10.2m pa to £1.4m pa by transferring Carmen Properties Limited (the freeholder, and a company ultimately controlled by the Green family) into the Bhs Group as part of the sale transaction; Sir Philip had arranged for financing to be provided to the Bhs Group by HSBC at considerably better rates than the purchaser had negotiated, guaranteed by Arcadia Group Limited; the mortgage payable by Bhs (Jersey) Limited had been reduced from £20m to £15m and refinanced at the same beneficial interest rate with HSBC, again guaranteed by Arcadia; and certain cash items had been paid into the Bhs bank accounts.

Going forwards, it was expected that Bhs would seek to restructure its final salary pension schemes in a manner similar to that anticipated by Project Thor.

It was agreed that, once finalised, an email with attachments prepared and sent by Deloitte to KPMG be annexed to these minutes by way of further background and additional detail; together with an extract from page 15 of the board pack - "Bhs Cash and Facilities"**, which summarises the opening cash position and facilities available post-completion of the sale. Mr Grabiner added that costs had also been taken out of the Bhs business in the years following its acquisition by the Group in 2009.

Sir Philip reported that a letter had been sent by Chris Martin, the Chair of the pension trustees, to scheme members setting out details of the sale of Bhs and explaining the effect on members.

The Chairman asked about Bhs’s business plan and Sir Philip explained that they had Compass interested in taking over and refitting around 100 in-store restaurants; Metro Bank was interested in concession space; there was opportunity for franchising in India; potential for 60-70 more food stores; and discussions to be held with the supplier base regarding terms.

Baroness Brady asked about Arcadia’s concessions in Bhs stores, and Mr Grabiner confirmed that these were protected by new 3 year minimum term concession agreements (subject to earlier termination in the event of certain agreed Bhs store closures).

Sir Philip thanked Mr Budge, Ms Forey, Mr Harris and Gillian Hague for their hard work on the sale of Bhs, and complimented the management at Bhs for their support during the process.
CLOSE OF MEETING

There being no further business, the meeting closed.

[Signature]
Chairman

28.5.2015
David,

Please find our response to your e-mail dated 20 March 2015 and 23 March 2015 detailed below for your attention.

In your capacity as advisors to the pension trustees, you were provided with an Estimated Outcome Statement prepared by Deloitte LLP on 6th March (updated on 9th March) that showed a combined recovery of c£26.4m (5.3p/E) to the schemes together with explanations for any outstanding queries (provided between 6th March and 9th March).

This information was provided subject to a hold harmless letter dated 6th March, for the avoidance of doubt this e-mail and the attachment continue to be provided under those arrangements (being volume 2 of the report provided on 6th March and updated on 9th March).

The transaction for the sale of the shares in BHS Group Limited completed on Wednesday 11th March.

We have attached an updated illustrative Estimated Outcome Statement (based on our understanding of the transaction), which illustrates the estimated returns to the pension scheme in the event that an insolvency occurred immediately after the transaction completed and post completion matters occur.

The EOS indicates estimated returns to the pension scheme of c£77.9m (15.6p/E) compared to c£26.4m (5.3p/E) pre transaction. The detailed assumptions are included in the attached report and key points summarised below.

- A net £18.6m had been paid by Arcadia to Bhs Ltd in respect of a number of balance sheet adjustments relating to gift cards, store credit notes and insurance provisions pre-completion, together with the proceeds from the sale (£5.9m) of an interest in the Ealing store which was sold by BHS Properties Ltd.
- North West House has been sold by Lowland Homes Ltd (part of the Bhs Group) for £32m, with the cash being left in Lowland Homes.
- Prior to the transaction there were c£240m of intercompany balances between Arcadia and the BHS Group of which c£200m has been written off and c£40m is to be made available to the pension scheme.
- A further £4.92m is being received in respect of the sale of the Carlisle store (sold by Davenbush Ltd).

In addition, we note the following developments:
- The rent roll on the Carmen properties was a £10.2m p.a and has been reduced to £1.4m p.a plus financing (a saving of c£7.3m p.a);
- The existing Jersey mortgage has reduced from £20m to £15m; and
• Ongoing funding costs have been reduced to LIBOR plus 2% (previously c18%).

These developments are discussed in more detail below.

• Bhs will now be paying significantly less rent for the properties previously owned by Carmen Properties Limited. Carmen Properties Limited was previously ultimately controlled by the Green family and these properties were previously leased to the company at a cost of £10.2m p.a (including £1.4m payment on head lease). The ownership of Carmen Properties Limited has now been transferred to BHS Properties Limited and the properties held by Carmen Properties Limited have been mortgaged via HSBC over 5 years for £70m at 1.6% over Libor, with Arcadia providing a guarantee behind BHS for HSBC. The mortgage is secured on the Carmen properties plus Milton Keynes (owned by BHS Ltd) and Atherstone (owned by Bhs Properties Ltd). Based on LIBOR rate of 0.5% the revised ongoing cost to BHS is £2.9m pa (£1.4m pa head lease and £1.47m interest), a saving of £7.3m pa.
  • The mortgage payable by Bhs (Jersey) Ltd has been reduced from £20m to £15m, at 1.6% over Libor, and refinanced by HSBC (secured against the Jersey Property and guaranteed by Bhs and Arcadia Group Ltd), as part of the HSBC facility referred to below.
  • As previously discussed, Retail Acquisitions Limited had been negotiating a £120m facility from Farallon Finance at c.18% (interest rate plus fee charges). With the assistance of our client, a 3 year facility has been arranged with HSBC of £25m at 1.6% over LIBOR secured against property within the BHS group and guaranteed by Arcadia Group Limited. This has provided further financing cost savings for BHS going forward.
  • The £25m HSBC facility is secured on the Oxford Street property (owned by BHS Ltd) and the following freeholds; Manchester (owned by BHS Properties Ltd), Carmarthen (Bhs Ltd), Sunderland (Bhs Properties Ltd), Taunton (Bhs Properties Ltd), Grimsby (Bhs Properties Ltd). Note BHS Properties Limited is not an employer company of the pension schemes.

The result of the above is that once all post completion matters are affected, Bhs had c£57.6m cash balances available post completion together with £25m bank facility.

Package Available to BHS/Pension Schemes

I understand that Linklaters are in contact with Eversheds to confirm details and have provided Eversheds with (i) an extract from the sale and purchase agreement for the sale of the shares in BHS Group Limited; and (ii) a summary of the terms of the £40 million loan and the fixed and floating charges (attached below). Definitive documentation relating to the security package will be provided to Eversheds as soon as it is available. However, I thought it was useful to provide a summary here:

• Arcadia Group Ltd will guarantee the HSBC £40m facility (RCF £25m and Jersey Property £15m) secured on the Properties outlined above.
• Arcadia will provide to the Pension Scheme a guaranteed payment of £15m with respect to the Employer Companies obligations for 3 years commencing 11 March 2015. If agreement is reached with the Trustees in relation to a restructuring of the Schemes within this three year period, then the balance (if any) of the £15 million would be accelerated and immediately paid to the Schemes by the Seller. See the SPA extract attached below for more details on the terms of the £15m guarantee.
• A fixed charge on the BHS Ltd Property - Bristol (Cribbs Causeway) and a floating charge over the non-property assets of a number of BHS group entities will be made available to secure obligations of up to £40m due from BHS Group Limited to Arcadia Group Limited. The £40m loan from AGL to BHS Group will be capable of assignment by Arcadia Group Limited to the pension scheme. It is contemplated that, following settlement with the Trustees, AGL would assign the benefit of the security package to the scheme. See the summary attached for more details on the £40 million loan and the fixed and floating charges.

Other pension considerations

On our call on Saturday 21st March, we discussed the Material Detriment test and I have discussed this with Tony Clare. In supplying the information in this note, we have considered TPR’s guidance note in the attached link: http://www.thepensionsregulator.gov.uk/codes/code-material-detriment-test.aspx and the clearance guidance. It is clear that the key test for the purpose of any Material Detriment under these circumstances is defined as:

"Sponsor Support is removed, substantially reduced or becomes nominal".

2
It is manifest that the sponsor’s support post transaction has not been removed or become nominal. We believe that the EOS demonstrates that the support is not “substantially reduced”. We have also considered the definition of Sponsor Support as follows:

“Sponsor support consists of:
• the scheme obligations of the employer or any other person; and
• the likelihood of recovery in full for the scheme under the scheme obligations,
• and scheme obligation means a liability or other obligation (including one that is contingent or otherwise might fall due) to make payment, or transfer an asset, to:
• the scheme; or
• any work-based pension scheme, to which accrued scheme benefits have been transferred, in respect of any persons who were members of the scheme before the act or failure to act.

In our view, it is key to demonstrate the likelihood of recovery in full for the scheme under the scheme obligations. This is the test of recovery in respect of theoretical insolvency immediately prior and immediately post transaction. We believe that the EOS work demonstrates that the transaction did not reduce the likelihood of the obligations being recovered in full. In reality, neither scenario delivers full recovery but the Trustees would have recovered more post transaction than pre transaction.

In terms of the clearance guidance, our view is that the sale was not a type A event. As demonstrated in this response, the schemes will be as least as able to meet their liabilities after the sale as before.

You have raised a number of questions regarding forward looking key performance indicators. We do not believe these are relevant for the purpose of a Material Detriment test related to the transaction. We do understand that they will need to be considered as part of the upcoming actuarial valuation process. However, we would refer you to the new owners and their plans for managing stock; working capital and potential store closures etc. Our client cannot influence their plans which will impact on theoretical recoveries to the Trustees at some future unknown date(s), nor the ability of the scheme sponsor to generate cash for future deficit repair contributions.

Summary

As can be seen from the above, considerable effort has been spent in order to not only improve the ongoing position of the group but also to improve the balance sheet of the group going forward by:

• reducing ongoing funding costs;
• writing off c£200m of intercompany balances;
• improving the rental profile on the Carmen properties; and
• increasing the theoretical outcome to the pension scheme in an insolvency.

You will note that the estimated returns to the pension scheme post transaction is now estimated at c£77.9m (15.6p/E) compared to c£26.4m (5.3p/E) pre transaction leaving it in a far better position in an insolvency.

We have also addressed your specific questions in the attached word document (see above).

Kind regards

Neville

Neville Kahn
Managing Partner | Corporate Finance
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-----Original Message-----
From: Clarke, David [mailto:david.clarke@kpmg.co.uk]
Sent: 24 March 2015 07:04
To: Kahn, Neville (UK - London)
Cc: Chris_P_Martin@itslimited.org.uk; Wheeler, Andrew J; EmmaKing@eversheds.com; Paul Budge; Adam Goldman; Edwards, Nicholas; Clay, Owen; Clare, Tony (UK - Manchester); Harrison, Richard J (UK - Manchester)
Subject: Re: Project Thor

Neville,

Understood. We look forward to hearing from you shortly.

Kind regards

Dave

David Clarke
Partner
KPMG LLP
07941 215 517

On 23 Mar 2015, at 23:34, Kahn, Neville (UK - London) <nkahn@deloitte.co.uk<mailto:nkahn@deloitte.co.uk>> wrote:

Dave
I understand that earlier today summaries of the package available and extract of relevant documents have been provided to your client.
We are working through with our client the various questions / requests you have recently raised with us and hope to be able to provide further information during the course of this week.
Regards
Neville Kahn  
Managing Partner Corporate Finance  
020 7007 3017  
07802 923 145  
Sent from a mobile device

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-----Original Message-----
From: Clarke, David [david.clarke@kpmg.co.uk<mailto:david.clarke@kpmg.co.uk>]
Sent: Monday, March 23, 2015 04:15 PM GMT Standard Time
To: Kahn, Neville (UK - London)
Cc: Chris_P_Martin@itslimited.org.uk<mailto:Chris_P_Martin@itslimited.org.uk>; Wheeler, Andrew J; EmmaKing@eversheds.com<mailto:EmmaKing@eversheds.com>
Subject: Project Thor

Neville,

As discussed on Saturday, I have spoken with Chris.

In essence, if the Schemes are provided with direct and enduring security with a value of £55m in an insolvency scenario (“the Security Package”), the Trustees consider that they will be able to confirm that they are “satisfied” that the Security Package results in the Schemes being in no worse position than they were prior to the sale from an insolvency estimated outcome position.

However, as set out in my email of 20th of March, certain information is required in order for the Trustees to confirm that the Security Package does have enduring value of £55m in an insolvency scenario. If these questions are answered, the Trustees should be able to confirm their view. However, in the first instance, key considerations include:
1. The latest Deloitte EoS analysis allocates £5m of value to the Cribbs Causeway leasehold. The Trustees would therefore not be able to allocate £15m of value to it. As such, it would appear that further assets need to be added to the Security Package so that its enduring value is £55m in an insolvency scenario. Please provide details of the additional asset security proposed and the basis of its value;

1. Please confirm what assets the first ranking £25m floating charge will be held over, and what entities will be granting the security;

1. We understand that certain Bhs assets (e.g. Franchise debtors) were purchased by Arcadia/Taveta for cash pre/at completion. The Trustees are unable to attribute value to this cash as Retail Acquisitions Limited/Bhs management have confirmed that such cash is being used to fund working capital requirements of the business, and that the Bhs group is currently under significant cash flow pressure. As such, we consider that the cash held by the business will be utilised quickly.

As a result, we have asked you to explain which assets were purchased pre/at completion, what assets remained on the Bhs balance sheet post sale and how relevant assets (in particular those that would be covered by the first ranking floating charge) are expected to build back up over time. For example:

1. When will Franchise debtors next be invoiced, how much will be invoiced and what are the payment terms?
2. Will stock still be supplied on the same terms as those pre-sale (e.g. without ROT clauses being included in the supplier agreements, same payment terms, etc)?
3. Bearing in mind Retail Acquisitions Limited/Bhs have stated publicly that they are considering the future of 50 stores, what is the expected “steady state” carrying value of stock in the Bhs business post a store rationalisation programme?

1. Please supply a post-closing balance sheet or latest pre-closing balance sheet with adjustments shown for the impact of sale adjustments re: asset purchases by Arcadia, property sales, etc.

For the avoidance of doubt, the fuller set of questions set out in my email of 20 March remain of key concern to the Trustees and we would appreciate it if they could be answered in addition to the summary questions set out above. For ease, I attach my email of the 20th of March, and Chris’ email of the 10th of March wherein he requested details of the offer as originally formulated.

Kind regards

Dave

David Clarke
Partner
KPMG LLP

Mob: 07941 215 517
Email: david.clarke@kpmg.co.uk

PA
Alison Baxter
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We enclose volume 2 of our reports dated 6th March 2015 and 9th March 2015 ("the report") which has been prepared for the sole purpose of assisting and advising Taveta Investments Ltd ("the Company") on the potential options available to the Company in respect of its previously wholly owned subsidiary BHS Group Ltd ("BHS") and BHS’s subsidiaries (together “the BHS Group”) in accordance with our engagement letter dated 29 November 2013, addendum letters dated 5 November 2014 and 7 January 2015 and variation letter dated 24 November 2014.

Important Notice

This report is a draft and is expected to be superseded by our final report. This draft may contain a number of outstanding matters, identified by square brackets ([ ] ) and italics, that require clarification or confirmation by management. We reserve the right to add, delete and/or amend the report as we consider appropriate. No party may place any reliance whatsoever upon this draft of the report.

This report is confidential to the addressees of our engagement, addendum and variation letters and prepared solely for the purpose set out in our engagement, addendum and variation letters. You should not refer to or use our name or the report for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our report for any purpose whatsoever and we accept no duty of care or liability to any party who is shown or gains access to this report.

We draw your attention to the scope and basis of our work below.

Scope of Work

The scope of our work is set out in our addendum letter dated 7 January 2015 and is detailed below:

- Support Management in the provision of information to KPMG (in their capacity as advisors to the pension trustees) and / or the pension trustees in response to KPMG’s / the pension trustee’s information requests.
- Ongoing restructuring advice to the Company as required including attendance at meetings and update calls with senior management.

As agreed with you, this report is a deliverable in respect of the above scope.

Limitations

We have relied on information and explanations provided to us by management.

Our work to date has been limited by the information made available to us and the time available with Management. Our work is based on discussions with Gillian Hague, Sally Nightman, Chris Harris, Paul Budgie and Richard Burchill, and information provided to us by the Company / BHS Group.

No audit work has been performed or verification of data presented by Management.

We have not performed any valuations of any of the assets.

The insolvency values are based on high level financial and other information. We have not performed any appraisal or independent verification of assets and liabilities, so outcomes must be viewed as illustrative only.

Confidentiality

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Liability

We shall not incur any circumstances whatsoever be under any liability to any party other than the Company, for whatever the Company may or may not do in reliance on the report or any other information, opinions or advice given to the Company by us. Any further work done or advice given in relation to the engagement will be on this basis.

Post-date events

This report is issued on the understanding that management have drawn our attention to all matters of which they are aware concerning the financial position of the BHS Group which may have an impact on our report up to 26 March 2015. We have no responsibility to update this report for events and circumstances occurring after the date of this report.
Summary of terms in respect of £40,000,000 loan from Arcadia Group Limited to BHS Group Limited

Borrower: BHS Group Limited
Chargors: BHS Group Limited

<table>
<thead>
<tr>
<th>Loan amount</th>
<th>£40,000,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest:</td>
<td>Nil</td>
</tr>
<tr>
<td>Repayment Date:</td>
<td>20 years from the date of signing of the fixed and floating charge security document</td>
</tr>
</tbody>
</table>

Finance Documents
- The loan is documented through a short form 'Acknowledgement of Debt' letter from BHS Group Limited
- Security is granted through a fixed and floating charge security document

Security Package to secured the Loan amount:
- Mortgage and fixed charge over the leasehold property located at 19 The Mall, Cribbs Causeway Regional Shopping Centre, Patchway, Bristol, England BS34 5GF and registered at the Land Registry with title number GR206287 (the "Property"), together with all fixtures from time to time on that property and all related rights
- Floating charge over each Chargor's assets (other than any real property).

Representations
- Status
- Binding Obligations
Summary of terms in respect of £40,000,000 loan from Arcadia Group Limited to BHS Group Limited

- Non-conflict with other obligations
- Power and authority
- Validity and admissibility in evidence
- Governing law and enforcement
- Insolvency
- Legal and beneficial ownership

Events of Default

- Non-payment
- Other obligations
- Misrepresentation
- Insolvency
- Insolvency Proceedings
- Unlawfulness
- Repudiation

General Undertakings

- Information
- Access
- No other prejudicial conduct
- Suite of real estate covenants
- No security other than permitted security
- No right to dispose the Property
- Lender undertaking to cooperate entering into a deed of priority in case any future third party financiers insist on a first ranking floating charge

Enforcement

Right of enforcement upon the occurrence of an Event of Default which is continuing

Assignments and transfers

The Chargors may not assign, transfer or novate any their rights or obligations under the Finance Documents without the consent of the Lender.

The Lender may not assign, transfer or novate any its rights or obligations under the Finance Documents without the consent of the Chargors. The Lender will
Summary of terms in respect of £40,000,000 loan from Arcadia Group Limited to BHS Group Limited

however have the right to assign, transfer or novate any its rights or obligations under the Finance Documents to the BHS pension trustees.

A person who is not a party has no rights under the Contracts (Rights of Third Parties) Act 1999 to enforce or to enjoy the benefits of any term of any Finance Documents

English law

England and Wales
Extract from the Agreement for the Sale and Purchase of the Entire Issued Share Capital of BHS Group Limited, dated 11 March 2015, between

(1) Taveta Investments (No. 2) Limited (the “Seller”); and
(2) Retail Acquisitions Limited (the “Buyer”)

Schedule 8

1. Compromise

1.1 The Buyer will use its reasonable endeavours to:

1.1.1 reach agreement with the trustees of the BHS Pension Scheme and the BHS Senior Management Scheme to compromise the liabilities of those schemes (the “Compromise”); and

1.1.2 agree and implement such a Compromise as soon as reasonably practicable following Completion.

2. Pension Contributions

2.1 The Seller agrees that it shall make available and pay to the trustees of the BHS Pension Scheme and the BHS Senior Management Scheme £5 million in each 12 month period following Completion (the “Seller’s Pension Contribution”), which will form half of the current ongoing annual contributions to the schemes, up to a maximum payment of £15 million over a 36 month period.

2.2 [Note: Not relevant to support package]

2.3 If the Compromise is implemented within 36 months of Completion, the Buyer and Seller agree that the balance (if any) of any unpaid Seller’s Pension Contributions shall immediately be paid to the trustees of the BHS Pension Scheme and the BHS Senior Management Scheme, in such proportions as directed by the Buyer as necessary to implement the Compromise.
Project Thor
Responses to queries from KPMG/the pension trustees

<table>
<thead>
<tr>
<th>Questions from KPMG</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Security Package in respect of the BHS Pension Scheme and the BHS Senior Management</td>
<td>See response in row 6 below.</td>
</tr>
<tr>
<td>Scheme (the “Schemes”)</td>
<td></td>
</tr>
<tr>
<td>1  We understand this is to include a first ranking, £15m fixed charge over the Cribbs Causeway long leasehold property.</td>
<td></td>
</tr>
<tr>
<td>2  What are the conditions of the security — e.g. when can it be called?</td>
<td>The security can be enforced when an Event of Default occurs and is continuing. The usual suite of Events of Default (non-payment, breach of obligations, misrepresentations, insolvency, insolvency proceedings, unlawfulness and repudiation) are included in the security agreement.</td>
</tr>
<tr>
<td>3  Will the security be held directly by the Trustees?</td>
<td>The security will be held by Arcadia Group Limited (&quot;AGL&quot;) in respect of its £40,000,000 loan to BHS Group Limited. The £40,000,000 loan from AGL to BHS Group Limited and the security package will be capable of assignment by AGL to the Trustees. It is contemplated that, following settlement with the Trustees, AGL would assign the benefit of the security package to the Trustees.</td>
</tr>
<tr>
<td>4  Is the charge to be capped at £15m or is it uncapped, with the market value of the</td>
<td>The security will be capped for liabilities of £40,000,000 owed by BHS Group Limited to AGL.</td>
</tr>
<tr>
<td>Cribbs Causeway property assumed to be £15m?</td>
<td></td>
</tr>
<tr>
<td>5  What value does Arcadia/Deloitte attribute to the property in an insolvency scenario (as this is the only scenario when the Schemes would enforce their security)? We note that the latest Deloitte EoS analysis attributed a value of £5m (previously £10m) to the Cribbs Causeway property.</td>
<td>The company has in the past attributed £5m-£10m in a wind down insolvency scenario.</td>
</tr>
<tr>
<td>6  We understand that the Scheme would have a first ranking, £25m floating charge over “non-fixed” assets.</td>
<td>The security package is (i) a fixed charge/mortgage over a particular property owned by BHS Limited in Bristol (Cribbs Causeway); and (ii) a floating charge over all of the non-property assets owned by any of the</td>
</tr>
</tbody>
</table>
Both charges together will secure the £40,000,000 loan from AGL to BHS Group Limited.

The fixed charge over the property will be first ranking.

The floating charge over the non-property assets will be first ranking. The debenture allows the chargors to create further floating charges over such assets, but the AGL floating charge will rank in priority against any future floating charges. If the chargors do want to grant a floating charge in the future which ranks in priority, AGL has agreed in the debenture to cooperate and consider entering into a deed of priority to allow this to happen, but is not obliged to enter into any such document.

<table>
<thead>
<tr>
<th>7</th>
<th>Again, what are the conditions of the security – e.g. when can it be called?</th>
<th>See responses above</th>
</tr>
</thead>
<tbody>
<tr>
<td>8</td>
<td>Will the security be held directly by the Trustees?</td>
<td>See responses above</td>
</tr>
<tr>
<td>9</td>
<td>Is the charge to be capped at £25m or is it uncapped?</td>
<td>See responses above</td>
</tr>
<tr>
<td>10</td>
<td>Which legal entities does the charge cover?</td>
<td>The chargors will be: BHS GROUP LIMITED BHS LIMITED DAVENBUSH LIMITED BHS PROPERTIES LIMITED BHS PENSION TRUSTEES LIMITED LOWLAND HOMES LIMITED BHS SERVICES LIMITED (DORMANT) BHS (JERSEY) LIMITED EPOCH PROPERTIES LIMITED</td>
</tr>
<tr>
<td>11</td>
<td>Which asset classes would be covered by the security, e.g.: stocks, franchise debtors credit card receivables, cash at bank, other debtors and prepayments, etc.?</td>
<td>All non-property assets of each chargor will fall within the scope of the floating charge. However, the chargor will have the right to dispose of any of these non-property assets.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>12</td>
<td>Based on the new business plan/strategy, please confirm the expected monthly stock carrying values/profile going forward for at least the next 12 months.</td>
<td>We have been informed by our client that their business plan forecast did not have a materially different profile to that previously. We assume that you will enquire of the new owner with regards to their business plan.</td>
</tr>
<tr>
<td>13</td>
<td>Based on the new business plan/strategy, please confirm how many stores are expected to be closed over the next 12 months, and what percentage of the total, current shop floor square footage these represent.</td>
<td>We assume that you will enquire of the new owner with regards to their business plan.</td>
</tr>
<tr>
<td>14</td>
<td>Please supply details of whether commitments were obtained from any key suppliers for continuing to supply on the terms previously agreed with Bhs when it was under Arcadia group ownership (e.g. in respect of ROT, credit period terms, etc)?</td>
<td>Our expectations are that trade suppliers will continue to supply on substantially the same terms as previously agreed with BHS Limited, but no formal assurances were sought on this point.</td>
</tr>
<tr>
<td>15</td>
<td>We understand that certain Bhs assets were purchased by Arcadia at/after closing e.g. franchise debtors. Please confirm which assets were purchased, whether all of each particular asset class was purchased or whether some were left in Bhs, the net book value of the assets purchased and the price paid.</td>
<td>No BHS assets were purchased by Arcadia. For the avoidance of doubt, the cash in transit and the credit card debtor which added up to a total amount of £4.9m and related to the period pre-completion were netted-off within the net £18.6m referred to in the covering email.</td>
</tr>
<tr>
<td>16</td>
<td>Regards assets classes purchased by Arcadia which would also form part of the floating charge security (e.g. franchise debtors), please confirm the normal accretion rate for each relevant asset class per month and the usual payment profile (i.e. how quickly do balances build up, what is the invoicing cycle and how many days after invoicing are balances typically settled following invoicing)?</td>
<td>See response in row 15 above.</td>
</tr>
<tr>
<td>17</td>
<td>Please supply a post-closing balance sheet or latest pre-closing balance sheet with adjustments shown for the impact of sale adjustments re: asset purchases by Arcadia, property sales (see below), etc.</td>
<td>We have not been provided with an opening balance sheet, however, the attached EOS reflects the transactions that took place as far as we are aware.</td>
</tr>
<tr>
<td>18</td>
<td>We understand that AGL will provide a £15m guarantee to the Schemes.</td>
<td>AGL will provide a guaranteed payment of £15m to the pension schemes and the updated Deloitte EOS (see attached) has been prepared on that basis. See row 19 below for more detail on the terms of the guarantee.</td>
</tr>
</tbody>
</table>
19 What are the conditions of the guarantee — e.g. when can it be called?

See attached extract from the Sale and Purchase Agreement ("SPA") for the sale of BHS by Taveta Investments (No. 2) Limited (parent company of AGL) (the "Seller") to Retail Acquisitions Limited (the "Buyer"), which sets out details of the guarantee.

Under the SPA, the Seller undertakes to make annual contributions to the Schemes of £5 million per annum, for three years up to a maximum of £15 million.

If an agreement is reached with the Trustees in relation to a restructuring of the Schemes within this three year period, then the balance (if any) of the £15 million would be accelerated and immediately paid to the Schemes by the Seller.

20 Property

Please see a list of properties below:

<table>
<thead>
<tr>
<th>Property</th>
<th>Sold By</th>
<th>Consideration</th>
<th>Date of Sale</th>
</tr>
</thead>
<tbody>
<tr>
<td>North West House</td>
<td>Lowland Homes Ltd</td>
<td>£32m available to Lowland Homes + 2 year lease at nil rent</td>
<td>12/03/2015</td>
</tr>
<tr>
<td>Marylebone House</td>
<td>Wilton Equity Ltd</td>
<td>Not yet sold</td>
<td>Not yet sold</td>
</tr>
<tr>
<td>Ealing</td>
<td>Bhs Properties Ltd</td>
<td>£3.9m net</td>
<td>06/03/2015</td>
</tr>
<tr>
<td>Oxford</td>
<td>Bhs Ltd</td>
<td>Sublet to Topshop/Lloyds Bank at passing rent</td>
<td>12/03/2015</td>
</tr>
<tr>
<td>Carlisle</td>
<td>Davenbush Ltd</td>
<td>£4.92m</td>
<td>TBC</td>
</tr>
</tbody>
</table>

21 We understand that the Marylebone Road property (owned by Lowland Homes) was sold as part of / at the same time as the transaction

The sale of the Marylebone Road property has not been completed at this time.

22 Please can you confirm who the property was sold to, the sale value and the terms of the lease for Bhs' continuing occupation.

The sale of the Marylebone Road property has not been completed at this time.

23 Please also confirm which entity owned this property as it does not appear to be included in the Bhs property schedule.

See table above.

24 We understand that a number of other property transactions were completed in respect of the Bhs estate shortly after the disposal of Bhs by Arcadia/Taveta.

See table above.
| 25 | Please can you provide details of which properties were sold, the values obtained, the identity of the buyer and which entity owned the property pre-sale. | See table above |
Note re steps taken by Arcadia Group Limited and others in relation to the sale of Bhs Group Limited to Retail Acquisitions Limited, and impact on the Bhs pension schemes

Background
The Trustees of the Bhs pension schemes contacted tPR regarding the proposed sale of Bhs. Following a letter on 3rd March 2015 (attached) requesting an urgent meeting, a meeting was held between the company and tPR at Marylebone House on 4th March. See attached note of that meeting.

tPR wrote to Sir Philip on 5th March (see attached), confirming that it would continue to engage and setting out its understanding of the key transaction financials:

- Purchaser to provide £10m of equity
- £120m of new debt secured by fixed charge over property, schemes’ position subordinated
- £15m from AGL over 3 years to support proposed deficit recovery of £10m pa
- Schemes to have floating charge over current assets to secure £80m of the intercompany debt that assigned to the schemes (pari passu with security for the balance of the debt (£160m), which would be assigned to the purchaser)
- Transaction to complete 9th March 2015
- Purchaser to consider proceeding with a pensions restructuring post-completion

tPR wrote again on 12th March (see attached) following completion of the sale and purchase of Bhs:

- tPR will engage with Bhs and purchaser, Retail Acquisitions Ltd ("RAL")
- May have further questions for Arcadia Group
- Relevant records to be preserved

There are three areas to address:

1. Confirm that no historic activities raise moral hazard concern, eg – overcharging for shared services, assets taken out of Bhs at an undervalue or other value ‘leakage’ to the Arcadia Group.

2. Confirm that the transaction has not been to the material detriment of the pension schemes.

3. A potential post-transaction pensions restructure.
Current Position

In respect of point 1., it was believed that:

- No assets had been taken out of Bhs at an undervalue.
- Overall shared services had been charged at a fair and reasonable rate, consistent with the charges to Arcadia brands.
- Arcadia had funded, and would be writing off, £200m of the c£240m intercompany debt owed by Bhs, ie – significant value had flowed from Arcadia to Bhs and been lost.

In respect of point 2.,

- Work has been carried out between Deloitte and KPMG to agree the EOS on a pre-transaction basis: Likely recovery for the pension schemes = c£28m.
- tPR will require confirmation of this.
- The Trustees confirmed by email on 10th March 2015 that a security package of £55m would satisfy them that the transaction did not give rise to a material detriment.
- Bhs put in a better position at completion than was anticipated in tPR’s letter 5th March:
  - Bhs now paying significantly less rent for the Carmen properties that were previously leased to the company: £1.4m –v- £10.4m p.a. These properties are now owned by BHS and have been mortgaged via HSBC over 5 years for £70m at 1.6% over Libor, with Arcadia providing a guarantee behind BHS for HSBC. The mortgage is secured on the Carmen properties plus Milton Keynes (owned by BHS Ltd) and Atherstone (owned by Bhs Properties Ltd).
  - Instead of the £120m facility from Farallon Finance at c.18% (Interest rate and fee charges), SPG has arranged for a 3 year facility with HSBC of £25m at 1.6% over LIBOR (secured against property and guaranteed by Bhs and Arcadia), providing further financing cost savings for BHS. This facility is secured on the Oxford Street property (owned by BHS Ltd) and the following freeholds; Manchester (owned by BHS Properties Ltd), Carmarthen (Bhs Ltd), Sunderland (Bhs Properties Ltd), Taunton (Bhs Properties Ltd), Grimsby (Bhs Properties Ltd).
  - The mortgage payable by Bhs (Jersey) Ltd has been reduced from £20m to £15m, at 1.6% over LIBOR, and refinanced by HSBC (again secured against the Jersey Property and guaranteed by Bhs and Arcadia Group Ltd), as part of the HSBC facility (in practice to take the above £25m facility to £40m)
  - North West House had been sold by Lowland Homes Ltd (part of the Bhs Group) for £32m, with the cash being left in the Bhs Group.
  - A net £18.6m had been paid by Arcadia to Bhs in respect of a number of balance sheet adjustments relating to gift cards, store credit notes and insurance provisions pre-completion, together with the proceeds from the sale of an interest in the Ealing store (sold by BHS Properties Ltd).
A further £4.92m is being raised in respect of the sale of the Carlisle store (sold by Davenbush Ltd).

Following the surrender of the Carmen long lease at a cost of £5m, the proceeds of sale of Marylebone House by Wilton Equity Ltd (an SPG Family company) agreed pre-completion - £8.5m net - is being paid to Bhs Ltd.

Arcadia would pay £5m pa to the pension schemes for the next 3 years, matching the same figure paid by Bhs.

£200m of the intercompany debt is written off by Arcadia. £40m balance available guaranteed on completion from Bhs Group Ltd to Arcadia.

The result of the above was that Bhs would have £69.2m cash balances available post-completion together with a £25m bank facility.

In addition, routes to improve profitability have been identified prior to completion via: the Carmen properties rental saving (worth £5m cash p.a. net of interest costs/amortisation); cost initiatives implemented by management (annual value £8m); the £5m three year annual pension contribution from Arcadia; and the closure of the large loss making store (Oxford) which is losing £1m p.a. (total: £19m p.a.).

Post-completion EOS – pensions schemes expected to recover at least £28m minimum on a winding up.

Arcadia Group Ltd will guarantee the HSBC £40m facility (RCF £25m and Jersey Property £15m) secured on the Properties outlined above.

Arcadia Group Ltd in addition has a £15m charge on the BHS Ltd Property - Bristol (Cribbs Causeway), and a £25m floating charge over non-fixed assets of the BHS Group to secure the ongoing pension payments of £5m p.a. for 3 years by BHS and the £25m floating charge discussed with the Pension Scheme.

**Summary of property transactions**

<table>
<thead>
<tr>
<th>Property</th>
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<th>Date of Sale</th>
</tr>
</thead>
<tbody>
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</tr>
<tr>
<td>Marylebone House</td>
<td>Wilton Equity Ltd</td>
<td>£8.5m net + 2 year lease @ nil rent</td>
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<tr>
<td>Faling</td>
<td>Bhs Properties Ltd</td>
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<td>Davenbush Ltd</td>
<td>£4.92m</td>
<td>TBC</td>
</tr>
</tbody>
</table>
### BHS Cash and Facilities

BHS opening cash position was projected at £69m* with an additional banking facility of £25m giving it access to £94m of cash on day 1. This broke down as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash received in advance Gift Cards/Credit notes</td>
<td>6.3</td>
</tr>
<tr>
<td>VAT collected over Dec - Feb sales</td>
<td>5.5</td>
</tr>
<tr>
<td>PAYE/Ni re February payroll</td>
<td>2.1</td>
</tr>
<tr>
<td>Insurance - to cover average 1 year claims</td>
<td>1.7</td>
</tr>
<tr>
<td>Sub-total Cash to cover known future liabilities</td>
<td>15.7</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less cash in transit retained by Arcadia</td>
<td>(4.9)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from sale of West Ealing (less fees)</td>
<td>5.8</td>
</tr>
<tr>
<td>Payment for tax related items</td>
<td>7.0</td>
</tr>
<tr>
<td><strong>Sub-total cash</strong></td>
<td>23.6</td>
</tr>
<tr>
<td>Less £5m paid to reduce Jersey mortgage</td>
<td>(5.0)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from sale of North West House*</td>
<td>32.0</td>
</tr>
<tr>
<td>Proceeds from sale of Carlisle**</td>
<td>4.9</td>
</tr>
<tr>
<td>Proceeds from sale of Marylebone House</td>
<td>8.5</td>
</tr>
<tr>
<td><strong>Total after property proceeds</strong></td>
<td>64.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>5.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total cash</strong></td>
<td>69.0</td>
</tr>
<tr>
<td><strong>Net cash available from HSBC banking facility</strong>*</td>
<td>25.0</td>
</tr>
</tbody>
</table>

**CASH / FACILITIES AVAILABLE** 94.0

*Note* * £25m of NWH proceeds received into BHS Barclays accounts, balance transferred elsewhere.

*Note** Carlisle proceeds due in mid April (22 days after signing)

*Note*** HSBC facility of £40m of which £15m to pay off Jersey mortgage