RETAIL ACQUISITIONS LIMITED
(the "Company")

MINUTES OF A MEETING OF THE DIRECTORS OF
THE COMPANY HELD AT 80 High Holborn, London
ON 11 March 2015 AT 2.00 P.M.

PRESENT: Dominic Chappell (Chairman)
Mark Tasker, Stephen Bourne, Eddie Paladario, Lennart Henningson

IN ATTENDANCE: David Roberts (Olsgang), Michael Morris (RAL) and Paul Wareham
(RAL)

1. NOTICE AND QUORUM

The Chairman reported that notice of the meeting had been given to all of the directors of
the Company and that the meeting was quorate.

2. PURPOSE OF THE MEETING AND DOCUMENTS

2.1 It was noted that the meeting had been convened to consider certain matters in relation
to the Company's proposed entry into a share purchase agreement with Taveta
Investments (No. 2) Limited (the "Seller"), under the terms of which the Seller was to sell
and the Company was to purchase the entire share capital of BHS Group Limited ("BHS
Group") for £1.00 (the "Transaction").

2.2 The chairman noted that the Company had sought legal advice on the Transaction from
Olsgang LLP ("Olsgang"), and that Olsgang had provided the Company with an
exceptions-only red flag legal due diligence report of its findings (the "DD Report")
together with a covering letter from Olsgang dated 7 March 2015 summarising the key
aspects of the Company's entry into the Transaction, which the directors acknowledged
had been read and understood (the "DD Letter") as well as a short document that sought
to capture the relevant risks associated with the pension schemes of the BHS Group (the
"Pensions Risk Matrix").
2.3 The following documents were produced to the meeting and noted:

2.3.1 the DD Report;

2.3.2 the DD Letter; and

2.3.3 the Pension Risk Matrix,

together being the "Documents".

3. DIRECTORS’ DUTIES AND DECLARATIONS OF INTEREST

3.1 The Board were reminded that they needed to comply with their duties to the Company, including the duties set out in sections 171 to 177 Companies Act 2006 (the "Act"). These included a duty to declare interests in proposed transactions and arrangements with the Company and a separate and independent statutory obligation to declare interests in existing transactions and arrangements with the Company.

3.2 Each director was reminded that he also needed to comply with his duty to avoid a situation in which he has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company, unless authorised either by directors independent of the conflict, as permitted by the Act and the Company’s articles of association or in one of the other ways permitted by the legislation.

3.3 In accordance with the Act, each of the directors declared at the meeting the nature and extent of their interest in the Transaction.

3.4 It was noted that under the Company’s articles of association, each director was entitled to vote and count towards the quorum on all business to be discussed at the meeting.

4. CONSIDERATION OF THE DD REPORT AND THE DD LETTER

4.1 The Chairman referred to the DD Report, the DD Letter and the Pensions Risk Matrix to the meeting. It being noted that each of the directors had been provided with draft versions of the Pensions Risk Matrix on 6 March 2015 and of the DD Report and DD Letter on 7 March 2015.

4.2 Olswang explained to the Board that the Company should not proceed with the Transaction unless and until the contents and the consequences of the Documents had been properly explained, considered and understood by the Board.

4.3 A detailed conversation took place led by David Roberts of Olswang which focused on the following matters:
the key findings of the DD Report were discussed and David Roberts outlined the various commercial diligence (attached) issues summarised in the key findings in the DD Report which was taken as read; and

the risks outlined in the DD Letter were also discussed and the DD Letter (attached) was again taken as read.

4.4 The Board then focused then on some of the key issues surrounding their decision as to whether to proceed or not with the Transaction.

4.4.1 Outcome of negotiations with Sir Philip Green

The Board noted that despite the recommendations to seek indemnities in the DD Report, it had not been ultimately possible to procure that Sir Philip Green ("SPG") agree to indemnities in relation to several disclosed contingent liabilities that emerged from the due diligence exercise and the disclosure letter exercise. Notwithstanding, a number of these potential liabilities were the subject of further disclosure and it was felt that they were not material in the context of the transaction including the potential leasehold contingent liability of £26 million which was mitigated against by Primark actually acquitting the relevant freehold property in question and also to the trade mark claim in relation to "VINTAG MAISON". The Board and discuss the potential exposure of the Group to a claim by employees for unpaid holiday pay. The Board noted that thus far, only one employee had made such a claim but the Board agreed to monitor the situation going forward, mindful of the more than £20 million liability that John Lewis recently incurred for a similar breach. It was resolved to monitor this issue closely on completion.

Olswang confirmed (as per the DD letter), it had not been possible to negotiate into the SPA several of the conventional protections that would be available to the Company on a traditional M&A transaction due to the fact that the purchase price was £1.00 and further because SPG had agreed to leave a substantial cash and property dowry on the balance sheet of the Group to enable the Company the best opportunity to turn around the business in accordance with the management’s plan and were they unwilling to agree to additional measures. The sort of protections Olswang alluded to included not only indemnities, but an escrow account in relation to SPG’s pledged pension contributions going forward and also a retention to cover balance sheet adjustments following the net debt calculations following completion for instance or in respect of warranty claims.

During negotiations, SPG had made it clear to the board that his word was his bond and that if there was an obligation that he had given, he would honour such and the Board had taken him on his word on such matters and felt commercially satisfied that SPG would honour all pledges.

4.4.2 W&I cover

The Board noted that Olswang had confirmed that given that there was a reasonable set of warranties given by the Seller under the SPA and that further, a defensible disclosure letter process had been undertaken, it may well be possible for the Company to be able
to obtain W&I cover post completion to insure any warranty claims that arise above the £5m cap under the SPA.

4.4.3 Commercial comfort from SPG

The Board discussed the additional commercial comfort believed they were justified in taking when considering entering into the Transaction, namely that SPG had a personal interest in ensuring that the BHS Group continued to trade for years following completion, including because (i) he was exposed (the Board believed) to a potential moral hazard liability should the Group fall into insolvency over the next two or more trading years and also (ii) because the Group still provides the Arcadia concessions with a significant amount of sales revenues through the concession arrangements and a collapse of the Group would have a material affect on the performance of the Arcadia group.

In essence, although the Transaction separated the common ownership of BHS and the Arcadia groups, the groups remain very much co-jointed for the next three years, meaning that the Board was more than comforted from the oft repeated representations from SPG during the negotiations that he would work with the Board and the shareholders going forward to assist as and where necessary, in particular having regard to (i) procuring a cheaper cost of capital than the working capital facility that RAL was in the process of negotiating with Farallon, (ii) in approaching the trade credit insurers if and when required to encourage them to continue to cover BHS trading risk and (iii) to participate in any pension deficit solution that is proposed with the pension trustees including making a substantial contribution in order to ensure that a Project Thor (or equivalent) remains a realistic prospect.

4.4.4 Cash flow

Olswang reported that as the Transaction involved the acquisition of a large trading group that was loss making, it was vital that the Board was satisfied that the business would have access to sufficient cash to enable the Group to be able to meet its debts as and when they fell due and that it was appropriate to be able to understand the cash flow needs of the business for the next 12 months.

It was noted that Grant Thornton ("GT") had undertaken extensive diligence and interface with the management of BHS to understand the business plan, the turnaround plan and the cash flow needs of the business and prepared a cash flow model which had been the subject of repeated revision and scrutiny over the previous 48 hours following various changes to the terms of the SPA.

The cash flow model confirmed that on completion, the business would have access to sufficient cash to meet its debt as and when they fell due over the next 12 months, noting that it would be necessary to raise some working capital facilities and also sell some real estate assets of the Group in the first three to six months to deliver such certainty.

The Board noted that BHS had retained Vail Williams to advise on a property strategy and to confirm valuation of the property estate and it was noted that the Directors had comfort that (absent the property portfolio held by Carmen Properties Limited – which
was encumbered to RBS but which was being refinanced to HSBC for £70 million and the Jersey property which was encumbered as to £20 million, but which was being refinanced post completion) the balance of the property portfolio was unencumbered.

The Directors confirmed that Vail Williams has prepared a property valuation report for the benefit for circulation.

The Board was ultimately satisfied that a combination of the dowry left on the balance sheet by Sir Philip Green ("SPG"), the availability of the sale proceeds of North West House (which was to happen for £32m immediately on completion), the agreement by SPG to contribute further funds from the sale of Marylebone House and also the offer from SPG to help to procure a cheaper form of working capital facility than the facility that the Company was proposing with Farallon, meant that there was not only sufficient cash and assets available to meet the Group's cash flow needs, there was a reasonable buffer.

4.4.5 Importance of additional Finance

As noted, the Board discussed the fact that SPG had agreed to procure the availability of working capital finance to the Group which, although not needed immediately at Completion, would be required within the next few months and its was noted that the Board should begin negotiations with various lenders on Completion to ensure there was sufficient time to put in place working capital facilities necessary for the Group, as per the working capital model.

The Board was confident that there would be sufficient working capital facility financing on offer to the Group post completion, particularly given the unencumbered real estate assets on the Group balance sheet.

It was resolved that the Chairman would pursue such financing immediately on completion.

4.4.6 Availability of alternative finance

The Board noted additional comfort in relation to the ability to finance the trading operations of the Group – given its heavy cash requirements around the quarter dates for rent and also leading up to the critical September buying program for Christmas – it would be necessary to undertake property sales in respect of a range of assets currently unencumbered in the Group, including for instance North West House (which had been contracted to be sold on Completion) and also a surrender of the lease at Oxford Street.

Again, comfort could be taken that if there was pressure on the cash flows of the Group going forward that it would be possible to raise capital via property sales, pending the turnaround plan being put in place.

4.4.7 Availability of equity finance

The Board noted that subject to the pensions situation being discussed and an ultimate agreement being reached with the Pensions trustees and regulator, a restructure of the
pension scheme could well clear the way for the Group to raise additional equity finance as the balance sheet would benefit greatly from such an outcome.

4.4.8 \textit{Arcadia security}

The Board noted that as part of the deal that the Company had been able to negotiate, SPG had agreed that £200m of intergroup debt owing by the Company to Arcadia would be written off.

It was a condition of this write off and the Transaction however that £40m of debt would remain in place and that such would be secured by a fixed charge over a property Bristol owned by the Group for £15m and a floating charge over non-property assets of the Group for £25m.

The Board discussed whether the giving of security in this case could be judged as a preference to Arcadia and whether there was any corporate benefit flowing to the Company offering up the security within the Group.

After a discussion led by Olswang, the Board concluded that whilst there is a risk that the offering up of security for a Group in the situation of the Group is always going to be looked at in the instance of a future insolvency, the reality is that the decision to grant the security was made by the previous board of BHS and it was a condition of the transaction with SPG which delivered substantial cash and unencumbered assets to the Group as a whole that there was clearly a corporate benefit to the Group in giving the security, including not only SPG making available the dowry as mentioned but also in him agreeing to procure the writing off of £200m of liabilities off the Group’s balance sheet.

4.4.9 \textit{Pension risk matrix}

The Board also noted in passing the Pensions Risk Matrix that had previously been circulated by Olswang which was also taken as having been read. The Board noted the key findings which were:

- There is no immediate power that we are aware of that the Trustees could use to stop any of the corporate actions proposed.

- It is understood though that:

  - the Trustees consider the proposed acquisition as materially detrimental and were seeking mitigation with the involvement of the Pensions Regulator (“tPR”). The model that has been agreed is, we understand, a £15 million cash contribution from each of the Seller and the Buyer, payable over 3 years – in other words, the combined contribution makes up the £10m per annum that the employer must currently pay to the DB Schemes (the annual contribution may also increase this year following the completion of the next full triennial valuation). In addition, it is proposed that the Seller will write off around £200 million of £240 million inter-group debt and will look to take security over the remaining £40 million by way of (i) a £15 million fixed charge over a Group property; and
(ii) a floating charge of £25 million over the Group’s stock and debtors. From a pensions perspective, this is important as the Trustees will view the granting of new security to the Seller as materially detrimental to the covenant as it will reduce their recovery in the event of a future insolvency and the writing off of the £200 million loan will also reduce the mitigation options available to the Buyer going forward as part of Project Thor. The Seller has indicated that it may be prepared to release the security should a different settlement be reached under Project Thor or something similar but this is not documented in the Sale and Purchase Agreement; and

- There have apparently been discussions about the IPR and Pension Protection Fund potentially seeking an equity stake to agree to Project Thor.

- To implement Project Thor will be expensive and time consuming and there are structural problems that may arise (e.g. trying to show insolvency in a re-financed group and, based on the current structure outlined to us, it is likely that the Pension Protection Fund will seek an equity stake going forward). There is currently uncertainty about exactly what stage of agreement the parties have reached with Project Thor although it appears that currently, the Trustees and IPR recognise it is an option.

- Post-Completion, all of the implementation risk and cost will be the Buyer’s – it will be difficult for the Buyer to step into negotiations and we were told that the advice that has been given to Taveta (or Arcadia), but not Bhs, regarding Project Thor, will not be made available. There is no doubt that the advice would have been comprehensive and all of the difficult issues would have been extensively traversed so it will be expensive to replicate and there is no guarantee that it will find Project Thor or something similar to be legally possible. SPG said himself that this would be breaking new ground.

- Given the importance of the pensions issues, a separate board meeting of the Board has been convened immediately following this meeting.

4.5 After due and careful consideration of the DD Report, the DD Letter and the terms of the Documents, IT WAS RESOLVED that the Company proceed with the Transaction and that the Company hold an additional meeting of the board whereby, inter alia, a decision on the Company’s entry into the Transaction be voted on by the board, taking into account all matters discussed at this meeting.

5. CLOSE OF MEETING

There being no further business, the meeting closed.

...........................................
Chairman

10420076-1 7
PROJECT HARVEY

DRAFT BOARD MINUTES REALTING TO PENSIONS

1. Pensions

1.1 The Directors discussed the legal and financial advice that they had taken in respect of the 2 defined benefit pension schemes (the "Schemes") during the preparatory period prior to this transaction. The Directors did not consider it necessary to repeat all of that advice in this meeting (accordingly, these notes should not be taken as an exhaustive list of all of the issues and matters that the Directors took into account in respect of pensions), but there were a few points that the Directors thought it best to traverse again.

1.2 In summary; (i) very limited information was disclosed to the Directors in respect of the Schemes and all of the financial information came from Deloitte who were acting for the Seller group in relation to Project Thor (broadly, a proposed partial solution to the significant funding issues in relation to the Schemes); and (ii) nevertheless, the Directors were comfortable that it was unlikely that they would have been materially mislead in respect of the financial information (they recognise that the deficits could be larger than disclosed though) and they could see that there is a significant cumulative funding deficit in respect of the Schemes which can be looked at and potentially dealt with in various ways; including:

1.2.1 The Directors were comfortable that Bhs Limited, which is understood to be the Principal Employer and only employer of the Schemes, could, in the immediate future, meet the current ongoing annual contributions that are required to be made to the Schemes, currently in the order of £10 million per annum (which may increase this year). The Directors intend ensuring that Bhs Limited had funds to make payments of £5 million per year and the Seller had agreed to pay £5 million per year over 3 years (in total, the £10 million annual contribution):

- The Directors intend the granting of a fixed charge over property of the group in favour of the Trustees (in proportion to their respective shares of the ongoing annual contribution), to secure the £15 million Bhs Limited contribution (the fixed charge will be reduced each year by £5 million, subject to the Bhs Limited £5 million having been paid to the respective Schemes); and

- The Directors intend the granting of a floating charge over the [stock and debtors] of the Bhs group in favour of the Trustees to the value of £20 million – this charge shall rank behind any security granted in favour of any third party financiers.

1.2.2 The Directors know that if implemented immediately after Completion, the above security arrangements would add to the Trustees' security in respect of the immediate obligations of Bhs Limited in respect of the Schemes but there are 2 issues that need to be dealt with before implementation of that security:
• The first is that if implemented in its current form, it would be a short-term solution because of the financial position of the acquired group and significant funding requirements of the Schemes. For that reason, the Directors intend to discuss a Project Thor type solution with the Trustees and, as may be appropriate, the Pensions Regulator and Pension Protection Fund, as soon as possible after Completion and before committing to the 2 bullet points above – it may be that the security outlined above might be better used as part of that longer term Project Thor type solution. If such an agreement were to be possible, the Seller has agreed to accelerate any outstanding amounts of the promised £15 million into a lump sum. If the solution were not possible, the Directors intend, subject to the next bullet point, granting the charges described above;

• The Directors will have a better view of the finances after Completion and as the business turnaround plan starts to be implemented and will need to consider and take formal advice on whether the security above can properly be granted (the longer term business plan of the Directors envisages some form of pension solution along the lines of Project Thor).

1.2.3 The Directors had been told by the Seller that in the absence of a sale, further financial support would be withdrawn and that companies in the Bhs Group would enter into insolvency. On an insolvency, which the Seller advised the Directors, had been discussed with the Chair of the respective Trustees and the Pensions Regulator in relation to this transaction, the Seller's views were that the Schemes might recover no more than £50 million. According to the Seller, the Trustees thought the amount might be higher (circa. £90 million) but the Seller was adamant it would not be. Apparently, the Pensions Regulator thought that the recovery might be £70 million.

1.2.4 The Directors were not party to those discussions, and have not been given direct access to the Trustees with the exception of one accompanied discussion, but considered that by securing £15 million, having the Seller commit to paying £15 million and the granting of a floating charge of £20 million would go a considerable way to mitigating the perceived weakening of the covenant – the Directors intend discussing the Trustees' respective positions as soon as possible after Completion and when they have access to them. The Directors were of the view that a direct approach without the Seller's permission would de-rail any deal. In any event, the Directors were comfortable that the Schemes would be in a better position with an ongoing employer and the potential of a Project Thor type solution than the alternative outlined by the Buyer where they would be in insolvency imminently.

1.2.5 In addition, the Directors are mindful of 2 pertinent and important issues, namely:
- In the event that a Project Thor type solution is not possible, Bhs Limited will have to continue to fund the 2 Schemes and the financial strain will be very significant if that funding is to be meaningful inasmuch as it should at least stop the Schemes from moving backwards – the financial realities of this aspect will be more easily ascertainable after Completion when separation and savings are in process (but clearly, the Directors know that ultimately, the ability to successfully turn the business around requires some long term solution to the pension issue to make it more manageable); and

- The current proposal will have the effect of allowing the Bhs companies to continue to employ the approximately 12,500 staff (that number will fluctuate as the business plans are implemented) which the Directors consider important given that the current financial position of the business and Schemes is not of the employees' making.