Dear TITLE / NAME

31 March 2016 triennial valuation

The Trustee Board, supported by its independent advisers, has completed the Scheme’s triennial valuation as at 31 March 2016 and agreed ongoing terms with the Company.

The Directors are pleased to announce a favourable outcome: Company deficit contribution payments have been increased significantly while the Recovery Period (the target timeframe for eliminating the Scheme’s funding deficit) has been reduced slightly. Further details are set out below.

Background to the valuation

The first step in the process was to agree with the Company the assumptions which would underpin the valuation calculations. Key financial assumptions relate to future inflation expectations and the returns the Scheme’s assets should be reasonably able to generate. In the latter case, a prudent allowance for the return on the Scheme’s assets was agreed between the Trustee Board and the Company.

On the demographic side, anticipated longevity is clearly an important consideration too.

In all respects, the Trustee Board’s objective was to adopt a prudent and cautious approach, as had been the case for the 2013 and previous valuations; the Company supported this stance.

The valuation results

The following table shows how the Scheme’s funding position has changed since its March 2013 triennial valuation:

<table>
<thead>
<tr>
<th>Description</th>
<th>31 March 2013</th>
<th>31 March 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>ASSETS AT THE VALUATION DATE (excluding members' AVC accounts)</td>
<td>£264.3m</td>
<td>£241.5m</td>
</tr>
<tr>
<td>'TECHNICAL PROVISIONS' (estimated value of the Scheme's liability to provide all members' benefits in full)</td>
<td>(£419.7)m</td>
<td>(£411.2)m</td>
</tr>
<tr>
<td>FUNDING DEFICIT</td>
<td>(£155.4)m</td>
<td>(£169.7)m</td>
</tr>
<tr>
<td>FUNDING LEVEL (Assets divided by Technical Provisions values)</td>
<td>63%</td>
<td>59%</td>
</tr>
</tbody>
</table>

While the Scheme’s assets performed in line with expectations, given the benefit payments it has made during the intervening three-year period, its liabilities have increased at a disproportionately higher rate since the 2013 valuation. This is mainly due to the continued decline in the yields available on Government Gilts, the basis on which liabilities are assessed: a fall in Gilt yields results in a higher value having to be placed on the Scheme’s liabilities. The level of deficit contributions paid by the Company and the fact that inflation
Arcadia Group Senior Executives Pension Scheme
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was lower than expected during the inter-valuation period each served to improve the Scheme’s funding position a little.

Recovery Plan
The Trustee Board and the Company have agreed a substantial and immediate increase in deficit funding contributions, plus a further step-up in contributions in 2019, as follows:

Contributions paid:
- to August 2016 £ 9.2m a year
- from September 2016 to August 2019 £14.5m a year
- from September 2019 to March 2026 £15.8m a year

If the assumptions underpinning the Recovery Plan are borne out in practice, the Scheme’s deficit will be eliminated ten years from the valuation date, that is, by 31 March 2026.

This is a slight improvement on the position agreed for the March 2013 valuation, which was for the deficit to be cleared by 31 December 2026.

A key factor for the Trustee Board in setting its funding target is an assessment of the Company’s financial strength or “covenant”. The Trustee Board commissioned an independent review of the Company’s covenant from Mr Taylor Dewar of Ernst & Young. Mr Dewar’s report concluded that the Company was in good financial shape, but that the contributions the Trustee was seeking and subsequently secured (when aggregated with those of our sister scheme, Arcadia Group Pension Scheme) were at the top end of what the Company could reasonably afford to pay, given its other commitments and business requirements. The Trustee Board had regard for all these factors when agreeing its Recovery Plan with the Company.

Hypothetical Winding-up Position
Although there are no plans to do so at present, we need to tell you what would happen if the Scheme were to wind-up.

If a wind-up had started on 31 March 2016, the Actuary estimated that the Scheme’s assets were £215m less than the amount then needed to secure all members’ benefits with an insurance company. Insurers are obliged to take a very cautious view of the future but need to make a profit too, which is why these costs are so expensive. By contrast, the ongoing funding position assumes that the Company will continue in business to support the Scheme, as it has done in the past.

The Scheme’s assets as at 31 March 2016 represented 53% of the costs of fully buying-out or securing members’ benefits with an insurer.

Governance
I would like to reassure you that the Trustee Board takes its governance duties very seriously. The Board has, for many years, benefited from the appointment of two independent directors who have never worked for or had any business connection with Arcadia Group Limited. In addition, the Board has two member-nominated directors.

The Trustee Board also appoints its own professional advisers so that it has totally independent and expert advice in all aspects, to assist with its management of the Scheme.

Several years ago the Trustee Board appointed a Joint Investment & Funding Committee (JIFC) which works with our sister scheme, Arcadia Group Pension Scheme. The JIFC has delegated responsibilities in relation to scheme funding, investment, governance and related matters. Both of the Scheme’s independent directors sit on the JIFC while one of them, Jonathan Clarke, is Chairman of the JIFC.
In summary

The Trustee Board believes it has secured a good outcome to the 2016 valuation, which significantly improves the funding of the Scheme for its members.

The Board will continue to regularly monitor the Scheme and keep members informed on its development. Annual funding updates take place in the years between full valuations being undertaken and the 31 March 2017 review will get underway in due course. The Scheme’s next full valuation will take place no later than as at 31 March 2019. In the ten months since the 31 March 2016 valuation date, the Scheme’s assets have increased at a slightly greater rate than the growth in its liabilities, such that the Scheme’s approximate funding level was 63.5% as at 31 January 2017.

If you have any questions on the foregoing or if you would like a copy of the full valuation report and related documents, please contact Kevin Waller, Secretary to the Trustee: telephone number: 020 7927 0392; email address: kevin.waller@arcadialogroup.co.uk.

You may have seen recent press comments regarding the Arcadia Group pension schemes, including statements that the Trustee Boards are not independent and that there has been difficulty getting information about the Schemes. The Trustee Board firmly believes that its priority is to communicate with its Scheme members first and we will be sending a copy of this letter to the Chairman of the Work & Pensions Select Committee for information.

Yours sincerely

Peter Baverstock
Chairman