

Written submission by Chris Martin, Chair of Trustees of the BHS Pension Schemes

BHS sale and pension scheme security package

- 1. What was your understanding of the security package offered to the BHS pension schemes on the sale of BHS Ltd in March 2015, incorporating what you were offered, by whom and on what terms?**

The Trustees set out their high level requirements for some form of support or mitigation package in an email to Deloitte on 4th March. The first formal response on this was, I believe, Deloitte's email of the 6th March 2015. This emails described the proposal as:

"Offer to the Pension Scheme

Management has confirmed the principles of the offer to the pension scheme are as follows;

- £15m provided over 3 years committed by a Guarantee from Arcadia Group Limited
- £15m provided over 3 years from the purchaser
- A floating charge over the stock in the business capped at £20m.
- £80m of the current Arcadia Group limited intercompany loan balance to be assigned to the pension scheme.

The details in relation to the above are to be finalised over the coming days and are therefore subject to change / clarification."

On the basis that this was a response to the Trustees request, we understood this to be some form of mitigation for detriment to the sponsoring employer's covenant although it was never made clear to the Trustees precisely what the mitigation was in respect of or indeed what was being sought in return. In parallel we were seeking to quantify the detriment through the work being carried out by KPMG.

- 2. How was this package arrived at and what was your involvement in its negotiation?**

Please see above in relation to the background to the security package. The Trustees were then involved in discussions around the form and quantum of the security package. We set out our minimum requirements to Deloitte on the 10th March. Despite chasing in the lead up to the sale we only received formal confirmation of what was being proposed in an email from Linklaters on 23rd March. This confirmed £40m fixed and floating security plus £15m of contribution support. Arcadia was not willing to negotiate the quantum or form of the security package.

- 3. Were you given written assurance of this package at any stage and, if so, when and by whom?**

See above in relation to the initial proposal set out in an email from Deloitte on the 6th March and final confirmation by way of Linklaters email of 23rd March.

- 4. What was your view of the adequacy of the package in ensuring that the pension schemes faced no material detriment from the sale?**

In the time available and with inconsistent/incomplete information it was not possible for KPMG to complete a full analysis of detriment to the sponsoring employer's covenant so we could not form a definitive view on the adequacy of the proposed package. However as the

vendor was not seeking clearance from tPR it would have remained at risk from their powers if it was later concluded that the security package was inadequate. At no point did the Trustees confirm that they considered the mitigation to be adequate. Rather, we reserved our position whilst trying to understand exactly what was being offered and what would be sought from the Trustees in return.

5. Did your understanding of the security package change over time and, if so, how, when and why?

Hopefully my responses in 1 to 3 above cover this. It also became apparent when the SPA extracts were shared with the Trustees that the security package was in part at least intended to support a Project Thor style restructuring (with provisions for early payment of the contributions etc.).

6. When did you become aware of the side letter from Arcadia to Dominic Chappell dated 11 March 2015 and how, if at all, did it change your understanding of the security package?

We first became aware of the side letter when the SPA extracts were provided by Linklaters. Although we pursued the issue of the side letter its relevance had by then fallen away.

7. At what point were you first told that the floating charge was being reduced in line with the former owner's contributions to the pension fund? What, if any, difference did this make to your understanding of the security package?

We became aware that the floating charge would be reduced in line with contribution support payments from Arcadia when we received the SPA extracts from Linklaters. This understanding reduced the value of the security package to the Trustee although there were significant other issues (in particular the ability for competing/higher ranking security to be granted) that were of more immediate concern.

8. How much of the security have the pension schemes received?

The security package proposal was withdrawn (having not been put in place) in a call on the 7th October 2015. The Trustees understand that Arcadia honoured its contribution support obligations to BHS Limited and hence BHS and RAL as its owners received the benefit in this respect.

Chris Martin

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