

The Pensions Regulator
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1 June 2015

Email

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Our Ref AEH\CFB\33189-5

Your Ref C2263848

By Email to

Dear Sirs

Notices under section 72 of the Pensions Act 2004 (the "Notices") regarding BHS Pension Scheme and BHS Senior Management Scheme (the "Schemes")

1. We refer to our letters dated 30 April 2015 and 7 May 2015 under the cover of which we produced a number of documents to you pursuant to the Notices (the "Productions").
2. Our letter of 30 April 2015 enclosed a schedule setting out the documents and information produced to you on that date pursuant to each of the Requests (as defined within that letter). We now enclose an updated (and in some places corrected) version of that schedule with some additional information for the period up to and including 15 May 2015. We also attach a tracked version so that you can see the changes made.
3. Since making the Productions it has also come to our attention that two documents which we had excluded from the Productions, on the basis that they were privileged, are in fact disclosable. Whilst those documents appeared from our review to be draft lawyer work product and therefore privileged, it has been brought to our attention that those documents were in fact disclosed to the sellers and that accordingly any privilege no longer attaches to those documents.
4. We accordingly enclose copies of the relevant documents with this letter and apologise for their omission from the Productions.

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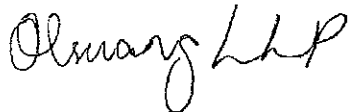
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5. We further enclose documents relating to amendments made to the ACE loan note instrument (referred to in the enclosed schedule). These documents were entered into after our collection process had been undertaken and accordingly were not included within the Productions.
6. We understand that the small number of documents initially produced to you by email on 30 March 2015 have now been formally produced to you through the Relativity platform.

Yours faithfully



OLSWANG LLP

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SCHEDULE TO LETTER FROM OLSWANG TO THE PENSIONS REGULATOR AS AT 15 MAY 2015

RESPONSE TO REQUESTS FOR INFORMATION

	Request	Reference in letter	Comments
Dominic Chappell			
1.	<p>A copy of all correspondence relating to the sale of BHS to RAL, or any issues arising from that purchase, from 1 January 2013 to date between yourself and:</p> <ul style="list-style-type: none">a. the Arcadia Group Companies including all subsidiaries ("Arcadia")b. any companies in the Taveta Group including all subsidiaries ("Taveta"),c. BHS group companies and all subsidiaries ("BHS Group"),d. Sir Philip Green and Lady Christina Green,e. Any parties representing any of the forgoing companies or individuals, <p>For the avoidance of doubt this is to include, but is not restricted to, any correspondence sent from personal accounts (including but not limited to email and SMS) of individuals.</p>	DC 1(a)-(e)	Relevant correspondence has been provided via the Relativity platform.
2.	Details of any financial benefit, if any, DC has personally received, or have	DC 2.	Dominic Chappell has acquired a 90% shareholding in

	been received from an entity of which DC is associated and connected, from the sale of BHS to RAL		<p>RAL, which is now the 100% owner of the BHS Group. Since completion of the acquisition of BHS, Dominic Chappell has received a total of £1,789,250 (net):</p> <ul style="list-style-type: none"> - £69,250 of which was paid by BHS by way of remuneration as an employee since 11 March 2015; and - The remainder is in relation to sums due from RAL to Dominic Chappell, which have been paid to Dominic Chappell or his associated company by RAL with the benefit of intra-company loans from BHS or BHS group companies to RAL.
3.	Details of any financial benefit DC has personally received, or have been received from an entity of which DC is associated and connected, from Arcadia, Taveta, BHS Group, Sir Philip Green, lady Christina Green, or any parties representing any of the forgoing companies or individuals	DC 3.	Other than as outlined above, Dominic Chappell has not received any additional financial benefit.
4.	The RAL Shareholders' Agreement and any related documentation including any side letters	DC 4.	The shareholders of RAL have not entered into a shareholders' agreement.
5.	<p>All correspondence between yourself and the other directors of RAL relating in any way to the establishment of RAL, the acquisition of BHS or any issues resulting from the purchase of BHS from RAL</p> <p>For the avoidance of doubt this is to include, but is not restricted to, any correspondence sent from personal accounts (including but not limited to email and SMS) of individuals.</p>	DC 5.	Relevant correspondence has been provided via the Relativity platform.

6.	Details of any debt or equity funding provided by DC to RAL, including any documentation relating to that funding.	DC 6.	None.
7.	Details of any business relationships between DC and Arcadia, BHS Group, Taveta or with the ultimate shareholders of Taveta, in the period from 1 Jan 2010 to the current date.	DC 7.	<p>. Dominic Chappell previously dealt with Arcadia in early 2014 when he was asked to assist Paul Sutton with Paul Sutton's intended purchase of BHS. Apart from this, however, the relationship between the parties commenced at the end of 2014 when Dominic Chappell – following the failure of Paul Sutton's discussions with Sir Phillip Green – began discussions with Sir Phillip Green in respect of a potential acquisition of BHS through RAL.</p> <p>Other than in relation to the purchase of BHS, Dominic Chappell has no business relationship with Arcadia or Taveta, nor with the ultimate shareholders of Taveta</p>
Retail Acquisition Limited ("RAL")			
8.	Details of directors and shareholders of RAL both at the time of purchase of BHS by RAL and at the date of reply to this letter	RAL 1(a)	<p><u>Details of shareholders</u></p> <p>At the time of purchase and at the date of reply to this letter, the shareholders of RAL, by number of ordinary shares, are as follows:</p> <ul style="list-style-type: none"> - Dominic Chappell: 900 shares - Edward Parladorio: 50 shares - Stephen Bourne: 25 shares - Mark Tasker: 25 shares

			<p><u>Details of directors</u></p> <p>At the time of purchase of BHS by RAL, Edward Parladorio, Mark Tasker, Dominic Chappell, Stephen Bourne and Lennart Henningson were directors of RAL.</p> <p>As of 28 April 2015, Edward Parladorio, Dominic Chappell, Lennart Henningson and Keith Smith are directors of RAL.</p>
9.	Full financial details for RAL at the time of purchase of BHS by RAL and at the date of reply to this letter, including all forms of funding (debt, or equity) to RAL and copies of any agreements setting out the terms of that funding.	RAL 1(b)	<p>RAL's shareholders subscribed for their shares in RAL at par.</p> <p>RAL obtained a loan of £5 million from Allied Commercial Exporters Limited (ACE).</p> <p>A copy of the loan agreement is at: OLS00000952</p> <p>A copy of the legal charge is at: OLS00000941</p> <p>As part of the ACE funding, BHS issued J9 Properties Limited (a wholly owned subsidiary of ACE) a loan note to the value of £3.645 million, This loan note has now been terminated and replaced with a loan note for £2.585 million (see row 21 below and the documents enclosed with this schedule).</p>
10.	Full details of all professional advisors used by RAL since incorporation.	RAL 1(c)	RAL has instructed the following advisors (lead advisors are noted in brackets):

			<ol style="list-style-type: none"> 1. Olswang LLP (David Roberts), 90 High Holborn, London WC1V 6XX, legal advice 2. Grant Thornton (Paul Martin), 30 Finsbury Square, transaction advisory services 3. River Rock Securities (Valerie Bin), 3rd Floor, 8-10 Grosvenor Gardens, London, SW1W 0DH, fundraising 4. Harbottle & Lewis (Jo Sanders), Hanover House, 14 Hanover Square, London, W1S 1HP, legal advice 5. Bell Pottinger (Gavin Davis), Holborn Gate, 330 High Holborn, London WC1V 7QD, PR 6. Slate Campaigns (Jonathan Hawker), 3rd Floor 14 Hanover Street, London, W1S 1YH, PR
11.	A copy of any or all business plans or proposals put together by RAL in relation to the purchase of BHS and the subsequent management of BHS.	RAL 1(d)	<p>Project Harvey proposal dated 11 December 2014: OLS00001040</p> <p>Project Harvey Proposal to Vendors dated 8 January 2015: OLS00001041</p> <p>Project Harvey proposal dated 12 January 2015:</p>

			OLS00001042
12.	A copy of all internal correspondence between directors and shareholders of RAL. For the avoidance of doubt this is to include, but is not limited to, all digital media.	RAL 1(e)	Relevant correspondence has been provided via the Relativity platform.
13.	The RAL shareholder's agreement and any related documentation including any side letters.	RAL 1(f)	The shareholders of RAL have not entered into a Shareholders' Agreement.
14.	Details of any business relationships between RAL or any of its directors or shareholders and any companies in the Taveta group including all subsidiaries ("Taveta") or with the ultimate shareholders of Taveta, in the period from 1 January 2010 to the current date	RAL 1(g)	No business relationships – other than those arising as a result of the acquisition of BHS by RAL – exist or have existed between RAL, its directors or shareholders and any companies in the Taveta group, nor with any of the ultimate shareholders of Taveta.
15.	A complete chart setting out the structure of BHS and all subsidiaries with full details of the shareholdings and directors immediately after the sale of BHS to RAL.	RAL 2(a)	A group structure chart can be found at: OLS00001039
16.	Full details of any changes to shareholders and directors since immediately after the sale of BHS to RAL to date.	RAL 2(b)	<u>Following completion (on 11 March 2015) Mark Tasker and Stephen Bourne resigned their directorships of RAL.</u>
17.	A copy of all legal documentation forming the basis of the sale of BHS to RAL along with any legal documentation that sets out the basis on which any shared ongoing services operate and are to transition to a stand-alone basis. To the extent that this is not set out in legal documents, please provide full details of the sale transaction and shared services.	RAL 2(c)- (d)	The Share Purchase Agreement between Taveta Investments (No. 2) Limited and RAL can be found at: OLS00000846 The accompanying Stock Transfer Form in respect of the entire issued share capital of BHS Group Limited

	<p>In the event the details above are not shown in documentation requested above, please provide a complete list of all the assets that made up the sale of BHS to RAL.</p>	<p>can be found at: OLS00000871</p> <p>A Deed of Release entered into between BHS and Arcadia as part of the transaction is available at: OLS00000870</p> <p>Share Purchase Agreement between Nautilus and BHS Properties in respect of Carmen: OLS00000994</p> <ul style="list-style-type: none"> - Written Resolution of the sole member of Carmen Properties Ltd: OLS00000979 - PropCo resolutions: OLS00000847-54; OLS00000856-67 - Dominic Chappell: Consent to act as a director of Carmen: OLS00000980 <p>Transitional Services Agreement between BHS and Arcadia: OLS00000845</p> <p>Management Services Agreement between RAL and BHS Group Limited: OLS00000885</p> <div style="background-color: black; height: 20px; width: 100%;"></div> <p>Signed points of principle between Swiss Rock Ventures and Arcadia: OLS00001045</p> <p>Our clients intend to provide further background</p>
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			information about the sale of BHS to RAL shortly.
18.	An index of all documents that were provided, or made available, to RAL as part of any due diligence prior to the purchase of BHS by RAL.	RAL2(e)	Data Room Index: OLS00001047
19.	<p>A copy of all correspondence between RAL and:</p> <ul style="list-style-type: none"> i) The Arcadia group companies including all subsidiaries ("Arcadia") ii) Taveta iii) BHS iv) BHS group companies and all subsidiaries ("BHS Group") <p>For the avoidance of doubt this is to include all correspondence from work and personal email accounts or any other media platform from any individual connected to or holding themselves out as representing any of the companies within any of these groups.</p>	RAL2(f)(i)-(iv)	Relevant correspondence has been provided via the Relativity platform.
20	A copy of correspondence between RAL and Grant Thornton, including copies of any advice provided by Grant Thornton	RAL2(g)	Relevant correspondence has been provided via the Relativity platform.
21.	Details of any benefit by RAL or any of the directors or shareholders of RAL further to the purchase of BHS by RAL. For the purpose of this request benefit is to include the transfer of any asset out of BHS to RAL or to any of the directors or shareholders of RAL or their associates.	RAL2(h)	<p>Lowland Homes, a subsidiary of BHS, has made short term inter-company loan to RAL for an amount of £6.25 million.</p> <p>As part of the funding package from RAL, BHS Group issued a loan note to J9 Properties Limited (a wholly-owned subsidiary of ACE) for £3.85 million, following completion. This was subsequently amended as per the</p>

		<p>enclosed documents (the "Loan Note").</p> <p>Lowland Homes also loaned BHS Group £750,000 to enable it to make a payment under the Loan Note.</p> <p>BHS has loaned RAL £570,000 in order to make payments due to Dominic Chappell.</p> <p>The RAL directors' remuneration was as follows (which was within the agreed remuneration packages, including contingent completion / success bonuses which were paid following completion):</p> <ul style="list-style-type: none"> • Edward Parladorio - £460,000 plus VAT; • Stephen Bourne - £387,500 plus VAT; and • Mark Tasker (NED) - £387,500 plus VAT. <p>The relevant provisions of each of the directors' contracts under which they are entitled to such sums are as follows and are shown with the corresponding production numbers for ease of reference:</p> <ul style="list-style-type: none"> • Edward Parladorio – clauses 4 and 5 (see OLS00001065); • Stephen Bourne – clauses 4 and 5 (see OLS00001516); and • Mark Tasker – clauses 5 and 6 (see OLS00001062). <p>The following directors of RAL (other than Dominic</p>
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			<p>Chappell, as to which see row 2 above) have received the following one-off payments from BHS representing remuneration sums paid before these individuals were set up on the BHS PAYE system:</p> <ul style="list-style-type: none"> • Lennart Henningson - £15,000; and • Keith Smith – £27,500. <p>Lennart Henningson has additionally received a payment of £50,000 from Swiss Rock Ventures Plc, a company controlled by Dominic Chappell.</p>
22.	All correspondence with potential providers of funding to BHS, including with credit insurers and any file notes relating to these discussions.	RAL2(i)	<p>Relevant correspondence has been provided via the Relativity platform.</p> <p>See also letter and term sheet with Farallon Capital Europe: OLS00001043. Although please note that the proposed loan from Farallon was not proceeded with.</p>
23.	Confirmation of the amount and terms of all debt and equity funding provided by RAL to BHS from the point of acquisition to the current date. Please provide copies of any documentation setting out the terms of such funding.	RAL2(j)	<p>RAL subscribed for shares in BHS to a value of £10 million. This is set out in the SPA at document: OLS00000846 and in board minutes of RAL approving the equity investment, available at document: OLS00000970. £5 million of this amount remains due and owing.</p> <p>RAL has not provided any debt funding to BHS.</p>
24.	All Board minutes and supporting papers for RAL since incorporation	RAL 3	Memorandum and articles of association of Swiss Rock

		<p>Ventures Limited: OLS00000990</p> <p>Certificate of Incorporation of Swiss Rock Ventures: OLS00000991</p> <p>Swiss Rock Ventures Limited minutes appointing Dominic Chappell, Steven Bourne and Mark Tasker as directors: OLS00000975</p> <p>Swiss Rock Ventures Minutes of Meeting dated 20 November 2014: OLS00000977</p> <p>Swiss Rock Ventures Minutes of Meeting dated 5 December 2014: OLS00000976</p> <p>Swiss Rock Ventures Minutes of Meeting dated 20 November 2014: OLS00000978</p> <p>Swiss Rock ventures meeting minutes approving change of name dated 2 March 2015: OLS00000993</p> <p>Written resolution: OLS00000992</p> <p>RAL Minutes of Meeting dated 11 March 2015 considering pensions issue: OLS00001013</p> <p>- Draft version: OLS00001046.</p> <p>RAL meeting minutes approving MSA: OLS00000969</p>
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			<p>RAL Minutes approving the equity investment of £10,000,000 in BHS Group Limited: OLS00000970</p> <p>RAL minutes approving entry into a facility agreement with ACE for £5,000,000: OLS00000971</p> <p>Additional minutes were enclosed with our letter dated 30 April 2015 and are enclosed with our letter dated 7 May 2015.</p>
BHS Group Limited ("BHS")			
25.	A complete chart setting out the structure of BHS and all subsidiaries with full details of the shareholdings and directors immediately after the sale of BHS to RAL.	BHS 1(a)	See response to RAL 2(a) in row 15.
26.	Full details of any changes to shareholders and directors since immediately after the sale of BHS to RAL to date.	BHS 1(b)	<p><u>Changes to shareholders</u></p> <p>The ownership of the entirety of BHS Group Limited's share capital was transferred to RAL on 11 March 2015</p> <p><u>Changes to directors</u></p> <p>On 31 March 2015, the directorships of Paul Budge, Richard Burchill, Michelle Gammon and Philip Green were terminated. Secretary Adam Goldman's appointment was also terminated.</p> <p>On 31 March, Dominic Chappell and Lennart Henningson were appointed as directors. Keith Smith</p>

			<p>and Dominic Chandler were appointed directors on 20 March 2015, followed by Darren Topp on 28 April 2015.</p> <p>Letters of resignation of directors of BHS Group Ltd and its subsidiaries: OLS00000872- OLS00000882.</p> <p>Appointment of new Directors: OLS00000886</p>
27.	<p>A copy of all legal documentation forming the basis of the sale of BHS to RAL along with any legal documentation that sets out the basis on which any shared ongoing services operate and are to transition to a stand-alone basis. To the extent that this is not set out in legal documents, please provide full details of the sale transaction and shared services.</p> <p>In the event the details above are not shown in documentation requested above, please provide a complete list of all the assets that made up the sale of BHS to RAL.</p>	BHS 1(c)-(d)	See response to RAL 2(c) - (d) in row 17.
28.	<p>A complete list of all assets currently held by BHS at the date of answering this letter</p>	BHS 1(e)	<p>As BHS was acquired as part of a share sale, rather than an asset sale, no list of assets has been compiled.</p> <p>However please see the property list in the SPA and a consolidated balance sheet from Period 5 2014/2015 at: OLS00000441 and a consolidated balance sheet from Period 7 attached.</p>
29.	<p>An index of all documents that were provided, or made available, as part of any due diligence prior to the sale of BHS to RAL.</p>	BHS 1(f)	Data room index: OLS00001047

30.	<p>A copy of all correspondence between BHS and:</p> <ul style="list-style-type: none"> i) The Arcadia group companies including all subsidiaries ("Arcadia") ii) Taveta iii) BHS group companies and all subsidiaries ("BHS Group") iv) RAL <p>For the avoidance of doubt this is to include all correspondence from work and personal email accounts or any other media platform from any individual connected to or holding themselves out as representing any of the companies within any of these groups.</p>	BHS 1(g)(i)-(iv)	See response to DC5 in row 5.
31.	<p>Confirmation of the amount and terms of all debt and equity funding provided to BHS from the point of sale of BHS to RAL to the current date. Please provide copies of documentation setting out the terms of such funding.</p>	BHS 1(h)	<p>RAL subscribed for £10 million of new shares in BHS Group on completion (see row 23 above). £5 million of the equity funding remains due and owing</p> <p>A loan facility was taken with HSBC, the documents for which are noted below:</p> <p style="text-align: center;">HSBC Loan Facility dated 26 March 2015: OLS00000944</p> <p>A copy of the Jersey security interest related to this loan facility is enclosed.</p> <p>A further loan was taken in respect of Carmen Properties Limited, a subsidiary of the BHS Group. The</p>

			<p>relevant documents for this transaction are below:</p> <p>HSBC Loan Facility: OLS00000942</p> <p>Third party legal charge: OLS00000920</p> <p>Debenture: OLS00000921</p> <p>English mortgage documents, a Jersey security interest agreement and Northern Irish legal mortgages / charges are enclosed.</p> <p>A loan of £750,000 was made to BHS, by Lowland Homes. This was to be used to pay monies due to Allied Commercial Exporters Limited ("ACE") under the terms of the Loan Note.</p>
32.	All Board minutes and supporting papers for BHS since the date of sale of BHS to RAL	BHS 2	<p>BHS Group Ltd and subsidiaries' meeting minutes dated 11 March: OLS00000869, OLS00001003-8</p> <p>BHS Properties Ltd meeting minutes dated 11 March 2015 (and written resolution) approving entry into mortgage agreement with ACE: OLS00000972-3</p> <p>BHS Group Limited and subsidiaries' meeting minutes dated 13 March 2015: OLS00001009-12, OLS00000963-5</p> <p>BHS Group Limited board minutes approving the issue of £3,645,000 unsecured loan notes to J9 Properties:</p>

		<p>OLS00000974</p> <p>BHS Group Limited board minutes (undated) concerning the proposed entry into a facility agreement with HSBC: OLS00000295</p> <p>BHS Group Limited board minutes dated 18 March: OLS00000590</p> <p>BHS Group Limited board minutes dated 20 March 2015: OLS00000763</p> <p>BHS Group Limited board minutes dated 24 March 2015: OLS0000075</p> <p>BHS Group Limited board minutes dated 25 March 2015: OLS00000764</p> <p>- Matters arising from meeting: OLS00000766</p> <p>Agenda for BHS Group Limited Board Meeting dated 26 March 2015: OLS00000591</p> <p>BHS Corporate governance cover note: OLS00000767</p> <p>BHS Board and committee structure chart: OLS00000903-4</p> <p>BHS Group Limited board minutes dated 9 April 2015:</p>
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			<p>OLS00000896</p> <ul style="list-style-type: none"> - Agenda for BHS Meeting dated 9 April 2015: OLS00000762 - Schedule of matters reserved for the board: OLS00000769 - Audit Committee Terms of Reference: OLS00000770 - Nomination Committee Terms of Reference: OLS00000771 - Remuneration Committee Terms of Reference: OLS00000772 <p>BHS Group Ltd agenda for board meeting to be held on 17 April 2015: OLS00000958</p>
33.	<p>Full details of all intra-group charges between BHS and any connected companies within the BHS Group and Arcadia and Taveta and RAL (collectively the "Wider Group"); including management charges and the amounts paid by or to BHS, whether settled at the time or by way of increases in intra-group debt. For each charge, please provide the basis of the cost allocation and explanation as to why the costs are appropriate (e.g. benchmark cost for services from a third party supplier; or in the case of central cost allocation, details of the total central cost for each item, the other group companies charged and the basis of the cost allocation between those group companies).</p>	BHS 3(a)	<p>BHS and Arcadia have entered into a Transitional Services Agreement (see row 17 above) which obliges Arcadia to continue to supply agreed management services pending the formal separation of the BHS and the Arcadia groups. Monthly payments are payable to Arcadia under this agreement.</p> <p>BHS Group Limited and RAL have entered into a Management Services Agreement (see row 17 above).</p>
34.	<p>Compared to the information provided above, please provide details of any</p>	BHS 3(b)	<p>Please see the TSA at: OLS00000845</p>

	<p>changes in the type or basis of historic intra-group recharges since the sale of BHS to RAL and details of any proposals for transition of these services to a standalone basis</p>		
<p>35.</p>	<p>Since the sale of BHS to RAL, please provide details of any BHS properties (by property and by year) for which:</p> <ul style="list-style-type: none"> i. Rents have been payable to entities within the Wider Group or other entities controlled by Sir Philip Green or his family; ii. Property leases which are or were guaranteed by the Wider Group. For these properties please provide details of the annual rent for each year, corresponding market rent and remaining lease term. Please confirm whether these lease guarantees will continue post sale and whether there have or will be any changes to the terms of the guarantee as a result of the sale of BHS to RAL; and <p>All property sales by BHS including; the property description, the book value of the property BHS's accounts as at the year-end prior to the sale of BHS to RAL and also at the date of sale of BHS to RAL. Please also include details of the purchaser, the amount and form of consideration and the basis of valuation underpinning the sale.</p>	<p>BHS 3(c)(i)-(ii)</p>	<p>A number of documents have been disclosed from the Relativity Platform showing the details of the rent payable in respect of various properties either in summary form or included in the relevant leases or rent review memorandums. Details are also available in document: OLS00000291, which is a property master list of the BHS estate and the SPA includes a list of properties.</p> <p>A contract for the sale of North West House from Lowland Homes to J9 Properties Limited can be found here: OLS00000947</p> <ul style="list-style-type: none"> - Election Notice: OLS00000949 - Escrow Agreement signed by J9 (OLS00000945); signed by Lowland Homes (OLS00000989) - Transfer of Title Form: OLS00000948 <p>The underlease of North West House from BHS to Redcastle Ltd is here: OLS00000946</p> <p>Lease of North West House from Lowland Homes to BHS: signed by Lowland (OLS00000950); signed by</p>

			BHS (OLS00000951) We understand that no leases were guaranteed by the Wider Group.
36.	Since the sale of BHS to RAL, please provide details of any assets, other than property or normal retail sales, that were sold by BHS. Please provide the net book value and the market value of any purchases along with the identity of the purchasers, details of the actual price paid, the form of consideration and the basis of the valuation underpinning the sale.	BHS 3(d)	Other than propriety or normal retail sales, no further assets have been sold.
37.	Any other material payments or trading flows between BHS and the Wider Group over the period since the sale of BHS to RAL. This should include details of any concessions within BHS stores operated by entities within the Wider Group. For such concessions, please provide any documentation of the concession agreement, and detail the amount charged for these concessions, the area occupied, and how the price was set.	BHS 3(e)	Concession Agreements between BHS and: <ol style="list-style-type: none"> 1. Evans Retail Limited: OLS00000998 2. Burton Trading Limited: OLS00000999 3. Dorothy Perkins Trading Limited: OLS00001000 4. Miss Selfridge Retail Limited: OLS00001001 5. Wallis Retail Limited: OLS00001002
38.	All correspondence and file notes relating to any discussions with actual or potential external funders to BHS, including credit insurers, since 1 January 2014.	BHS 3(f)	Relevant correspondence has been provided via the Relativity platform.
39.	Confirmation of the amount and terms of all debt and equity funding provided by RAL to BHS from the point of sale of BHS to RAL to the current date. Please provide copies of any documentation setting out the terms of such funding.	BHS 3(g)	See response to RAL2(j) in row 23
40.	Details of all inter-company debt balances between BHS and the Wider	BHS 3(h)	Please see the response at row 31 above.

	Group (whether owed to or by BHS) as at the date of sale of BHS to RAL and at the current date, detailing the basis for changes in the debt position.		
41.	Details of any security provided by the Wider Group to any funders on behalf of BHS as at the date of sale of BHS to RAL and to the current date, detailing the basis for any changes.	BHS 3(i)	<p>Noah I Facility for £70m secured over 12 property assets owned by Carmen and one property asset owned by BHS Limited. Security is also taken over the shares that BHS Properties has in Carmen. Relevant documents are below:</p> <ul style="list-style-type: none"> - Jersey security interest agreement over shares between BHS properties Limited and HSBC Bank: enclosed - Deed of Mortgage over PropCo (Belfast No1 and 2): OLS00000915 - Debenture: OLS00000921 - Third party legal charge: OLS00000920 <p>Noah II facility for £40m secured over 4 property assets of BHS Properties Limited, 2 property assets of BHS Limited and one property owned by Jersey subsidiary, Epoch Properties Limited. The relevant documents are below:</p> <ul style="list-style-type: none"> - English mortgage: (unsigned): OLS00000914 - Grantor Consent to Registration: OLS00000912 - Jersey security interest agreement over shares between BHS properties Limited and HSBC Bank: enclosed

			<p>£40m debt between arcadia and BHS: OLS00000953</p> <p>Legal Charge between BHS properties Limited and ACE: OLS00000941</p> <p>A Guarantee and Indemnity provided by Arcadia in relation to the HSBC debt was enclosed with our letter dated 30 April 2015.</p>
42.	<p>Full details of any security that has been provided to, offered to, or which is intended to offer to the Scheme relating to the sale of BHS to RAL, including any draft or final documentation relating thereto. In particular:</p> <ul style="list-style-type: none"> i. Any conditions attached to that security; ii. Who holds that security (i.e. held directly by the trustee, by BHS or by some other party). If not held by the trustee when could that security be called on. iii. If the security includes any property, please set out the basis of the valuation of that property and what valuation (if different) was attributed to that property in an insolvency scenario. 	BHS 4(a)(i)-(iii)	<p>Please see the side letter agreed in relation to the £40 million security taken by Arcadia over debts owing to it available here: OLS00001048</p>

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LIST OF DOCUMENTS

Transaction documents	Date	Reference
Share purchase agreement between Taveta Investments (No. 2) Limited and RAL	11 March 2015	OLS00000846
Transitional services agreement between Arcadia and BHS Group Limited	11 March 2015	OLS00000845
Management services agreement between RAL and BHS Group Limited	13 March 2015	OLS00000885
Share purchase agreement between Nautilus and BHS Properties in respect of Carmen	13 March 2015	OLS00000994
Disclosure Letter	11 March 2015	OLS00000997
Concession agreements	Undated. (Commencement date is 11 March 2015)	OLS00000998- OLS00001002
Stock transfer form in respect of the entire issued share capital of BHS Group Limited	11 March 2015	OLS00000871
Deed of release between BHS Group Limited, BHS Limited, BHS Properties, Davenbush, Lowland and Arcadia	11 March 2015	OLS00000870
Financing arrangements		
BHS Group Limited loan note instrument in respect of £3,645,000 unsecured loan notes	11 March 2015	OLS00000987
Certificate in respect of the £3,645,000 unsecured loan notes	11 March 2015	OLS00000988

Escrow agreement relating to the sale of North West House	11 March 2015	OLS00000989
Subscription letters in respect of RAL's two equity investments of £5,000,000 each in BHS Group Limited	13 March 2015	OLS00000884
Letter of release from ACE to RAL and Dominic Chappell	20 March 2015	OLS00000883

Claire Boorman
Senior Case Manager
The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

1 June 2015

Email [REDACTED]

Direct Line +44 20 7067 3853

Second letter

By email to:
[REDACTED]

STRICTLY PRIVATE AND CONFIDENTIAL

Our Ref RON\AEH\SRC\33189-5

Your Ref

Dear [REDACTED]

**Notice under section 72 of the Pensions Act 2004 ("the Act")
BHS Pension Scheme and BHS Senior Management Scheme ("the Schemes")**

Introduction

1. We refer to your letters dated 27 March 2015, to Retail Acquisitions Limited ("**RAL**"), BHS Limited and Mr Dominic Chappell ("**DC**") which contained notices under section 72 of the Act (the "**Notices**") and to our previous correspondence in this matter. We shall refer to the requests contained within the Notices as the "**Requests**". This letter is a consolidated response to the Notices on behalf of our three clients, which take collective responsibility for the accuracy of the information provided in this letter.
2. The defined terms used in this letter shall be those referred to in our letters, save where otherwise indicated. The term "**BHS**" is used non-specifically to refer to the BHS business and any or all of its subsidiaries, where the context requires. The term "**Arcadia**" is used non-specifically to refer to the Arcadia Group of companies, which includes Taveta Investments (No. 2) Limited ("**Taveta**"), the entity which sold BHS Group to RAL for £1 on 11 March 2015 (the "**Transaction**").

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3. We note from the Notices that the Pensions Regulator ("tPR") is considering whether or not the use of a financial support direction under section 43 of the Act or a contribution notice under section 38 of the Act is appropriate. Accordingly, tPR is interested in the Transaction, the steps that took place in the build-up to the Transaction, and the subsequent impact that the Transaction may have had on the Schemes.
4. We have under separate cover of letters dated 30 April 2015 and 7 May 2015 provided the information requested and a list of documents requested in the Notices. However, our clients anticipate that given the volume of the information and documents disclosed, tPR may not easily gain a quick and clear understanding of the Transaction, its commercial rationale, and its impact on the Schemes. It is not in our clients' interests for such an understanding to be delayed in any way and they have accordingly instructed us to provide further background in this letter. Indeed, our clients wish to provide tPR and the trustees of the Schemes with as much assistance as it is able to understand the Transaction, the on-going status of BHS as a business, and the on-going issue of BHS' pension deficit (the "**Deficit**"), which is a very serious impediment to the recovery of BHS as a business.
5. Our clients have also taken the pro-active step of instructing Grant Thornton to assist Olswang LLP in relation to the Notices by explaining the Transaction, its related transactions and the impact they have had on the Schemes. A copy of Grant Thornton's report dated 22 May 2015 is attached (the "**GT Report**"), which summarises the impact of the Transaction on the Schemes. The GT Report is provided to you on a confidential basis and its contents should not be shared with any other party without the prior written consent of Grant Thornton.
6. We also provide in this letter a summary of the events that led up to the Transaction, our clients' commercial rationale in proceeding with the Transaction, notwithstanding the Deficit and operating losses, and a summary of Grant Thornton's assessment of the impact that the Transaction and related subsequent transactions have had on the Schemes, as set out in the GT Report.
7. It is important that the information disclosed by our clients is considered in the context of a company that was facing an insolvency process if a buyer with a desire to turnaround the business could not be found.
8. In providing the assistance in this letter and the GT Report, our clients hope to open up a dialogue with tPR and the trustees of the Schemes, which our clients consider is essential to dealing with the issue of the Deficit in a sensible way and allowing the BHS business to be turned around, from a company in danger of insolvency, to a profit-making business, thereby preventing the closure of BHS stores and the loss of jobs.
9. Our clients intend to provide a copy of the GT Report to the trustees and their advisors, subject to the receipt of a hold harmless letter from the trustees and their advisors and

confirmation that the GT Report will be treated as confidential. We will inform tPR when the GT Report has been provided to the trustees.

Background to RAL

10. Retail Acquisitions Limited ("RAL") was formed on 20 November 2014 by Dominic Chappell (its majority shareholder) initially under the name of Swiss Rock Ventures Limited. It changed its name to RAL on 3 March 2015. Mr Chappell owns 90% of the issued share capital of RAL and its minority shareholders are Edward Parladorio (5%), Stephen Bourne (2.5%) and Mark Tasker (2.5%). At the time of the acquisition of BHS its directors were Edward Parladorio, Mark Tasker, Dominic Chappell, Stephen Bourne and Lennart Henningson. The current directors of RAL are Edward Parladorio, Dominic Chappell, Lennart Henningson and Keith Smith.
11. We provide at Appendix 1 to this letter a list of the key individuals involved in the Transaction with an accompanying description of their role and period of involvement. These are the individuals whom our clients have identified as custodians of relevant documents responsive to the Notices, as foreshadowed in our letter of 24 April 2015.

Background to the Transaction

Mr Chappell and RAL's involvement

12. Mr Chappell first became aware of the potential to purchase BHS during the first quarter of 2014 following a request from a business contact of his, Paul Sutton, to assist with the potential purchase of BHS from Arcadia. Mr Sutton and Arcadia did not ultimately agree the terms of a sale. However, Mr Chappell believed that an opportunity existed on the back of a turnaround plan developed by the incumbent BHS management, a copy of which he had been provided with, and he pursued the transaction on his own with a team of advisors and assistants.
13. Mr Chappell held his own discussions with Arcadia during the second and third quarters of 2014. During those discussions, Mr Chappell formed the view that BHS's trading performance had suffered due to underinvestment and that by separating BHS from Arcadia and implementing the above mentioned turnaround plan, the business could be returned to profit.
14. Importantly, Mr Chappell received assurances from the Arcadia group and the BHS management team themselves that the management team was highly loyal to the business and was committed to its turnaround. The management team demonstrated this with a fully-costed three-year turnaround plan that was designed to bring the business back to profitability within that period (see documents OLS00000330 and OLS00000332).

15. The key planks of the turnaround plan included the closure of loss making stores, reinvesting the proceeds from various property sales, implementing several outsourcing plans in relation to the F&B operations of the group (which have, subsequent to completion, been outsourced to Compass) as well as growing the BHS business internationally to take into account the strong "British" appeal that the business enjoys abroad.
16. RAL also became aware that BHS and Arcadia were in discussions with the trustees of the Schemes and tPR in relation to a proposed pensions restructuring plan, described as "Project Thor", by which the Deficit and on-going commitments of BHS to the Schemes would be reduced. It was central to the overall success of any turnaround plan that the deficit be dealt with in an appropriate manner which would substantially increase the prospects of success and potential viability of the BHS business.
17. In the final quarter of 2014, RAL instructed Olswang LLP and Grant Thornton UK LLP to advise on legal and financial matters, respectively, in relation to the Transaction and a draft offer letter from RAL was prepared which stated that on completion, BHS was to be delivered debt and pension free by its owner, which was the basis upon which RAL always proceeded.
18. The draft offer letter set out RAL's key understanding regarding the deal to be agreed on Pensions and provided that completion would be conditional upon:

"the Buyer being satisfied that (i) it will not inherit any liability in relation to past service benefits accrued in the defined benefit pension scheme[s] operated by the Group (the "DB Scheme[s]") and (ii) that it is not exposed to and if so, it shall be indemnified in full and for an unlimited time on demand against any historical or any other liability in respect of the DB Scheme[s] including but not limited to any liabilities arising out of (or crystallised by) any steps or actions taken or threatened by the Pensions Regulator in relation to the DB Scheme[s]";
19. A copy of this letter of intent, which was enclosed with our first letter of today, was tabled with Goldman Sachs in late December 2014 when RAL presented its offer to Arcadia.
20. From the outset the existence of the Schemes and the Deficit were an immediate concern for RAL. During the final quarter of 2014 and up until February 2015, the Transaction proceeded on the basis that upon completion, BHS would be both debt free and free of the Deficit. Until very late in the negotiations, it was not clear to RAL how the latter would be achieved, but, once some of the details of Project Thor were disclosed to RAL, RAL proceeded on the basis that Project Thor would be delivered by Arcadia.
21. It is for this reason that there was very little diligence or correspondence regarding the Schemes or the Deficit until the later stages of the negotiation process as it was always understood by RAL that it would be acquiring BHS with no pension debt. To the extent

that RAL's advisors did raise questions about pensions at this stage, the expectation was that Project Thor would be delivered.

22. Discussions between RAL and Arcadia continued throughout late 2014 and January 2015 until the parties began negotiating a series of transaction principles (the "Points of Principle") which contained the agreed deal terms between the parties for the Transaction.

Negotiations following the Points of Principle

23. By the time the Points of Principle had been signed on 16 February 2015 (see document OLS00001045) it became clear that Project Thor was not going to be capable of being delivered by Arcadia prior to completion. In particular, the Points of Principle envisaged that following completion Swiss Rock would use reasonable endeavours to reach a settlement as soon as reasonably practicable with the Schemes' trustees, as envisaged under Project Thor (or similar) and that in support Arcadia would continue to make ongoing deficit repair contributions to the Schemes over the next three years, up to a maximum of £15 million.
24. As a result, RAL began seeking clarity in relation to the Deficit and the Schemes which became a crucial part of the due diligence exercise. Through this due diligence process RAL enquired further about Project Thor and a meeting took place between Mr Chappell, Paul Budge of Arcadia and a representative from Deloitte (who were advising Arcadia) on 2 February 2015, in order for Deloitte to provide a general overview of Project Thor.
25. Following this meeting, RAL made a number of requests for documentation relating to Project Thor. However, RAL was not provided access to such documentation until 26 February 2015, which was in the very last days of negotiation of the Transaction. This due diligence confirmed that Arcadia was not going to be able to deliver Project Thor and that rather than inheriting a debt and Deficit-free business, the Transaction envisaged RAL purchasing BHS with the Schemes in place and taking forward Project Thor (or equivalent) and, in the meantime, BHS retaining the obligation to fund the monthly contributions to the trustees.
26. Indeed, upon reviewing the limited Scheme documentation that was provided to RAL and its professional advisers, it became immediately obvious to RAL that discussion would have to be held with the Trustees shortly after completion to agree the long term funding requirements of the Schemes. Accordingly, and with the concern in mind that Arcadia would not be able to conclude Project Thor, RAL's advisors asked Arcadia for consent to approach the Schemes' trustees and/or tPR to see if they could understand the status of the relationship between Arcadia/BHS and the various Schemes' stakeholders. However, save for being able to discuss Project Thor, such access was not granted and original documents (e.g. actuarial valuations or annual accounts) in relation to the Schemes were not provided.

27. It was always RAL's intention, given its lack of direct knowledge, immediately after completion to engage with the trustees of the Schemes and thereafter with tPR. Consequently and within two days of completion (on 13 March 2015) RAL took the proactive step of writing to the trustees and tPR to express its desire to engage in open dialogue. This resulted in representatives of RAL attending a meeting with the trustees and tPR on 18 March 2015 at which introductions were made and RAL again expressed its intention, given, inter alia, the trustees' previous involvement in Project Thor, to work with the trustees to develop an appropriate and proper funding solution for the Schemes.

Timing

28. It is important to understand the impact of the timing aspects of the Transaction on what transpired.
29. A press leak occurred in February 2015 that indicated that Sir Philip Green was considering selling BHS. This led to several trade credit insurers announcing that they would no longer be comfortable writing trade credit insurance for orders from BHS. This potentially carried very serious consequences for BHS.
30. On or about 5 March 2015, RAL was made aware that Arcadia had decided that the deal had to be concluded immediately, that the parties would aim to close the following Monday (9 March 2015), and that all parties and their advisers would need to work around the clock to meet this deadline, otherwise exclusivity would be lost.
31. It was not clear to RAL at the time what led to Arcadia's need to accelerate completion, other than that Sir Phillip Green had been dealing personally with the suppliers, who were concerned about the withdrawal of trade credit insurance, and that RAL's exclusivity (and break fee) expired at 9 March 2015. The parties met on Friday 6 March 2015 at the offices of BHS to attempt to agree the transaction documents and they then worked the weekend to finalise the Transaction.

Effect of acceleration

32. As at 5 March 2015, RAL considered that it would ideally require an additional four weeks to complete the Transaction. This was due to the fact that, amongst other things, (i) RAL was still in the process of negotiating a £120m working capital facility with Farallon Capital; (ii) RAL was still looking to hire a leading CEO; (iii) RAL had yet to finalise its position on the Schemes and the Deficit (as more information was needed); and (iv) RAL had not had the opportunity fully to develop a media and communications strategy to deal with the inevitable press interest that the deal would generate.
33. However, as a result of the shortened timeframe, rather than being able to rely on the £120 million working capital facility that was being negotiated with Farallon Capital, RAL

was forced to look to other sources to raise expensive short-term debt to meet the requirements of the business.

34. Over the next few days, a £5 million loan was procured from Allied Commercial Exporters Limited ("**ACE**") (see below). This loan was put in place on the day the Transaction signed. The £5 million loan (the "**ACE Loan**") was a short-term loan to assist RAL in its obligation under clause 4.3.2 of the SPA to inject £10 million of new equity into the BHS business. The loan was secured over a BHS property in Atherstone (see document OLS00000941). The terms of the ACE Loan have been revised to increase the loan to £6 million and at the date of this letter, £1 million has been repaid and the remainder of £5 million is due to be repaid on 31 December 2015. As part of the short term funding package, ACE also required the issue by BHS of an unsecured loan note. The amount of that note was £3.645 million and is now £2.585 million (see 43.2 below, the loan note at document OLS00000987 and the amended loan noted attached to the schedule of documents).
35. As a result of the Transaction being accelerated, RAL was also not able to put in place its working capital facility for completion and thus it became part of the agreement with the Seller that Arcadia/Taveta would procure relevant bridging loans as part of Taveta's completion obligation. These loans were procured by Arcadia/Taveta post signing and were provided by HSBC (see below).
36. RAL was (by the time of completion) also not able to agree the terms of the security package to be granted to Arcadia for the remaining £40 million of inter-company debt that was not being written off by Arcadia; this security was put in place after completion (see below).
37. Almost two months after completion, there still remain aspects of the completion process that remain unsatisfied; such was the speed with which the sale and purchase agreement (signed on 11 March 2015) was carried out.

The key commercial terms of the Transaction

38. Many of the key terms of the Transaction were set out in the Points of Principle and where possible, the parties endeavoured to adhere to those commercial principles. However, in some circumstances this was not possible.
39. Key terms of the Transaction (with accompanying references to the relevant clauses in the SPA, to the extent relevant) that were agreed between the parties include the following:
 - 39.1 Arcadia would write off £200 million out of a total debt of £240 million owed to it by BHS pursuant to intra-group loan arrangements that the parties had entered into (the "**Debt Write-Off**") (see the recitals to the SPA and the definition of 'Deed of

Release'). A copy of the Deed of Release effecting the Debt Write-Off has been provided under cover of our letter dated 30 April 2015 (see document OLS00000870);

- 39.2 The remaining £40 million of debt owed by BHS to Arcadia, would be secured by the combination of a floating charge over non-property assets and a £15 million legal charge on the BHS Bristol Cribbs Causeway store (see clause 4.3.4 of the SPA and the definition of 'Fixed and Floating Charges'). An acknowledgement of debt letter dated 14 April 2015 between Arcadia Group Limited and BHS Group Limited reflects those terms (but note that the floating charge now covers the whole £40 million) (see document OLS00000953). Significantly, a side letter was entered into between Dominic Chappell and Arcadia on 11 March 2015 under which it is agreed that the security will be held to Mr Chappell's order "*to secure the ongoing £10m per annum contributions to the Bhs Pensions Schemes...in the event of a compromise or winding up*". The fixed charge is also stated therein to "*reduce pro-rata as contributions are made*" (though note in the acknowledgement of debt the tranche benefitting from the added fixed charge reduces first);
- 39.3 Arcadia would continue to contribute £5 million per annum towards the Schemes for a period of three years following completion pursuant to the long-term recovery plan put in place by the Scheme trustees (see paragraphs 1 and 2 of Schedule 8 to the SPA);
- 39.4 The Carmen group of properties, which was owned by Lady Tina Green (Sir Philip Green's wife), which held certain property assets used by BHS, would be transferred to BHS Properties Limited and therefore be under the indirect control of RAL as part of the BHS group (see Schedule 2, part 1 of the SPA and the Carmen SPA provided under cover of our letter dated 30 April 2015) (see document OLS00000994). As historically the Carmen group had acquired BHS properties and leased them back to BHS, the acquisition of the Carmen group was considered to generate a potential rental saving;
- 39.5 Taveta would procure that the landlords of the two main corporate headquarters of BHS (North West House and Marylebone House, both in London) (together, the "**Properties**") would grant BHS, upon completion, a rent-free period of 20 months and execute fresh leases in respect of the Properties;
- 39.6 BHS would sell North West House, which, if sold, would generate £32 million of sale proceeds for the business;
- 39.7 BHS and Arcadia would work together via a separations work stream that would aim to separate the operations of the two groups and generate potential savings;;

- 39.8 RAL would acquire Wilton Equity Limited (the BVI entity owned indirectly by Lady Tina Green that owned Marylebone House and which falls outside of BHS) itself for £35 million;
 - 39.9 Taveta would leave £23,660,000 cash on BHS's balance sheet to allow it to meet historic liabilities (such as PAYE and NICs) (see clause 4.2.1 and Schedule 3 to the SPA); and
 - 39.10 RAL would inject £10 million of new equity into the BHS business, of which £5 million would be satisfied upon completion (see clause 4.3.2) and the balance would be contributed once the proceeds from the sale of Wilton/Marylebone House (including commission due to RAL) were received.
40. Certain of the agreed terms were not included in the SPA given the tight time constraints under which the parties were operating, but were instead agreed outside of the written documents. These include that:
- 40.1 Taveta would procure a new working capital facility for BHS through HSBC that Arcadia would guarantee, in an amount of £25 million;
 - 40.2 some central costs would fall away upon completion as BHS would no longer be part of the Arcadia group, which would deliver approximately £4 million per annum of savings immediately; and
 - 40.3 Taveta would assist on the issues regarding trade creditors that had beset the BHS business from when the press first heard about its potential sale.

Steps taken since completion on 11 March 2015

- 41. Following the signing of the SPA on 11 March 2015 and up to 15 May 2015, the parties have taken the steps outlined below. Due to the change in circumstances that arose post completion, some of these steps differ from what was envisaged at the time of signing.
- 42. On 11 March 2015 BHS:
 - 42.1 (via its subsidiary Lowland Homes) sold North West House to ACE for £32 million, as envisaged under the terms of the Transaction. The proceeds of this sale have been allocated as follows (i) £25 million remains in Lowland Homes and is drawn from by BHS to support its on-going working capital requirements; (ii) £5.2 million to RAL, by way of loan, to meet transaction costs (including legal fees, accountancy fees and director remuneration); (iii) £1 million to RAL, by way of loan, to pay monies owing under the ACE loan; (iv) £750,000 to BHS, by way of loan, to be used to pay monies owing under the ACE loan notes; and (v) £570,000 to Swiss Rock plc (via BHS) by way of loan to RAL for remuneration

owing to Dominic Chappell (which Dominic Chappell elected be paid directly to Swiss Rock plc, a company owned by him and his father);and

- 42.2 BHS issued ACE an unsecured loan note, with a face value at the date of this letter of £2.585 million (reduced from £3.645 million).
43. It is intended by RAL that all sums loaned to RAL under allocations (ii), (iii) and (v) above would be repaid out of the proceeds of the sale of Wilton/Marylebone House (see below).
44. Shortly before completion of the sale of BHS to RAL, Arcadia informed RAL that a higher offer for Wilton/Marylebone House had been received and it was decided that Wilton/Marylebone House would be sold to a third party and any overage above the £35 million that RAL was originally willing to offer would be due to RAL as a commission for its role in the transaction. The sale was expected to have taken place on or shortly after 11 March 2015 but to date the transaction has not happened. RAL expects that it would be due at least £8.5 million from the sale proceeds should such a sale take place, which is expected to be imminently.
45. On 26 March 2015 RAL's £5 million equity injection into BHS was used to repay £5 million of Bank of Scotland debt in relation to BHS property assets in Jersey. The remainder of the debt was refinanced with a HSBC facility in an amount of £40 million (the "HSBC Loan"). £15 million of the HSBC Loan was used to pay down the Bank of Scotland debt, whilst the remaining £25 million comprises a working capital facility. Arcadia agreed to guarantee the facility. This facility is secured over seven BHS properties.
46. On 13 March 2015 the acquisition of Carmen Properties Limited was completed. As part of the transaction Arcadia refinanced the balance sheet of Carmen with another HSBC facility (the "HSBC Carmen Facility"), reducing its debt from £130 million to make it equal to the value of the Carmen estate in an amount of £70 million. This facility is guaranteed by Arcadia, BHS, and BHS Properties Limited (although RAL/BHS have not been provided with a copy of this guarantee) and security has been granted over Carmen properties and the BHS property at Milton Keynes. It is considered by BHS and RAL that the value of the Carmen estate now exceeds the size of the HSBC Carmen Facility.
47. On 14 April 2015, BHS and Arcadia signed an Acknowledgment of Debt for the principal amount of £40 million (see document OLS0000953) and BHS entered into a security agreement of the same date reflecting the terms set out in paragraph 39.2 above (see document OLS00001048).

Overall effect of the Transaction

48. Grant Thornton have concluded that in light of the steps taken as part of the Transaction (and in particular the granting of security over the £40 million of debt owed by BHS to

Arcadia), the return to creditors based on an assumed insolvency of BHS has been reduced by £14.5 million, but which is non-material in the context of the overall size of the combined full buy-out deficit of the Schemes. This detriment may also, in the future, be mitigated in the event that a decision is taken to assign to the Schemes any of the £40 million fixed and floating security currently held by Arcadia as per the side letter dated 11 March 2015.

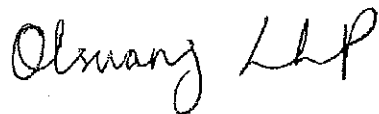
49. These conclusions, of course, should be seen in the context of a business which faced being placed into an insolvency process if a suitable buyer was not found with a turnaround plan to restore the financial viability of the company.
50. To that end, Grant Thornton have also advised that RAL should seek engagement with tPR and the Trustees in order to discuss the long term funding requirements of the Schemes.

Next steps

We hope that the information provided in this letter and the Grant Thornton report is helpful and will speed up the process of meaningful engagement between our clients, the Trustees and tPR. Once tPR has had a full opportunity to digest this letter, the GT Report, the documents and the information provided pursuant to the Requests, our clients would welcome a meeting to discuss options to protect the Schemes.

We would like to emphasise that the documents which have been provided to you have been produced so as to demonstrate the steps which have been taken so far as part of the transaction: they do not make clear our clients' plans for the future of BHS and the turnaround in pursuance of which these steps have been taken.

Yours faithfully



Olswang LLP

APPENDIX 1

KEY INDIVIDUALS AT RETAIL ACQUISITIONS LIMITED

	Custodian	Roles	First date of involvement
1.	Dominic Chappell	Director of BHS Limited and shareholder of RAL. The driving force behind the Acquisition.	September 2014
2.	Eddie Parladorio	Director and shareholder of RAL.	August 2014
3.	Mark Tasker	Shareholder of RAL and NED of RAL up until completion.	Early – Mid October 2014
4.	Stephen Bourne	Shareholder of RAL and NED of RAL up until completion.	Early – Mid November 2014
5.	Zoe Bourne	Consultant assisting with project management, primarily in respect of finance matters.	24 February 2015
6.	Lennart Henningson	Director of RAL, BHS Group Limited and BHS Limited.	Mid-October 2014 – Mid-December 2014 and from February 2015 onwards.
7.	Keith Smith	Director/chairman of RAL and director of BHS Group Limited.	March 2014
8.	Michael Morris	Consultant to BHS Group Limited.	27 February 2015
9.	Paul Wareham	Consultant to BHS Group Limited.	27 February 2015

	Custodian	Roles	First date of involvement
10.	Dominic Chandler	Director of BHS Group Limited and BHS Limited.	11 March 2015
11.	Darren Topp	CEO of BHS Group Limited and BHS Limited.	Mid-January 2015

APPENDIX 2

REPORT DATED 22 MAY 2015 PRODUCED BY GRANT THORNTON UK LLP