ARCADIA GROUP PENSION SCHEME
ARCADIA GROUP SENIOR EXECUTIVES PENSION SCHEME

MARYLEBONE HOUSE, 129-137 MARYLEBONE ROAD, LONDON, NW1 5QD

28 May 2019

Dear Member,

This letter is being sent to you because you are a member of the Arcadia Group Pension Scheme or the Arcadia Group Senior Executives Pension Scheme (the Schemes).

We are writing to tell you about Arcadia's proposal for a Company Voluntary Arrangement (CVA) and how it affects you. We would like to assure you that the Schemes are continuing to pay pensions to members as usual during this process.

You do not need to take any action.

We have set up a member website - www.arcadiapensions.co.uk . All future member updates that we send to you will also be posted on this website.

Arcadia's restructuring proposals

Arcadia Group Limited (Arcadia) is the sponsoring employer of both Schemes.

On 22 May 2019, Arcadia announced proposals to restructure its business in order to ensure the long-term sustainability of the Arcadia group in today's highly competitive retail environment.

Company Voluntary Arrangements (CVAs) have been proposed for Arcadia and six other group companies.

More information about the CVAs can be found in the attached Frequently Asked Questions (FAQs).

How the CVAs affect the Schemes

The formal CVA proposal for Arcadia has automatically caused both Schemes to enter a so-called "PPF assessment period".

The Pension Protection Fund (PPF) is a statutory body that pays compensation to members of pension schemes if the sponsoring employer becomes insolvent (and certain other conditions are met).

During the PPF assessment period, the Schemes are subject to certain restrictions and controls until it is known what will happen to them.

Normally, benefits must be restricted to the level of PPF compensation. However, it has been agreed with the PPF that the Schemes need not reduce any pensions during the current CVA process. This means that pensions will continue to be paid in full until the outcome of the CVA proposals is known – see FAQs 6 and 7.

However, the Trustees are not allowed to pay transfer values during a PPF assessment period.

What happens next?

A meeting will be held on 5 June 2019, when Arcadia's creditors will vote on the CVA proposal. If the proposal is approved by the requisite majority of creditors, it will immediately become legally binding unless it is successfully challenged in court.

If all the CVAs are approved, it is expected that the Schemes will come out of PPF assessment and will then continue to operate as usual.

What do I need to do?

You do not need to take any action. The Trustees will continue to monitor the situation and will send you further updates where appropriate. They will also be posted on the new website at www.arcadiapensions.co.uk .

Further information

The attached FAQs provide further information about the CVAs and the PPF.

If you have any queries, you can call the member helpline on 01179 420080. You can also email the Schemes' administrators at Pensions_Helpline@arcadiagroup.co.uk, or write to:

Pensions Department
Marylebone House,
129 – 137 Marylebone Road
LONDON
NW1 5QD

The Trustees will write to you again as soon as there are further developments to report. In the meantime, pensions will continue to be paid as usual.

Yours faithfully,

Alda Andreotti
Chair
Arcadia Group Pension Trust Limited
Trustee of the Arcadia Group Pension Scheme

Peter Baverstock
Chair
AG Senior Executives Pension Trustee Limited
Trustee of the Arcadia Group Senior Executives Pension Scheme

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Arcadia Group Pension Scheme
Arcadia Group Senior Executives Pension Scheme

Frequently Asked Questions

about Arcadia's CVA proposals

1. What is a CVA?

A Company Voluntary Arrangement (CVA) is a legal process in which a company formally asks its creditors to agree to reduce or reschedule amounts owed or payable by the company to those creditors, so that the company can restructure its business.

A CVA requires a company to make a proposal to all of its creditors that has been signed-off by a licensed insolvency practitioner. All unsecured creditors can then vote on the proposal. If the proposal secures the required level of support, the CVA will be put into effect, under the supervision of the licensed insolvency practitioner.

The Trustees are unsecured creditors of Arcadia but the law requires that their votes should be cast by the Pension Protection Fund (PPF).

2. What are Arcadia's CVA proposals?

Arcadia believes that the rents being paid for a number of the group's stores are higher than the current market rates. The proposed CVAs would reduce these rents to more commercial levels and bring about an early termination of leases for some stores.

Also, given current cash-flow and trading challenges, Arcadia has asked the Trustees of the Schemes to accept lower rates of contributions to fund the Schemes' deficits, until the business is back on a stronger financial footing.

If the CVAs are approved, Arcadia will be better able to implement a turnaround plan which it believes will return the business to growth after a sustained period of declining trading performance.

In return for the proposed reduction in the rates of contributions to the Schemes, Arcadia has offered the Schemes security over certain assets. Additionally, the group's ultimate majority shareholder, Lady Christina Green, has offered to provide further funding to the Schemes of £100m over three years.

These proposals are the subject of continuing discussions between the Trustees, Arcadia, the Pensions Regulator and the Pension Protection Fund, with a view to reaching agreement before the CVA vote.

The Trustees are working hard with their professional advisers to achieve the best outcomes for the Schemes.

More information about the proposed CVAs is in Arcadia's announcement of 22 May 2019, which is on the Trustees' new website at www.arcadiapensions.co.uk.

3. When will we know the outcome of the CVA proposals?

A meeting is to be held on 5 June 2019, when Arcadia's creditors will vote on the CVA proposal.

Arcadia could choose to delay the meeting while it negotiates changes to its proposals with creditors.

If Arcadia's CVA proposal is approved by the requisite majority of creditors, it will immediately become legally binding, unless it is successfully challenged in court.

Creditors would have 28 days to bring a challenge if they feel that they have been treated unfairly or there has been a material procedural irregularity.

4. What is the Pension Protection Fund?

The Pension Protection Fund is a statutory body that must pay compensation to members of an eligible defined benefit pension scheme if the sponsoring employer has a "qualifying insolvency event" and certain conditions are met.

More information about the PPF and how PPF compensation is calculated can be found on the PPF's website at www.ppf.co.uk .

You can contact the PPF at information@ppf.co.uk or on 0345 600 2541.

5. Why are the Schemes in a PPF assessment period?

In certain situations where the PPF might have to pay compensation to members of a pension scheme, the pension scheme automatically goes into a PPF "assessment period". The scheme is then subject to certain restrictions and controls until the outcome for the scheme is determined.

That is what has now happened to both Schemes as an automatic consequence of Arcadia's CVA proposal.

Depending on the circumstances, the outcome might be that the scheme is able to continue with a solvent sponsoring employer. This is called a "scheme rescue", and is what would be expected to happen for the Schemes if Arcadia's CVA proposals are approved.

If no scheme rescue is possible for a pension scheme in a PPF assessment period, the outcome will depend on the funding position of the scheme. If the scheme has sufficient funds to secure with an insurance company benefits at least equivalent to PPF compensation, then the scheme would be wound up. Otherwise, the scheme would go into the PPF and members would be paid PPF compensation.

6. What will happen if the CVAs are approved?

If the CVAs are approved, it is expected that the assessment period would end and the Schemes would then continue to operate normally with Arcadia remaining as its sponsoring employer. In other words, there would be a "scheme rescue" for each Scheme (see FAQ 5).

7. What will happen if the CVAs are not approved?

If the CVAs are not approved and Arcadia goes into administration or another formal insolvency process, the Schemes are likely to remain in a PPF assessment period. Benefits would then have to be reduced to PPF levels with effect from the start of the assessment period, 22 May 2019, until the outcome for each Scheme is known. This might mean that some members would have received overpayments that would have to be repaid. In those circumstances, the Trustees would expect any overpayments to be relatively small and they would seek to agree suitable arrangements for repayment with affected members.

8. How much is PPF compensation?

PPF compensation is normally based on your Scheme benefit entitlements but with a number of important differences. The following is a brief summary. You should not rely on this summary if you ever need to make any decisions based on how much PPF compensation you might get should the Schemes go into the PPF.

There are, in broad terms, two PPF levels of compensation, depending on your status at the start of the PPF assessment period (the "Assessment Date"):

- 100% compensation; and
- 90% capped compensation

100% compensation

100% compensation is normally paid if, on the Assessment Date:

- you have already reached your normal pension age, or
- you are being paid an ill-health pension, or
- you are being paid a pension following the death of a member.

The initial rate of 100% compensation is normally the same as your pension or deferred pension on the Assessment Date.

90% capped compensation

If you do not qualify for 100% compensation, 90% capped compensation is normally paid, whether or not you were already being paid a pension on the Assessment Date.

The initial rate of 90% capped compensation is normally 90% of your pension on the Assessment Date subject to a cap. The cap depends on your age and is reviewed in April each year. Examples of the current caps are:

- £40,020.34 of pension per year at age 65;
- £34,285.68 of pension per year at age 60; and
- £30,068.75 of pension per year at age 55.

If your pensionable service was more than 20 years, the caps are increased by 3% for each year over 20.

If you were a pensioner on the Assessment Date and you had commuted part of your pension for a cash sum, the cap would be reduced to take account of that.

Other differences

If you are a deferred pensioner, the way PPF compensation is increased during deferment after the Assessment Date could be different from the way your Scheme deferred pension would have been increased. You could ask for your PPF compensation to be paid early any time after age 55, in which case the PPF's early retirement factors would apply. You would be able to commute part of your PPF compensation for a tax-free lump using the PPF's commutation factors.

The way PPF compensation is increased each year while in payment is different from the way the Schemes increase pensions each year. For example, CPI is used instead of RPI, with a 2.5% pa cap, and no increases apply to compensation in respect of pension earned before 6 April 1997.

The benefits payable by the PPF on the death of a member after the Assessment Date are also different from those that would have been paid by the Schemes.

If you are a deferred pensioner with an Additional Voluntary Contributions (AVC) pot, your AVC pot is not affected by the Scheme entering PPF assessment. If the Scheme did go into the PPF, your AVC pot would have to be transferred to another pension arrangement and the Trustee would write to you with full information and guidance at that time.

More information about PPF compensation is on the PPF's website at www.ppf.co.uk .

9. Can I take a transfer value?

Now that the Schemes are in a PPF assessment period, members are not allowed to take a transfer value.

The only exception is if a member, before the start of the assessment period, has already requested a transfer in exercise of the member's statutory right, and has already completed all the steps necessary for the Trustee to pay the transfer, including provision of all required information. However, the amount of the transfer value cannot be more than the value of the PPF compensation that would be payable for the member. If you have already requested a transfer value that has not been paid, you will get a letter about this from the Pensions Department.

The Pensions Department is also writing to all members who have received transfer quotes that have not expired but who have not yet requested a transfer.

Requests for transfer quotes will be put on hold until the outcome of the CVA proposals is known.

10. Can I take my pension now?

If you are a deferred pensioner, you can still choose to put your pension into payment during the PPF assessment period, subject to the usual conditions. Your pension would then be calculated in the normal way and you would still be able to commute part of your pension for a tax-free lump sum, subject to the usual conditions. But see also FAQs 7 and 8.

You should however note that, if the CVA proposals are not approved and your Scheme stays in a PPF assessment period because there is no "scheme rescue", the terms on which you would then be able to take early payment of your benefits could be more favourable. That is because different early retirement factors and/or different commutation factors might apply.

11. What about members of the Arcadia Pension Plan?

Arcadia's separate defined contribution pension arrangements – the stakeholder scheme with Prudential and the Arcadia Pension Plan under the Legal & General MasterTrust - are not affected by the CVA proposals and are not in a PPF assessment period.

24 May 2019