

Minutes of the fifth meeting of the informal committee of Phones 4u Finance plc's senior secured noteholders ("the committee")

Date: Tuesday 8 March 2016

Time: 1:30pm (London), 8:30am (New York)

Attendees (all by call): Paul Copley (PwC)

Ian Green (PwC)

Nigel Rackham (PwC)

Jane Corbett (PwC)

Christopher Cockerill (PwC)

Michael Renoff (Scoggin Capital Management)

Peter Sisitsky (Stonehill Investment Management)

Colbert Cannon (Wingspan Investment Management)

Peter Scott (Cyrus Capital Partners)

Keith Magliana (Taconic Capital Advisors UK)

The meeting was held via webex, with all attendees dialling into a call, whilst concurrently being able to view the slides attached to the minutes.

The meeting was led by Paul Copley.

Introductions (slide 2)

Paul explained that it was not considered that any commercially sensitive non-public information would be discussed during the meeting but that the committee would need to form its own assessment.

It was explained that the administrators were taking a cautious approach regarding what information to share and the slides from the meeting and minutes would be available online at the PwC Phones 4u website within 24 hours.

The attendees were informed that there was a new member of the informal creditors' committee, Taconic Capital Advisors UK ("Taconic"), who were represented on the call by Keith Magliana. The administrators consider that it is appropriate for Taconic to become a member of the committee on the basis of the quantum of their holdings.

Agenda (slide 3)

The agenda items as per slide 3 and below were listed.

Update on administrations within the Phones 4u Group (slides 4-7)

Members were reminded of the group structure on slide 4. Only those entities included within the "security net" were noted as being relevant to the meeting.

However, it was outlined that administrators of those companies outside of the security net had, over the period, been considering the most appropriate and effective treatment of each administration.

This resulted in: the administrations of Life Mobile, Jump 4U and 4U Wi-Fi ending on 2 September 2015, when the companies were placed into creditors' voluntary liquidation; 4U Limited moving from administration to dissolution on 10 September 2015; and Phosphorus Holdco Plc's administration being granted an extension to 15 March 2019 by the court.

Highlights since July 2015 (the last informal creditors committee meeting) (slide 8)

Progress in relation to each of the below items was summarised as per the third progress report, released 19 February 2016 and available at www.pwc.co.uk/phones4u. Notes from this section of the meeting are only included to the extent that items discussed elaborated materially further than that information included within the progress report.

Mobile Network Operator ("MNO") receivables

The committee were informed that the administrators currently consider that an overall settlement with either of the two remaining MNOs within the next 12 months is unlikely.

It was noted that in respect of the debt likely to become due from one MNO, from whom a pre action letter alleging a very substantial damages claim has been received, it was possible that a debt claim would be required to be filed at court to recover this balance.

It was asked whether it could be confirmed that the MNO with whom a settlement had already been agreed and paid was the smallest of the three outstanding MNO balances per the directors' statement of affairs at appointment – this was confirmed.

VAT

Paul confirmed that since the progress report, the witness statement to support the application for directions in respect of the larger VAT issue had now been shared with HMRC, ahead of being filed at court.

It was confirmed that no distributions to secured creditors could be made from VAT group companies whilst the larger VAT issue was unresolved.

Attendees enquired about expected timescales to resolve the VAT issues. It was noted that this was dependent on any response from HMRC on the witness statement and the availability of the court to hear the case, but it was hoped this issue would be resolved by the end of the year. With regard to the smaller VAT issue relating to the VAT liability on trade bills, it is possible that this will not be resolved until next year.

It was explained that since the release of the joint administrators' third progress report there has been a reconciliation between the Phones4u and Barclays records, of bills outstanding at the point of administration. The position is now such that the administration team believe, based on the information currently available, that the maximum liability in relation to the trade bills is £37.4m.

PAS

Paul noted that Nigel Rackham would be discussing the trading of the PAS business later in the meeting.

Payment of the preferential creditors in full

Paul explained that whilst there are no outstanding preferential claims at present, there is no time bar on when parties can claim and therefore it cannot be confirmed that there will be no further distributions in this regard.

Ongoing management of protective award claims by former employees

No further information was discussed in excess of what was included in the joint administrators' third progress report.

Investigations

The restrictions on the ability to discuss Quinn Emmanuel Urquhart & Sullivan, LLP's ("QE") findings with the committee were discussed. It was also noted that the progress of this work had been discussed with those bondholders who had entered into confidentiality agreements ("the private bondholders") (as previously disclosed on the administration's website).

Paul reminded the committee that if any members wished to enter into confidentiality agreements then they were entitled to ask the administrators to do so. It was outlined that there may come to be a situation where a member of the informal creditors' committee could enter into a confidentiality agreement a small number of days prior to any action being launched and be subsequently "cleansed" after this action had taken place. However, it was emphasised that in this situation the administrators would need to be sufficiently confident that proceedings would be raised.

An attendee asked whether either of the MNOs with whom P4U are liaising with regards trade receivable balances are subject to any of the action being considered as part of the investigations work. Paul noted that he was unable to answer this question as it had not been made public against whom any proceedings would be against.

Administrators' remuneration approval

No further information was discussed in excess of what was included in the joint administrators' third progress report.

Senior notes trustee replacement

It was confirmed that GLAS fees were significantly lower than those which were being charged by former Senior Notes Trustee, Citi.

Third progress report

It was noted that this was available on the PwC Phones 4u website.

Estimated financial outcomes (slide 9)

The committee were informed that the estimated financial outcome table included on slide 9 was presented in the same format as that presented on the creditor call of 1 May 2015.

Key assumptions incorporated into the statement as set out below were discussed:

- PAS actual balance, lower estimate and upper estimate are now net of legal, administrators' fees and corporation tax (which was not the case within the balances presented to creditors in May);
- All costs are forecast to run to September 2017 (in line with the extension of the administrations of the security net entities) in the lower case and to December 2016 in the upper case (except for PAS, which only forecast to run the book through to December 2016 in both upper and lower case);
- The actual column reflects a "cash" position; and
- The total actual cash position is higher than that reported in the progress report as a result of amounts retained by the Senior Notes Trustee and Security Trustee of £1m and £10m respectively being included in total asset realisations line.

Items excluded from the estimated financial outcome (slide 10)

Items set out as being excluded from the estimated financial outcome on slide 10 were outlined to the attendees.

Asset realisations and costs of realisation (slide 11)

Paul explained that asset realisations and costs of realisation have now stabilised. There are few further realisations expected (excluding any in relation to MNO receivables and investigations) and

estimates of costs to realise assets have reduced since the previous estimates reported in May, largely as a result of reduction in provisions associated with properties for which surrender letters have been issued.

PAS indicative cash flows (slides 12-15)

Nigel Rackham explained that the business continued to be stable and profitable. Contracts with both the insurer LGI and the outsourcer LSG are in place and relations with both parties are good.

The administrators continue to be mindful of their regulatory obligations and the relationship with the regulator which has a continuing focus on the customer experience.

As customers can cancel their policy at any time, the business continues to be vulnerable to cancellations which may be triggered by external factors such as regulatory announcements or press comment. PAS therefore aims to be “best in class” for customer service and value for money.

An annual communication to remind customers of their policy will be undertaken again in 2016. Depending upon the results of this and the size of the customer base towards the end of 2016 a decision will be taken whether to continue to run the business into 2017 or to wind the business up. Profitability will naturally decline and there is an element of fixed cost which will make the business unviable as it matures.

Nigel ran through the other topics in slide 14 and referred to the greater detail which is provided in the recent progress report.

Whilst not talking to the numbers in detail Nigel explained that the asset realisation and estimated outcome slide was provided to assist creditors in reconciling the different figures in the overall outcome statement to those provided in the progress report. PAS is now reported on a standalone basis including its own legal and administrators’ fees. Nigel did however draw attention to the £7.3m group accrual which also appears as a receipt on the overall outcome statement.

As PAS is not in the same VAT group as the Phones 4U entities affected by the VAT issues reported on earlier, it was possible for administrators’ fees to be drawn in the case of PAS.

Following the recent dividend distribution from the Isle of Man captive which is now wholly owned by PAS following the group reorganisation, the administrators are considering a potential distribution to bondholders.

Administrators’ costs (slides 16-17)

Paul outlined that the numbers in relation to administrators’ costs presented in the estimated financial outcome table and slide 17 did not include costs in relation to the collection of MNO receivables, work performed around investigations or work in relation PAS (the latter are incorporated into the net PAS cash flows presented above).

The attendees were informed that estimated costs going forward reflect a run rate based on the last 3 months, with the lower case model reflecting these running to September 2017 and the upper to December 2016.

The estimated fees disclosed in the May 2015 version of the estimated financial outcome statement presented to creditors were £7.2m to £8.4m. This range did not include PAS, and therefore was comparable in this respect. However, the previous estimate excluded costs for work performed in relation to VAT (which the current estimates now incorporate) and assumed that the administration would run for a year only.

RCF set off process and associated costs (slide 18)

It was explained that costs associated with the RCF set off process are included across two lines: £2.3m relates to costs deducted by the RCF syndicate as part of the set off process (facility fees outstanding, legal and professional fees associated with the process); and the £19.8m relates to the

£15.8m used to settle the utilised RCF at the point of administration and the £4m taken to cash collateralise an outstanding letter of credit in relation to PAS.

Attendees were reminded that during the set off process the Security Trustee retained £10m as security against potential future claims and GLAS retained £1m on appointment as Senior Notes Trustee. The actual and upper case forecast columns assume these balances will be returned in full, where the lower case reflects £5.5m being required to be utilised against potential future claims.

Other professional fees (slide 19)

Attendees were informed that the actual balance of “other professional fees” primarily includes amounts paid to Allen & Overy and QE costs.

Forecast future costs are based on a quote provided by Allen & Overy, pro-rated in the upper case to reflect the administration running to December 2016 and to September 2017 in the lower case. Other costs incorporated into the estimate include, amongst others, trustee costs. Paul highlighted that no QE costs are incorporated into the forecast future costs.

Paul explained that estimated professional fees included in the May 2015 estimated financial outcome of £3.4m to £4.6m were lower than the current estimate. However, the previous estimate only anticipated the administration running for a year, there was no incorporation of Quinn Emanuel costs in relation to investigations work (whereas now these are included to the extent they have been incurred to 20 Jan) and at the point of the previous estimate, the administrators did not anticipate being required to seek directions from court in relation to either of the VAT issues.

Preferential creditors and prescribed part (slide 20)

Paul outlined that the prescribed part in relation to PAS has been incorporated into the PAS indicative cash flow line, and the prescribed part line reflected only those in relation to MobileServ and Phones 4u Limited.

PAS intercompany amounts owed to Phones4u Limited (slide 21)

It was explained that this balance primarily relates to handsets sold from Phones 4U Limited on administration to PAS. The balance nets to nil overall as the payment is incorporated into the PAS indicative cash flows line.

Net MNO receivables to date (slide 22)

No further information than that which is included in past joint administrators’ progress reports was discussed. It was again highlighted that forecast MNO commission receipts were not incorporated into the estimated financial outcome as the administrators consider that to do so would be to potentially disclose commercially sensitive information.

Trade bill discounting facilities – potential liability (slide 23)

No further information than that which is included in past joint administrators’ progress reports was discussed. Paul confirmed that the balance is included in the report for illustration only and that the administrators remain of the view that the VAT treatment of trade bills maturing post administration is such that the VAT liability arising would form an unsecured creditor of the estate.

Cash position at 20 January 2016 (slide 24)

The cash bridge presented on slide 24 was discussed very briefly. It was explained that the movements replicate the “actual” column from the previous slides, with the only reconciling items being the £10m held by the Security Trustee and the £1m held by the Senior Notes Trustee.

Priorities for the next six months (slide 25)

Paul outlined the key areas of focus for the next 6 months as set out on slide 25. Progress and plans in relation to each of the items was summarised within the joint administrators' third progress report, released 19 February 2016 and available at www.pwc.co.uk/phones4u. Notes from this section of the meeting are only included to the extent that information discussed elaborated materially further than that information included within the progress report.

VAT

No further information was discussed in excess of what was included in the joint administrators' third progress report or included within the notes above.

Recovery of MNO receivables

No further information was discussed in excess of what was included in the joint administrators' third progress report or included within the notes above.

Trading PAS

No further information was discussed in excess of what was included in the joint administrators' third progress report or included within the notes above.

Ongoing management of protective award claims by former employees

No further information was discussed in excess of what was included in the joint administrators' third progress report or included within the notes above.

Investigations

No further information was discussed in excess of what was included in the joint administrators' third progress report or included within the notes above.

Fee proposals – excluded work

The committee were informed that the administrators aimed to put forward proposals for a fee basis on “excluded” work within the next 6 months.

Distributions

It was noted that PAS would be considering the ability to distribute to secured creditors and unsecured creditors (by virtue of the prescribed part) over the next 6 months, on the basis that PAS is not in the VAT group and therefore would not need to reserve for either of the VAT liabilities.

Questions (slide 26)

No further questions were asked and the meeting was closed.

Phones 4U Finance plc (in administration)

Robert Jonathan Hunt, Ian David Green and Robert John Moran have been appointed as joint administrators of Phones 4U Limited, MobileServ Limited, Phosphorus Acquisition Limited, Phones 4 U Group Limited and Phones4u Finance Plc to manage their affairs, business and property as agents without personal liability. Douglas Nigel Rackham, Dan Yoram Schwarzmann, Robert Jonathan Hunt and Ian David Green have been appointed as joint administrators of Policy Administration Services Limited to manage its affairs, business and property as agents without personal liability. All are licensed in the United Kingdom to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales.

The joint administrators are Data Controllers of personal data as defined by the Data Protection Act 1998. PricewaterhouseCoopers LLP will act as Data Processor on their instructions. Personal data will be kept secure and processed only for matters relating to the administration. The joint administrators are bound by the Insolvency Code of Ethics which can be found at: <https://www.gov.uk/government/publications/insolvency-practitioner-code-of-ethics>