Akzo Nobel (CPS) Pension Scheme

Actuarial report on developments in the funding position to 31 March 2014

Addressee

This report in respect of the Akzo Nobel (CPS) Pension Scheme (the "Scheme") is addressed to the Trustee of the Scheme, who commissioned this report.

Purpose

Following completion of the actuarial valuation as at 31 March 2012, the Trustee is required (under Section 224 of the Pensions Act 2004 and Section 7 of the Occupational Pension Schemes (Scheme Funding) Regulations 2005) to obtain either:

- a full actuarial valuation each year, or
- an annual "actuarial report" covering factors affecting the funding position, with a full actuarial valuation every three years.

The purpose of this report is to provide an approximate update of the funding position of the Scheme at 31 March 2014. It represents the annual "actuarial report" that is required (if a full actuarial valuation is not conducted), and should be considered in conjunction with the last full valuation report (which was produced by my predecessor Jeremy Trezise and dated 18 March 2013). This report has been prepared for the Trustee, but should be made available to the Company within seven days of the Trustee receiving it.

The actuarial report required by legislation falls within the scope of four Technical Actuarial Standards (TASs) published by the Board for Actuarial Standards, *TAS R: Reporting Actuarial Information*, *TAS D: Data*, *TASM: Modelling* and the *Pensions TAS*. I confirm that this report complies with these TASs. However, this reflects the fact that the report required by the legislation has a very limited purpose and is not in itself intended to lead to further decisions by the Trustee (who in the context of the TASs should be considered to be the sole user of this report).

Approach taken

In undertaking this review, we have not carried out full liability calculations as at 31 March 2014. Instead, we have first carried out full liability calculations at 31 March 2012, based on detailed membership data as at that date provided to us by the administrators to the Scheme. We have then estimated how the funding position may have moved over the period to 31 March 2014. For this purpose, we have assumed that actual demographic experience for the period to 31 March 2014 has been in line with the assumptions underlying the calculation of the liabilities.

This has involved investigating and allowing for factors such as:

- Movements in the Scheme's assets, as a result of contributions and benefit payments over the year and the investment returns achieved
- Changes in investment conditions, affecting the financial assumptions used to determine the Scheme's liabilities ('technical provisions') in accordance with the Statement of Funding Principles dated 15 March 2013 (I have not considered how any of the other assumptions might have changed had the Trustee and Company been required to agree them as at the effective date of this report)

- Movements in the technical provisions resulting from additional benefit accrual for active members and benefit payments made over the year, together with the impact of applying the return that was assumed within the calculation of the technical provisions at the beginning of the period
- The actual pension increases granted to pensions and deferred pensions in 2013 and 2014.

Other factors which may have had a material impact on the technical provisions include such items as higher than assumed levels of salary increases, significant numbers of early leavers or large transfer payments. However, in practice, between full actuarial valuations it is often not possible to identify with a high degree of certainty whether such items are occurring, unless they are particularly significant (or very much more detailed investigations are carried out).

We have been provided with details of the net assets of the Scheme as at 31 March 2014 from the Scheme's audited accounts, which show that the assets of the Scheme (including AVC funds of £10 million) were some £2,509 million as at 31 March 2014. The Scheme's accounts also show that the value of the Escrow account was £86 million as at 31 March 2014.

It should be appreciated that the approach taken will not be as robust as the calculations performed as part of a full actuarial valuation, but should be sufficient, in normal circumstances, to obtain a reasonably good approximate indication of how the funding position might have moved.

The assumptions adopted within this actuarial report are the same as those in the Scheme's current Statement of Funding Principles, as adopted by the Trustee on 15 March 2013 and underlying the actuarial valuation as at 31 March 2012, except where indicated in the next section.

Assumptions

Although the assumptions adopted within this actuarial report are not precisely the same as those in the Scheme's current Statement of Funding Principles, as adopted by the Trustee on 15 March 2013 and underlying the actuarial valuation as at 31 March 2012, they are consistent with these principles.

The principal financial assumptions adopted for this annual funding update, and those used for the actuarial valuation as at 31 March 2012 and the previous annual update as at 31 March 2013, are set out below:

Financial assumptions	31 March 2012 % pa	31 March 2013 % pa	31 March 2014 % pa
Pre-retirement discount rate	5.76	5.61	5.37
Post-retirement discount rate	4.52	4.24	4.39
Price inflation (RPI)	3.50	3.63	3.59
Price inflation (CPI)	2.80	3.03	2.89
Pensionable earnings increases	4.50	4.63	4.59
Pension increases[1]:			
- CPI, maximum 5%, minimum 0%	2.80	3.03	2.89
- CPI, maximum 5%, minimum 0%, underpinned by 70% RPI	3.10	3.33	3.19
- CPI, maximum 3%, minimum 0%	2.80	3.00	2.89
- RPI, maximum 5%, minimum 0%	3.50	3.63	3.59
- RPI, maximum 5%, minimum 3%	3.80	3.87	3.86
- 70% of RPI, minimum 0%	2.45	2.54	2.51

[1] These are the principal pension increases made by the Scheme. Other pension increases granted by the Scheme will be consistent with the assumptions listed above.

The financial assumptions adopted as at 31 March 2014 are consistent with those used for determining the Scheme's technical provisions at 31 March 2012, as set out in the Statement of Funding Principles dated 15 March 2013, adjusted for changes in market conditions, and in my view are appropriate for the purpose of this actuarial report. In particular, the 65% confidence level for the discount rate has been retained.

The demographic assumptions used for the purposes of this update are the same as those adopted for the actuarial valuation as at 31 March 2012. However, were the Trustee and Company to consider all the assumptions in detail as part of a formal valuation process, it is possible that some of these assumptions would change.

There is no allowance in the assumptions underlying the technical provisions for any future discretionary increases to benefits.

Results

Based on the above assumptions, our calculations indicate that the funding position of the Scheme as at 31 March 2014 was as follows.

	£m
Total present value of defined benefit liabilities	2,750
Total additional voluntary contributions	10
Total value of accrued benefits (technical provisions)	2,760
Market value of assets (including Escrow account)	2,595
Deficit	165
Funding level	94%

The funding level (allowing for the Escrow account) at the 2012 valuation was 92%, which at that time equated to a shortfall of assets relative to accrued liabilities of £220 million. The estimated funding level at 31 March 2013 remained at 92%, which represented an increased deficit of £230 million.

The deficit has decreased since the 2012 valuation and the 2013 update. The main reasons for the reduction in the deficit since 2013 were the deficit contribution of £42m paid in March 2014 and the higher return achieved on the assets than expected. This was partly offset by the impact of changes to the financial assumptions used to calculate the value of the liabilities.

I would be happy to discuss this actuarial report in further detail with the Trustee.

Gareth Oxtoby
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27 October 2014

I have written this report for the Trustee of the Akzo Nobel (CPS) Pension Scheme (which is referred to in this report as the Scheme). I have prepared it to provide an approximate update as to the financial position of the Scheme and to satisfy the statutory requirements referred to in this report. It has not been prepared for any other purpose. As such, it should not be used or relied upon by any other person for any other purpose, including, without limitation, by individual members of the Scheme for individual investment or other financial decisions, and those persons should take their own professional advice on such investment or financial decisions. Neither I nor Towers Watson Limited accepts any responsibility for any consequences arising from any third party relying on this report.

This report is based on data available to me as at the effective date of the update, ie 31 March 2014, and takes no account of developments after that date except where explicitly stated otherwise. The Trustee is responsible for the data on which this report is based. I have no reason to doubt its appropriateness for this purpose, but neither is it possible for me to confirm that it is correct.

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I have relied on the Scheme's Trust Deed & Rules dated 15 September 1997, as subsequently amended. A summary of the benefits taken into account was provided in my predecessor's report on the actuarial valuation of the Scheme as at 31 March 2012.

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