Willis Towers Watson

Akzo Nobel (CPS) Pension Scheme

Actuarial report as at 31 March 2016

26 September 2016

Purpose

This is the actuarial report in respect of the Akzo Nobel (CPS) Pension Scheme as at 31 March 2016 and I have prepared it for Akzo Novel (CPS) Pension Scheme Trustees Limited (the "Trustee"). As noted in the limitations section of this report, others may not rely on it.

The actuarial report is required under Part 3 of the Pensions Act 2004 in years when a full actuarial valuation is not conducted; a copy of this report must be provided to the Company within seven days of its receipt.

The main purpose of the actuarial report is to provide an approximate update of the development in the financial position of the Scheme relative to its statutory funding objective since the latest actuarial valuation and any subsequent actuarial reports. It should be considered in conjunction with the report on the actuarial valuation as at 31 March 2015.

Summary of results

I estimate that the technical provisions funding level as at 31 March 2016 has decreased slightly to 96% over the year, including allowance for the escrow account.

Details on the assumptions and approach used to produce this update are set out in the appendices.

Next steps

The Trustee is required to disclose to members, in a summary funding statement, certain outcomes of this actuarial assessment within a reasonable period. Members may also request a copy of this report.

The financial position of the Scheme and the level of Company contributions to be paid will be reviewed at the next actuarial valuation, which is expected to be carried out as at 31 March 2018.

In intervening years the Trustee will obtain annual actuarial reports, such as this one, on developments affecting the Scheme's assets and technical provisions. The next such report, which will have an effective date of 31 March 2017, must be completed by 31 March 2018.

Gareth Oxtoby
Fellow of the Institute and Faculty of Actuaries
26 September 2016

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http://eutct.internal.towerswatson.com/clients/615626/CPSTRRET2016/Documents/Akzo Nobel (CPS) actuarial report 31_3_2016.docx

Appendix 1: Statutory funding objective

The Trustee's only formal funding objective is the statutory funding objective under the Pensions Act 2004, which is to have sufficient and appropriate assets to cover the Scheme's technical provisions.

The method and assumptions for calculating the technical provisions as at 31 March 2015 were agreed between the Trustee and Company and documented in the Statement of Funding Principles dated 21 March 2016. The table below summarises the main financial assumptions used to estimate the Scheme's technical provisions for this actuarial report and the latest actuarial valuation.

Financial assumptions	**31 March 2016 % pa**	31 March 2015 % pa
Discount rate	**Term dependent rate starting at gilts+1.7% reducing linearly from 2016 over 20 years to gilts+0.5% pa**	Term dependent rate starting at gilts+1.7% reducing linearly from 2016 over 20 years to gilts+0.5% pa
Single equivalent average discount rate	**3.20% pa**	3.32% pa
Price inflation (RPI)	**3.15**	3.20
Price Inflation (CPI)	**2.15**	2.20
Pensionable earnings increases	**4.15**	4.20
Pension increases:		
- CPI, maximum 5%, minimum 0%	**2.15**	2.20
- CPI, maximum 5%, minimum 0%, underpinned by 70% RPI	**2.55**	2.60
- CPI, maximum 3%, minimum 0%	**2.15**	2.20
- RPI, maximum 5%, minimum 0%	**3.15**	3.20
- RPI, maximum 5%, minimum 3%	**3.70**	3.75
- 70% RPI, minimum 0%	**2.21**	2.24

I regard the financial assumptions adopted for this actuarial report as consistent with those used for determining the Scheme's technical provisions at 31 March 2015, adjusted for changes in market conditions, and in my view they are appropriate for the purpose of this actuarial report.

The fall in the single equivalent average discount rate since the valuation date is primarily due to changes in the gilt yield curve over the one year period since the valuation date.

The demographic assumptions used for the purposes of this update are consistent with those adopted for the actuarial valuation as at 31 March 2015, as set out in the Scheme's Statement of Funding Principles dated 21 March 2016.

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

Uncertainty about the benefits

No allowance has been made in the calculation of the technical provisions for possible changes to the benefits that may be required to ensure that the Scheme provisions in respect of Guaranteed Minimum Pensions do not unlawfully discriminate between male and female members.

The Trustee and the Company have not yet fully resolved how to extend the supplement to CPS Section pensioners. A reserve of £15 million was included for this in the 2015 technical provisions and the same reserve has been adopted for the purposes of this 2016 actuarial report.

There have been some inconsistencies between administrative practices and the current wording in the Rules, which were documented at the 2015 valuation report. The approach as set out in the 2015 valuation in this regard has been retained for the 2016 actuarial report.

The table below compares the estimated technical provisions as at the effective date of the actuarial report with the market value of the Scheme's assets and the corresponding figures from the latest actuarial valuation:

Valuation statement	**31 March 2016 £m**	31 March 2015 £m
Amount required to provide for the Scheme's liabilities in respect of:		
Defined benefits	**3,038**	3,067
AVCs and other money purchase benefits	**7**	9
Technical provisions[1]	**3,045**	3,076
Market value of assets shown in Scheme accounts	**2,874**	2,922
Past service (deficit)/surplus (technical provisions less assets)	**(171)**	(154)
Funding level (assets ÷ technical provisions)	**94%**	95%
Including escrow:		
Value of escrow account[2]	**45**	70
Market value of assets including escrow account	**2,919**	2,992
Past service (deficit)/surplus (technical provisions less assets)	**(126)**	(84)
Funding level (assets ÷ technical provisions)	**96%**	97%

Notes

1. The value of the technical provisions includes an adjustment for the value of the longevity swap. The value of the longevity swap in the Scheme accounts as at 31 March 2016 is -£73 million and the liabilities as at 31 March 2016 have been adjusted by this amount in order to value both assets and liabilities consistently.

2. The escrow account pays out £25m each year into the Scheme up until 31 March 2017, or until the account is emptied if earlier. Any balance remaining on the escrow account at 31 March 2017 is paid into the Scheme (provided the Payment Ceiling has not been reached).

Developments since the latest valuation

The funding position has remained broadly similar over the year to 31 March 2016, albeit the funding level has reduced slightly. The negative impact of weak investment market performance on the Scheme's assets has been offset to some extent by the deficit contribution of £21m and the reduction in liabilities arising from lower than anticipated pension increases at April 2016.

Appendix 2: Data, calculation approach and limitations

Asset information

The draft audited accounts supplied as at 31 March 2016 show that the market value of the Scheme's assets was £2,874 million. This includes Additional Voluntary Contributions (AVCs) which amounted to £7 million. The Scheme accounts also include an amount attributable to the value of the longevity swap of -£73 million.

Calculation approach

In carrying out the estimates of the updated financial position of the Scheme, I have not carried out full liability valuation calculations. Instead, I have estimated how the position may have moved over the year to 31 March 2016 using approximate methods based on the data provided.

The approach taken to calculate the estimates 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 difference in liability value from the quarterly monitoring report is the inclusion of the value of the AVCs (+£7 million) and also the amount attributable to the value of the longevity swap (-£73 million). Previously these were excluded from both the assets and liabilities.

Compliance

This report and the work involved in preparing it are within the scope of and comply with the Financial Reporting Council's Technical Actuarial Standards regarding pensions, reporting actuarial information, data and modelling.

General limitations

This report has been prepared for the Trustee for the purpose indicated. 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 a third party relying on this report.

Except with the prior written consent of Towers Watson Limited, the recipient may not reproduce, distribute or communicate (in whole or in part) this report to any other person other than to meet any statutory requirements.

The Trustee bears the primary responsibility for the accuracy of the information provided, but will, in turn, have relied on others for the maintenance of accurate data, including the Company who must provide and update certain membership information. Even so it is the Trustee's responsibility to ensure the adequacy of these arrangements. I have taken reasonable steps to satisfy myself that the data provided is of adequate quality for the purposes of the investigation, including carrying out basic tests to detect obvious inconsistencies. These checks have given me no reason to doubt the correctness of the information supplied. It is not possible, however, for me to confirm that the detailed information provided, including that in respect of individual members and the asset details, is correct.

This report has been based on data available to me as at the effective date of the actuarial report and takes no account of developments after that date except where explicitly stated otherwise.