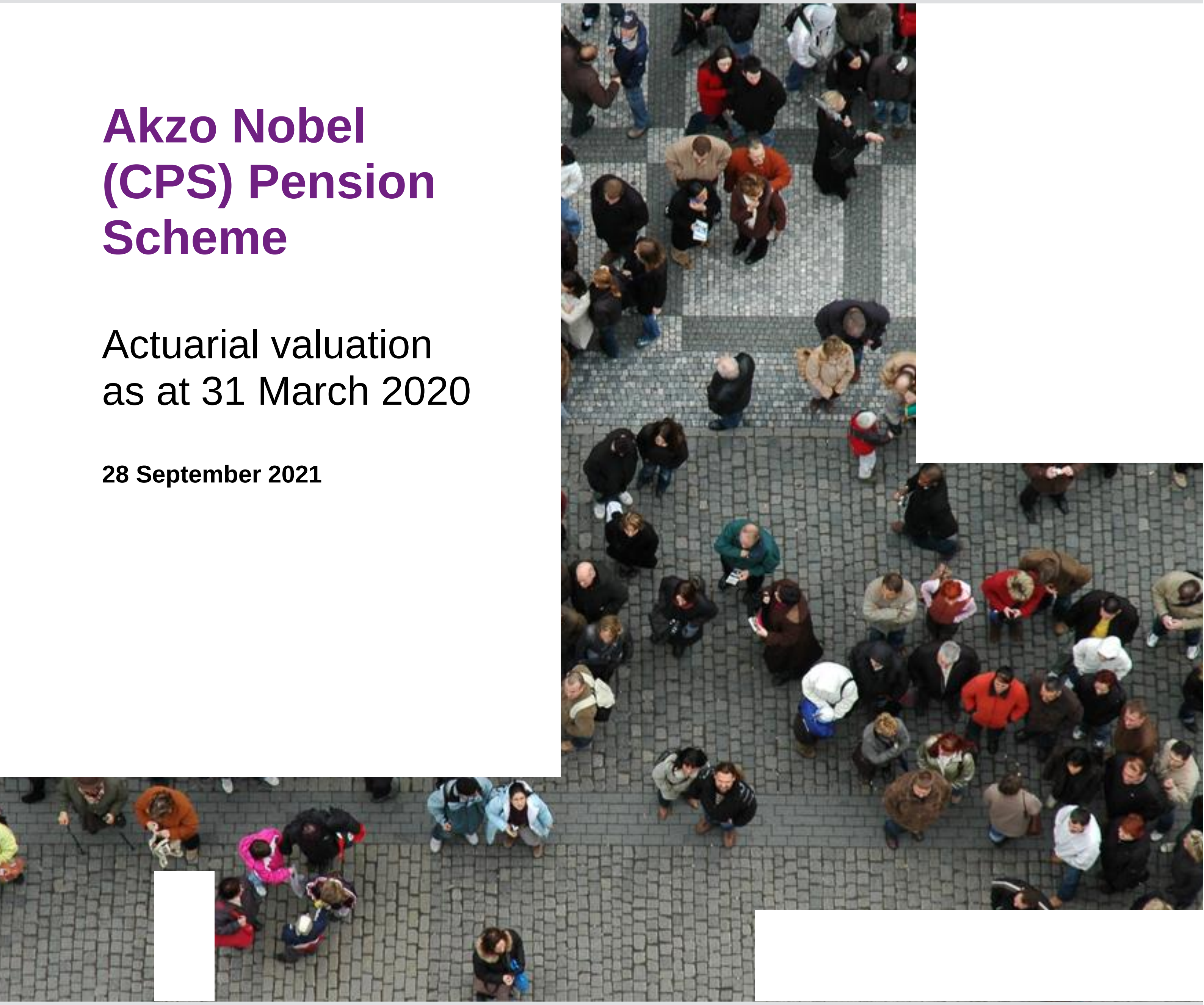
Akzo Nobel (CPS) Pension Scheme

Actuarial valuation as at 31 March 2020

28 September 2021



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Summary

The main results of the Scheme's actuarial valuation are as follows:

- Technical provisions funding level as at 31 March 2020 has increased to 98% (2017: 97%)

- Deficit of assets relative to technical provisions has decreased to £62 million (2017: £123 million)

- The Scheme Actuary's statutory estimate of solvency as at 31 March 2020 has increased to 87% (2017: 78%)

- The joint rate of contributions required to meet the increase in technical provisions arising from the accrual of future service benefits has increased to 59.7% of pensionable salaries (2017: 43.3%)

Contents

Throughout this report the following terms are used:

Scheme
Akzo Nobel (CPS) Pension Scheme

Trustee
Akzo Nobel (CPS) Pension Scheme Trustee Limited

Company
Akzo Nobel UK Ltd

Trust Deed & Rules
The Scheme's Trust Deed and Rules dated 15 September 1997, as subsequently amended

Introduction

Scope

This is my report on the actuarial valuation of the Akzo Nobel (CPS) Pension Scheme as at 31 March 2020 and I have prepared it for the Trustee. As noted in the Limitations section of this report, others may not rely on it.

The actuarial valuation is required under the terms of Clause 12 of the Trust Deed & Rules and Part 3 of the Pensions Act 2004; a copy of this report must be provided to the Company within seven days of its receipt.

The main purposes of the actuarial valuation are to review the financial position of the Scheme relative to its statutory funding objective and to determine the appropriate level of future contributions.

The report explains the financial position of the Scheme at 31 March 2020 using several different measures of its liabilities and how it has changed since the previous valuation at 31 March 2017. It also describes the strategy that has been agreed between the Trustee and Company for financing the Scheme in future and provides projections of the funding position at the expected date of the next valuation.

This report and the work involved in the actuarial valuation are within the scope of and comply with the Financial Reporting Council's Technical Actuarial Standards 100: Principles for Technical Actuarial Work and 300: Pensions.

Next steps

The Trustee is required to disclose to members, in a summary funding statement, certain outcomes of this actuarial valuation 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 at 31 March 2023.

In intervening years the Trustee will obtain annual actuarial reports on developments affecting the Scheme's assets and technical provisions. The next such report, which will have an effective date of 31 March 2021, must be completed by 31 March 2022.

Gareth Oxtoby
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a Willis Towers Watson Company

28 September 2021

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http://eutct.internal.towerswatson.com/clients/615626/AkzoNobel31Mar2020formalvaluation/Documents/7.%20Reporting%20(CO)/7.1%20Valn%20report/AN%20(CPS)%2031Mar2020%20valuation%20report.docx

Limitations

Third parties

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.

Data supplied

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 valuation and takes no account of developments after that date except where explicitly stated otherwise.

Some of the member data (such as date of birth and salary) required for the running of the Scheme, including for paying out the right benefits, is known as 'personal data'. The use of this data is regulated under the Data Protection Act, which places certain responsibilities on those who exercise control over the data (known as 'data controllers' under the Data Protection Act). Data controllers would include the Trustee of the Scheme and may also include the Scheme Actuary and Willis Towers Watson, so we have provided further details on the way we may use this data on our website at http://www.willistowerswatson.com/personal-data.

Assumptions

The choice of long-term assumptions, as set out in the Scheme's Statement of Funding Principles dated 28 September 2021, is the responsibility of the Trustee, in agreement with the Company, after taking my advice. They are only assumptions; they are not predictions and there is no guarantee that they will be borne out in practice. In fact I would expect the Scheme's experience from time to time to be better or worse than that assumed. The Trustee and the Company must be aware that there are uncertainties and risks involved in any course of action they choose based on results derived from these assumptions.

The funding of the Scheme is subject to a number of risks and it is not possible to make an allowance for all such risks in providing our advice. Unless stated, no explicit allowance has been made for any particular risk. In particular, no explicit allowance has be made for climate-related risks.

Funding

Statutory funding objective

The Trustee's primary 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 technical provisions are calculated by projecting the benefits (which are mostly pension payments) expected to be paid in each year after the valuation date and then discounting the resulting cashflows to obtain a present value. Benefits accrued in respect of service only up to the valuation date are taken into account in this calculation (although an allowance is made for an assumed level of future pensionable earnings increases for employed members). The main benefits taken into account in this actuarial valuation are summarised in the Additional Information section of this report.

The projections allow for benefit payments being made from the Scheme over the next 70 or so years. Most of these payments depend on future increases in price inflation statistics subject to specified limits.

The method and assumptions for calculating the technical provisions as at 31 March 2020 have been agreed between the Trustee and Company and are documented in the Statement of Funding Principles dated 28 September 2021.

The table below summarises the main assumptions used to calculate the Scheme's technical provisions for this and the previous actuarial valuation.

Financial assumptions	31 March 2020 % pa	31 March 2017 % pa
Discount rate	**Term dependent rate: gilts+1.1% pa until 31 March 2022 then reducing linearly to gilts+0.25% pa by 31 March 2030**	Term dependent rate: starting at gilts+1.2% pa reducing linearly to gilts+0.25% pa by 31 March 2030
RPI inflation	**Breakeven RPI curve**	3.50%
CPI inflation	**Breakeven RPI curve - 1.0% pa until 2030, no adjustment thereafter**	2.50%
Pensionable earnings increases		
- for purposes of determining Technical Provisions	**In line with deferred revaluation**	In line with deferred revaluation
- for purposes of determining future service contribution rate	**1.50%**	1.50%
Pension increases in payment		
- CPI, maximum 5%, minimum 0%	**RPI/CPI (subject to relevant cap and floor in each year)**	2.50%
- CPI, maximum 5%, minimum 0%, underpinned by 70% RPI		2.90%
- CPI, maximum 3%, minimum 0%	**No additional allowance for the risk that the 70% RPI underpin bites for certain CPS benefits**	2.50%
- RPI, maximum 5%, minimum 0%		3.50%
- RPI, maximum 5%, minimum 3%		3.80%
- 70% RPI, minimum 0%		2.45%
Increases in deferment	**Based on RPI for RPI-based revaluations and CPI for CPI-based revaluations**	Based on RPI for RPI-based revaluations and CPI for CPI-based revaluations

Demographic assumptions	31 March 2020	31 March 2017
Mortality base tables	**SAPS S3 all pensioner tables with an appropriate multiplier, as follows:**	SAPS S2 all pensioner tables with an appropriate multiplier, as follows:
- Male pensioners	**94% of S3PMA_M**	100% of S2PMA (CPS members and all dependants) 101% of S2PMA (Ex-UK members)
- Female Pensioners	**92% of S3PFA_M for female members** **92% of S3DFA for female dependants**	96% of S2PFA (former members) 100% of S2DFA (dependants)
	All the base tables include improvements from 2013 to 2020 in line with CMI_2019 with a long term trend of 1.5% pa,the core 7.0 value for the smoothing parameter (S_k) and initial addition to mortality improvements (A) of 0.25% pa	All the base tables include improvements from 2007 to 2017 in line with CMI_2016 with a long term trend of 1.5% pa
Future improvements in longevity	**CMI_2019 with a long term trend of 1.5% pa and initial addition to mortality improvements (A) of 0.25% pa from 2020**	CMI_2016 with a long term trend of 1.5% pa from 2017
Allowance for commutation	**Assume 20% of pension commuted, using factors 10% above current factors**	Assume 20% of pension commuted, using factors 10% above current factors

The table on the next page compares the Scheme's technical provisions as at the date of the actuarial valuation (31 March 2020) with the market value of the Scheme's assets and the corresponding figures from the previous actuarial valuation:

Valuation statement	**31 March 2020** **£m**	31 March 2017 **£m**
Amount required to provide for the Scheme's liabilities in respect of:		
Employed members	**234**	261
Deferred pensioners	**1,006**	1,087
Pensioners and dependants	**2,313**	2,162
Macpherson reserve[1]	**8**	11
Adjustment for value of longevity swap shown in the Scheme accounts[2]	**(116)**	(68)
GMP equalisation reserve	**50**	70
Money purchase AVCs	**4**	8
Technical provisions	**3,499**	3,531
Market value of assets[3]	**3,437**	3,408
Past service (deficit)/surplus (assets less technical provisions)	**(62)**	(123)
Funding level (assets ÷ technical provisions)	**98.2%**	96.5%

Notes

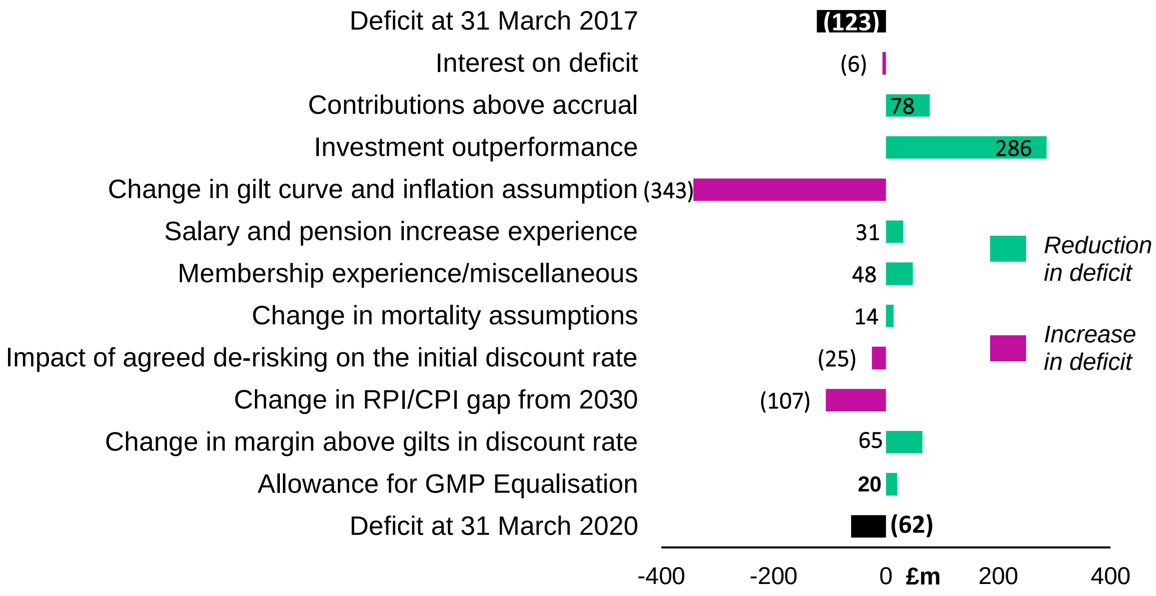
1. Macpherson members: this is an extra liability equal to the estimate value of the uplift applicable on a notional winding up of the Scheme for former members of the Macpherson Plan, calculated on a solvency basis.

2. Longevity swap: for pensioners and dependants covered by the longevity swap I have valued the Scheme's liability to pay the premiums due to ReAssure for those members. Therefore in order to value assets and liabilities consistently, the liabilities are adjusted by an amount equal to the value of the longevity swap in the Scheme accounts.

3. Asset value: the asset value shown as at 31 March 2020 excludes the value of the escrow account as at that date.

Developments since the previous valuation

The funding level of 98.2% as at 31 March 2020 is higher than the previous valuation. This reflects the combined impact of a number of different factors which, overall, have increased the funding level. These factors are shown over the next page.



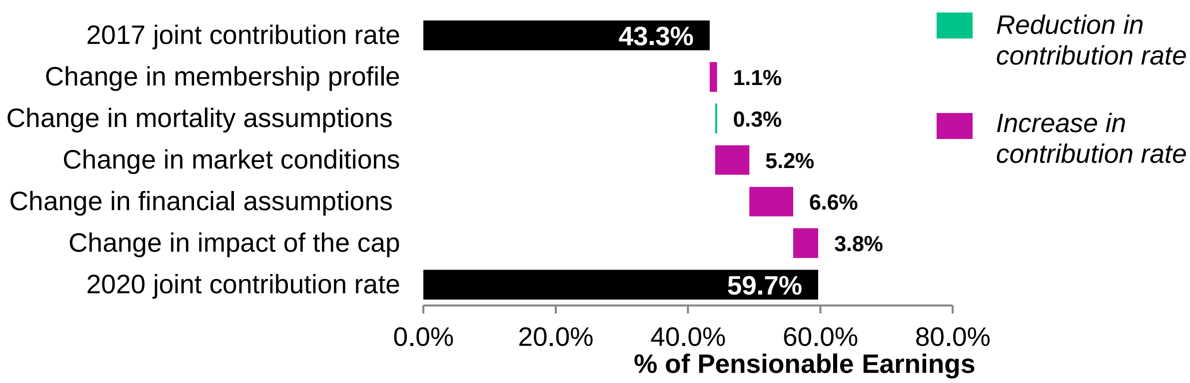
Contribution requirements

Future accrual of benefits

Under the method and assumptions described in the Statement of Funding Principles, the overall contribution rate needed to provide the benefits on the assumptions above (including the abatement referred to above) is 59.7% of Pensionable Earnings. This rate is before deduction of members' mandatory contributions.

The Trustee and the Company have agreed that the Company will pay future service contributions of 59.7% of Pensionable Earnings less members' mandatory contributions from 1 October 2021.

A reconciliation of the change in the required joint contribution rate and the main factors contributing to the change are shown below.



Recovery plan

As there were insufficient assets to cover the Scheme's technical provisions at the valuation date, the Trustee and the Company are required to agree a recovery plan. This specifies how, and by when, the statutory funding objective is expected to be met.

The Trustee and the Company have agreed a recovery plan such that:

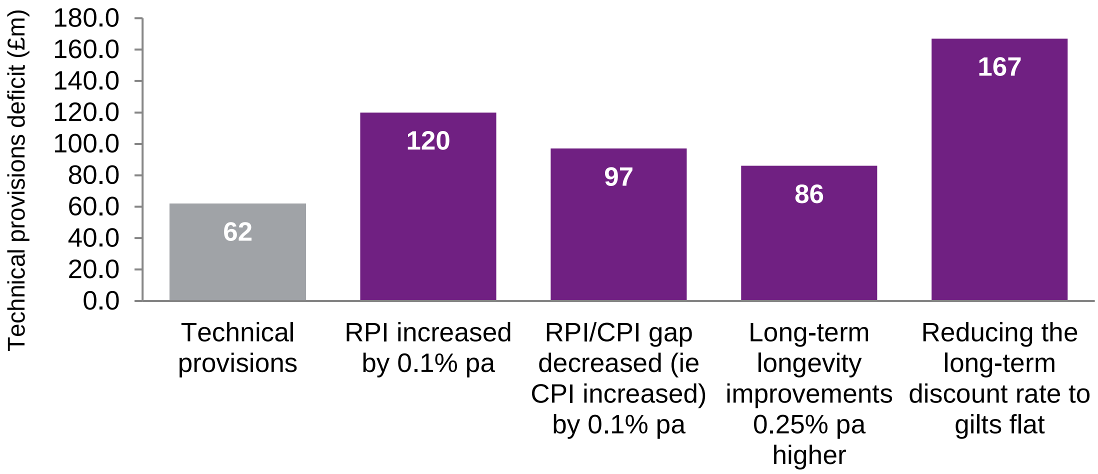
- The Company have already paid one additional contribution to the Scheme of £26.1m, in March 2021 plus
- An additional payment equal in amount to the remainng Deficit Escrow Assets following the expected relase of £20 million to the Company (expected to be approximately £4 million).
- The balance of the deficit will be assumed to be met by an allowance for investment outperformance relative to the liabilities over the period from 1 April 2020 to 30 September 2021.

If the assumptions documented in the Statement of Funding Principles are borne out in practice, the deficit will be removed by 30 September 2021.

Projections and sensitivities

Based on the assumptions underlying the calculation of the Scheme's technical provisions as at 31 March 2020 and allowing for contributions to be paid to the Scheme as described above, the funding level is expected to increase to 100% in broadly linear fashion by the end of the recovery period.

The chart below illustrates the sensitivity of the technical provisions deficit as at 31 March 2020 to variations of individual assumptions. (If more than one of these assumptions is varied, the effect may be greater than the sum of the changes from varying individual assumptions.)



Subsidiary funding objective

In addition to the statutory funding objective referred to above, the Trustee has a subsidiary funding objective, as set out in the Statement of Funding Principles dated 28 September 2021, which is to be able to provide benefits in accordance with the Scheme Rules with a very high level of security on a self-sufficiency basis with minimal reliance on further support from the Company.

For this purpose the Trustee would calculate the value of the liabilities allowing only for investment returns from risk-free assets such as gilts and including suitable loadings to cover risk and expenses. The Trustee has regard to the Scheme's anticipated progress towards meeting this subsidiary objective when considering funding and investment matters.

Solvency

Discontinuance

In the event that the Scheme is discontinued, the benefits of employed members would crystallise and become deferred pensions in the Scheme. There would be no entitlement to further accrual of benefits.

If the Scheme's discontinuance is not the result of the Company's insolvency, the Company would ultimately be required to pay to the Scheme any deficit between the Scheme Actuary's estimate of the full cost of securing Scheme benefits with an insurance company (including expenses) and the value of the Scheme's assets – the "employer debt". The Trustee would then normally try to buy insurance policies to secure future benefit payments. However, the Trustee may decide to run the Scheme as a closed fund for a period of years before buying such policies if it is confident that doing so is likely to produce higher benefits for members or if there are practical difficulties with buying insurance policies, such as a lack of market capacity.

If the Scheme's discontinuance is a result of the Company's insolvency, the "employer debt" would be determined as above and the Scheme would also be assessed for possible entry to the Pension Protection Fund ("PPF").

If the assessment concluded that the assets (including any funds recovered from the Company) were not sufficient to secure benefits equal to the PPF compensation then the Scheme would be admitted to and members compensated by the PPF. Otherwise the Scheme would be required to secure a higher level of benefits with an insurance company.

Statutory estimate of solvency

The Pensions Act 2004 requires that I provide the Trustee with an estimate of the solvency of the Scheme at the valuation date. Normally, this means an estimate of the proportion of the accrued benefits that could have been secured by buying insurance policies with the assets held by the Scheme at the valuation date. For this purpose I have assumed that no further payments are received from the Company.

I have assumed that the insurance company price would be calculated on an actuarial basis similar to that implied by bulk annuity quotations seen by Willis Towers Watson at around the valuation date. I have estimated the cost of implementing the winding-up based on the allowance made by the Pension Protection Fund for Section 179 valuation purposes, equivalent to some 1% of the estimated value of the solvency liabilities (leading to assumed winding-up costs of £40 million).

The table below summarises how the main assumptions used to estimate the Scheme's solvency position at this and the previous actuarial valuation differ from the assumptions used to calculate the technical provisions liabilities. Assumed rates for CPI-linked pension increases have also been amended consistently with the CPI assumption shown below.

Financial assumptions	**31 March 2020** **% pa**	31 March 2017 % pa
Pensioner discount rate	**Gilts + 0.35%**	Gilts - 0.15%
Non-pensioner discount rate	**Gilts - 0.15%**	Gilts - 0.35%
CPI inflation	**Breakeven RPI curve - 0.7% pa until 2030, - 0.4% pa thereafter**	3.00%

Demographic assumptions	31 March 2020	31 March 2017
Mortality base tables	**As technical provisions but with multipliers amended to 97% for males, 95% of female members and 95% for female dependants**	As technical provisions but with multipliers amended to 95% for CPS males, 97% for ex-UK males, 91% of female members and 93% for female dependants
Future improvements in longevity	**CMI_2018 with long term trend 1.5% pa, smoothing parameter of 7.5 and initial addition to mortality improvements (A) of 0.25% pa**	CMI_2016 with long term trend 1.5% pa
Allowance for commutation	**no allowance**	no allowance

My estimate of the solvency position of the Scheme as at 31 March 2020 is that the assets of the Scheme would have met 87% of the cost of buying insurance policies to secure the benefits at that date, based on the assumptions described above. Further details are set out in the table below alongside the corresponding details as at the previous valuation date:

Valuation statement	31 March 2020 £m	31 March 2017 £m
Total estimated cost	**3,941**	4,373
Market value of assets	**3,437**	3,408
Solvency (deficit)/surplus (total estimated cost less assets)	**(504)**	(965)
Solvency level (assets ÷ total estimated cost)	**87%**	78%

The improvement in the solvency level from 78% to 87% is due mainly to the investment performance of the Scheme's assets being better than assumed and some softening in insurance company prices.

The solvency estimate should not be relied upon to indicate the position on a future winding-up. Changes in market interest rates and in the supply and demand for annuities mean that the actual position at any particular point in time can be established only by obtaining specific quotations for buying the insurance policies required to secure the benefits.

The coverage for particular benefits depends on where they fall in the statutory priority order below. However, money purchase liabilities, such as those arising from members' Additional Voluntary Contributions (AVCs), are excluded from the statutory priority order; their treatment is determined by the Scheme's own rules and would normally be that they are secured in full before any other benefits.

- category 1 – benefits relating to certain pension annuities secured by the Scheme before 6 April 1997;
- category 2 – the cost to the Scheme of securing the compensation that would otherwise be payable by the PPF if the Company became insolvent;
- category 3 – benefits in respect of defined benefit AVCs not dealt with above;
- category 4 – all other pensions and benefits due under the Scheme, including pension increases (where these exceed those under the PPF).

The calculation of the Scheme's liabilities on the PPF's prescribed Section 179 basis is not covered in this report. However, I have estimated that the Scheme assets exceeded the Scheme's PPF Section 179 liabilities and hence the Scheme would probably not have qualified for entry to the PPF had the Company become insolvent at 31 March 2020. Members would therefore have received more than PPF compensation, but less than their full accrued benefits on the insolvency of the Company.

Relationship between the cost of securing benefits and the technical provisions

My estimate of the cost of securing benefits with an insurance company of £3,941 million is £442 million higher than the Scheme's technical provisions of £3,499 million.

The technical provisions are intended to be a prudent assessment of the assets required under the Scheme's investment strategy to meet future benefit payments as and when they fall due but with reliance placed on the Company being able to support the Scheme in future if the assumptions are not borne out in practice. By contrast the estimated cost of securing benefits with an insurance company is based on the price that an insurer might be likely to charge to take on the risks associated with operating the Scheme without having recourse to future contributions from the Company.

If the statutory funding objective had been exactly met on 31 March 2020 (ie there had been no funding surplus or deficit), I estimate that the solvency level of the Scheme would have been 89%. This compares with 80% at the 31 March 2017 actuarial valuation.

Projections and sensitivities

Based on the assumptions underlying the calculation of the Scheme's technical provisions as at 31 March 2020 and allowing for contributions to be paid to the Scheme summarised in the Funding section of this report, the solvency level is projected to broadly uniformly increase over the recovery period, and will increase by a slightly greater extent than the technical provisions funding level.

Additional Information

Risks

The table below summarises the main risks to the financial position of the Scheme and the actions taken to manage them:

Risk	Approach taken to risk
Company unable to pay contributions or make good deficits in the future	The Scheme has a Guarantee from the Company's parent Akzo Nobel N.V. That Guarantee has been reviewed and strengthened as part of the 2020 valuation process. At each valuation the Trustee takes advice from an independent specialist on the ability of the Company and Akzo Nobel N.V. to pay contributions to the Scheme and, in particular, to make good any shortfall that may arise if the experience of the Scheme is adverse. This advice is taken into account when determining the level of technical provisions and in considering the appropriateness of any recovery plan to remove a deficit relative to the technical provisions. Between valuations the Trustee monitors the Company and Akzo Nobel N.V.'s financial strength regularly.
Investment returns on the existing assets could be insufficient to meet the Trustee's funding objectives	The Trustee takes advice from the Scheme Actuary on possible assumptions for future investment returns. For the calculation of the Scheme's technical provisions, the Trustee has adopted discount rates that are lower than the expected returns on the Scheme assets. The Trustee is able to agree further contributions with the Company at subsequent valuations if future returns prove insufficient.
Investment returns on future income could be lower than the returns available at the valuation date	The Trustee takes this risk into account when determining the Scheme's technical provisions, by incorporating a level of prudence into the investment return assumptions. The Scheme currently hedges around 95% of its exposure to changes in interest rates.
Price inflation could be different from that assumed which could result in higher liabilities	The Trustee invests in assets that are expected to be correlated to future inflation in the longer term (sometimes referred to as "real" assets). This means that, over the longer term, such assets are expected to keep pace with inflation. Such assets include equities, property and index-linked bonds. The Scheme currently hedges around 95% of its exposure to inflation risk.
Falls in asset values might not be matched by similar falls in the value of the Scheme's liabilities	The Trustee considers this risk when determining the Scheme's investment strategy. It consults with the Company in order to understand the Company's appetite for bearing this risk and takes advice on the Company's ability to make good any shortfall that may arise. To the extent that such falls in asset values result in deficits at future valuations, the Company would be required to agree a recovery plan with the Trustee to restore full funding over a period of time.
Scheme members live longer than assumed	For the calculation of the technical provisions, the Trustee has adopted mortality assumptions that it regards as prudent estimates of the life expectancy of members so that higher reserves are targeted in respect of the risk than are expected to be necessary. The risk is hedged for the majority of current pensioners in the CPS section, due to the Scheme's longevity swap that was agreed in May 2012.
Options exercised by members could lead to increases in the Scheme's liabilities	The Trustee sets the terms for converting benefits in respect of member options on the basis of actuarial advice with the view to avoiding strains on the Scheme's finances as far as is reasonably possible without disadvantaging members. The terms are kept under regular review, generally following each actuarial valuation.
Legislative changes could lead to increases in the Scheme's liabilities	The Trustee takes legal and actuarial advice on changes in legislation and consults with the Company, where relevant.

Economic risk | Demographic risk | Legal risk

Benefits summary

The Scheme is a registered pension scheme under the Finance Act 2004 and was contracted-out of the State Second Pension until 5 April 2016.

The table below summarises the benefits payable to the members of the CPS section:

Normal Retirement Age (NRA):	Age 65 for men and women, but active members at 1 April 1993 have the right to retire from 60 with unreduced benefits.
Fund Earnings:	As defined by the Company (and see comment under 'Changes to the benefits' below) but broadly basic annual salary plus overtime, less the discard. The discard is a proportion of the basic state pension, as determined by the Company.
Average Fund Earnings:	The highest average Fund Earnings over any one of the final five tax years of membership, or the average of the best 3 consecutive pensionable earnings figures within the last 13 years before retirement or leaving pensionable service if higher.
Pensionable service:	Service as a contributing member of the Scheme plus 10% of the period to 31 March 2000 taken to the nearest month.
Retirement at NRA:	A pension equal to one-sixtieth of Average Fund Earnings for each year of pensionable service. A supplement is payable in addition as either a lump sum and/or temporary pension to some members.
Retirement before NRA:	An immediate pension calculated as for retirement at NRA but reduced to reflect early payment.
Lump sum at retirement:	On retirement part of the pension may be exchanged for a lump sum.
Death after retirement:	A dependant's pension equal to one-half of the pension which would have been in payment at the date of death assuming no pension was exchanged for a lump sum at retirement. Children's allowances are also paid.
Death in service:	A lump sum of 4 times Fund Earnings plus a refund of the member's contributions. A dependant's pension equal to one-half of the pension which the member would have received had he remained in pensionable service until NRA and Average Fund Earnings remain unchanged. Children's allowances are also paid.
Leaving service:	Members who have completed more than two years' pensionable service are entitled to a deferred pension calculated as for retirement at NRA but based on pensionable service up to the date of leaving. A pension of one-half of the member's deferred pension is paid to a surviving spouse on death before NRA.
Pension increases in deferment:	All members: - Benefits accrued before 1 April 1999: 70% RPI - Benefits accrued on or after 1 April 1999: nil The benefits are underpinned by the requirements of the preservation, revaluation and anti-franking legislation. The GMP part of a deferred pension is increased between leaving and GMP payment age by fixed rate revaluation.

Pension increases in payment:	Pre 1 April 1993 entrants	
	- Benefits accrued before 1 April 1999 in excess of GMP	higher of LPI5 and 70% RPI
	- Benefits accrued on or after 1 April 1999	LPI5
	Post 31 March 1993 entrants	
	- Benefits accrued before 6 April 1997 in excess of GMP	70% RPI
	- Benefits accrued between 6 April 1997 and 31 March 1999	higher of LPI5 and 70% RPI
	- Benefits accrued between 1 April 1999 and 5 April 2005	LPI5
	- Benefits accrued after 5 April 2005	LPI2.5
	For this purpose “LPI 5” is increases in line with CPI capped at 5% a year. “LPI 2.5” is increases in line with CPI capped at 2.5% a year.	
Contributions by, or on behalf of, members:	Members pay 7% of their Fund Earnings. Members may also pay additional voluntary contributions to increase their benefits. Some members have opted for salary sacrifice, in which case the member contributions are paid by their Employer The Employers pay the balance of the cost of meeting the Scheme's benefits.	

Different benefits are payable to members of the other sections, which are summarised in the booklets issued to the members:

- New Section – booklet dated July 2003
- NBI Section – Nobel Industries UK Pension Scheme booklet
- Macpherson Section – Machperson Plc Retirement Benefits Plan booklet dated 1988
- Chemical Section – Akzo Chemicals Pension Scheme Explanatory sheets for employees dated March 1990 and September 1992
- Fibres Section – Akzo Fibres Ltd Employee Pension Scheme members’ handbook dated March 1992
- Akcros Section – Harrison & Crosfield Group Pension Scheme members’ handbook dated July 1999
- Coatings Section – Akzo Coatings plc Employee Benefits Plan members’ handbook dated February 1994.

Discretionary benefits

No future discretionary benefits or discretionary increases in benefit have been allowed for in the calculation of the technical provisions and statutory estimate of solvency.

Uncertainty about the benefits

An allowance of £50 million has been made in the calculation of the technical provisions, and £55 million in the statutory estimate of solvency for possible changes to the benefits that are 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 resolved how to extend the supplement to CPS Section pensioners. An additional reserve of £18 million has been included for this valuation (2017: £17 million) in this regard.

The Trustee has received legal advice that the SERPS deduction (applicable to member in the Akcros section) is incorrectly described in the Scheme Rules. For the results shown in this valuation, the SERPS deduction has been valued in line with administration practice.

Administrative practice is to grant increases to Macpherson section pensions as if the entire pension in non-GMP. This is consistent with recent legal advice received by the Trustee, and we have therefore valued Macpherson section pensions in line with the administrative practice, consistent with the approach adopted for the 2017 valuation.

Some members covered by the rectification exercises for CPS spouses and Coatings pensioners have their pension frozen at the current level until their entitlement under the Rules catches up with their current rate of pension. On the grounds of materiality, we have made no allowance for the savings arising from this freeze.

Membership data

A summary of the data provided for this and the previous valuation is presented below.

Number of members

Total	31 March 2020			31 March 2017		
	Males	**Females**	**Total**	Males	Females	Total
Active members	243	77	**320**	362	101	**463**
Deferred pensioners	6,108	3,848	**9,956**	8,034	5,200	**13,234**
Pensioners/dependants	10,034	7,702	**17,736**	10,653	8,417	**19,070**
Total	**16,385**	**11,627**	**28,012**	**19,049**	**13,718**	**32,767**

Annual salary or pension

£000s	31 March 2020			31 March 2017		
	Males	**Females**	**Total**	Males	Females	Total
Pensionable salaries	13,065	2,967	**16,032**	18,351	3,528	**21,879**
Deferred pensions	20,328	5,618	**25,946**	26,160	6,891	**33,051**
Pensioners'/dependants	79,420	30,400	**109,820**	77,000	29,077	**106,077**

Average age

Years	31 March 2020			31 March 2017		
	Males	**Females**	**All**	Males	Females	All
Active members	53.1	49.6	**52.5**	52.1	48.9	**51.6**
Deferred pensioners	55.5	53.8	**55.1**	54.0	52.0	**53.7**
Pensioners/dependants	73.7	77.5	**74.8**	72.6	76.9	**73.8**

Notes on data tables:

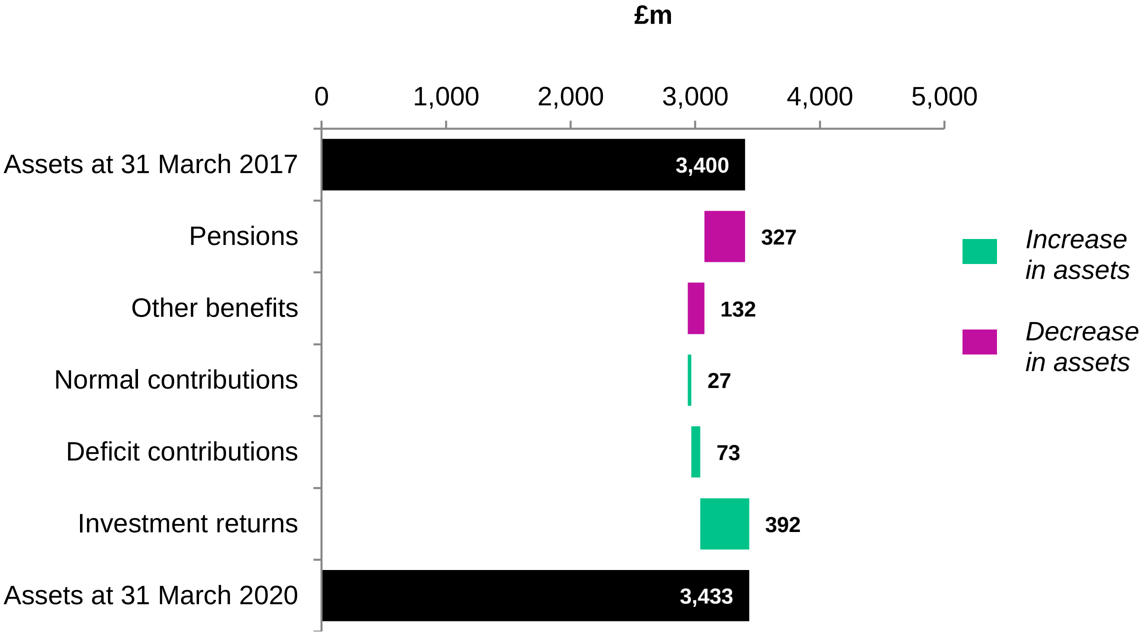
- Figures in respect of dependants exclude children
- Deferred pension amounts include revaluation to the valuation date
- Average ages are weighted by salaries for employed members and by pension amounts for other members

Asset information

Movements in the market value of assets

The audited accounts supplied as at 31 March 2020 show that the market value of the Scheme's assets was £3,433 million. This excludes Additional Voluntary Contributions (AVCs) which amounted to £4 million.

The change in the Scheme's assets (excluding AVCs) from £3,400 million as at 31 March 2017 to £3,433 million as at 31 March 2020 is detailed in the Trustee's Report and Financial Statements over that period. The chart below summarises a broad reconciliation of the change (excluding AVCs):



Notes

1. The investment returns figure includes the impact of the change in value of the ReAssure longevity swap.
2. Figures shown exclude the Deficit Escrow Account

The 2020 accounts include a negative £116 million adjustment to reflect the value of the ReAssure longevity swap. This adjustment represents the difference in the value of the premiums payable to ReAssure and the benefits payable to the members, on a market consistent basis as required under accounting guidelines. In particular, it is based on swap yields and ReAssure's best estimate of future mortality rates.

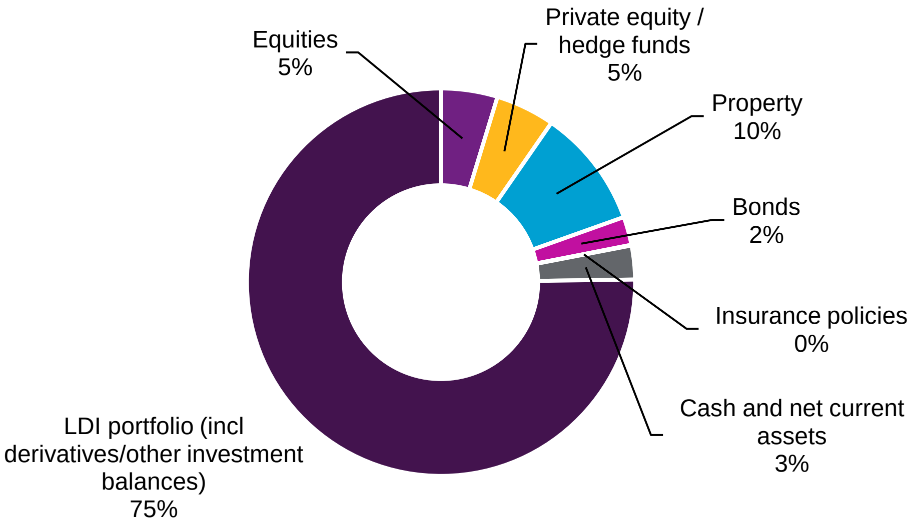
The assumptions used to assess the value of the longevity swap in the Scheme accounts are not the same as the technical provision assumptions. To ensure the value of the assets and liabilities are consistent, we have taken the following approach:

- In the pensioner liabilities, we have valued the premiums due to ReAssure for those covered by the longevity swap, and the value of the Scheme benefits for those pensioners not covered by the longevity swap, using the technical provisions assumptions.

- Ideally, the asset value used would exclude any adjustment for the longevity swap. However, legislation requires the audited asset value to be used. We have therefore adjusted the liability value by the same amount as included in the asset value in the Scheme accounts. This approach has no impact on the deficit.

Investment Strategy

A summary of the Scheme's strategic investment benchmark at 31 March 2020 is set out below:



The assets, excluding AVCs, were invested as summarised below as at 31 March 2020 and 31 March 2017:

	Market value as at 31 March 2020 **£m**	Market value as at **31 March 2017** £m
Equities	**169.0**	741.9
Fixed interest securities and index linked securities	**-**	501.9
Property	**352.1**	289.2
Multi-strategy credit	**-**	155.7
LDI portfolio	**2,670.3**	1,369.7
Reinsurance Securities Fund	**9.1**	131.3
Longevity Hedge	**(116.5)**	(67.8)
CLO debt	**83.8**	103.7
Infrastructure	**163.7**	44.2
Cash deposits and other investments	**101.9**	129.5
Total	**3,433.4**	3,399.3

Statutory Certificate

Actuarial certification for the purposes of regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: **Akzo Nobel (CPS) Pension Scheme**

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 31 March 2020 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the Statement of Funding Principles dated 28 September 2021.

Gareth Oxtoby
Fellow of the Institute and Faculty of Actuaries
Towers Watson Limited, a Willis Towers Watson Company

28 September 2021

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Glossary

This glossary describes briefly the terminology of the regime for funding defined benefit pension schemes as introduced by the Pensions Act 2004.

Actuarial report: A report prepared by the Scheme Actuary in years when an actuarial valuation is not carried out that provides an update on developments affecting the Scheme's assets and technical provisions over the year.

Actuarial valuation: A report prepared by the Scheme Actuary that includes the results of the calculation of the technical provisions based on the assumptions specified in the Statement of Funding Principles and assesses whether the assets are sufficient to meet the statutory funding target.

Contingent asset: An arrangement separate from the assets already held by the trustees under trust (or agreed and documented in the schedule of contributions) that provides for the trustees to receive certain assets should certain pre-defined events take place.

Covenant: This represents an employer's legal obligation and its ability to provide the financial support to a scheme that may be required now and in the future. The trustees' assessment of the sponsor's covenant will inform both investment and funding decisions.

Demographic assumptions: Assumptions relating to social statistics for Scheme members, which can affect the form, level or timing of benefits members or their dependants receive. This can include levels of mortality experienced by the Scheme and the proportion of members electing to exercise benefit options.

Discount rates: Assumptions used to place a capital value at the valuation date on projected future benefit cash flows from the Scheme. The lower the discount rate the higher the resulting capital value.

Financial assumptions: Assumptions relating to future economic factors which will affect the funding position of the Scheme, such as inflation and investment returns.

Funding target/objective: An objective to have a particular level of assets relative to the accrued liabilities of the Scheme. See also statutory funding objective.

Pension Protection Fund (PPF): Provides compensation to members of an eligible occupational scheme in the event that it is wound up with insufficient assets and the employer is insolvent. The level of PPF compensation provided would not usually be at the full level of the benefits that would otherwise have been due.

Prudence: Regulations require that assumptions are chosen prudently when assessing the level of technical provisions, although they do not define this term. I have interpreted prudence to be the level of conservatism in the assumptions. Where this is interpreted quantitatively, assumptions said to be prudent would result in higher technical provisions than a "best estimate" assumption (where a "best estimate" assumption is one where there is a 50% chance that the actual outcome will be higher or lower than assumed).

The Pensions Regulator: The regulatory supervisor for occupational pension schemes with statutory objectives to protect members' benefits and the Pension Protection Fund, and statutory powers to take interventionist action.

Recovery plan: A document required where an actuarial valuation discloses that the statutory funding objective is not met (ie the assets held are less than the technical provisions). It is a formal agreement between the trustees and the employer that sets out the steps to be taken to achieve the statutory funding objective by the end of an agreed period (the "recovery period").

Schedule of contributions: A document that sets out in detail the agreed contributions payable to a scheme by members and the employers and the dates by which such contributions are to be paid. It includes, but is not limited to, contributions agreed under a recovery plan.

Scheme Actuary: The individual actuary appointed (under the Pensions Act 1995) by the trustees to perform certain statutory duties for the Scheme.

Scheme-Specific Funding Regime: A term used to refer to the legislative and regulatory rules that stem from the Pension Act 2004 and which govern the funding of occupational defined benefit pension schemes in the UK.

Secondary funding target: The secondary funding target is a stronger target than the statutory funding objective, and one to which the trustees aspire over the longer term. Once 100% funding on the technical provisions basis is reached, the secondary funding target may be expected to be achieved by a combination of investment returns and contributions.

Statement of Funding Principles (SFP): The SFP sets out the trustees' policy for ensuring that the statutory funding objective and any other funding objectives are met and, in particular, the assumptions for calculating the technical provisions at the effective date of the actuarial valuation. The trustees are responsible for preparing and maintaining this document, taking into account the advice of the Scheme Actuary and in many cases seeking the agreement of the employer.

Statement of Investment Principles (SIP): The SIP sets out the trustees' policy for investing the Scheme's assets. The trustees are responsible for preparing and maintaining this document, taking into account written investment advice from the appointed investment advisor and consulting the employer before any changes are made.

Statutory estimate of solvency: An estimate of the cost of discharging a scheme's liability to pay benefits through the purchase of insurance policies in respect of each member's full benefit entitlement under the Scheme (unless the actuary considers that it is not practicable to make an estimate on this basis, in which case the estimate of solvency can be prepared on a basis that the actuary considers appropriate).

Statutory funding objective: To have sufficient and appropriate assets to cover the Scheme's technical provisions.

Statutory priority order: The order in which the assets of a scheme must be applied in securing the benefits of different members in the event of it being wound up. The order is consistent with the Pension Protection Fund (PPF) because benefits covered by the PPF are the highest priority class of defined benefit liabilities.

Summary funding statement: An update sent to members following the completion of each actuarial valuation or actuarial report informing them of the assessed financial position of the Scheme.

Technical provisions: The amount of assets required to make provision for the accrued liabilities of the scheme. The technical provisions are calculated using the method and assumptions set out in the Statement of Funding Principles.

Winding-up: This is a particular method of discharging a scheme's liability to pay benefits. It typically arises where the employer no longer provides financial support to it (for example if it becomes insolvent) and would usually involve using the scheme's assets to buy insurance policies that pay as much of the scheme's benefits as possible in accordance with the statutory priority order.