HEALTH WEALTH CAREER

SCHEME FUNDING REPORT OF THE ACTUARIAL VALUATION

BOWER GROUP RETIREMENT BENEFITS SCHEME

AS AT 31 DECEMBER 2015

MAKE TOMORROW, TODAY  MERCER
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MERCER
1
INTRODUCTION

This report is addressed to the Trustee (the “Trustee”) of the Bower Group Retirement Benefits Scheme (“the Scheme”) and is provided to meet the requirements of Section 224(2)(a) of the Pensions Act 2004. It describes the factors considered by the Trustee when carrying out the actuarial valuation as at 31 December 2015 and the decisions reached as a result.

The purpose of the actuarial valuation is for the Trustee to determine:

- The expected cost of providing the benefits built up by members at the valuation date (the “liabilities”) and compare this against the funds held by the Scheme (the “assets”).
- An appropriate plan for making up the shortfall if the Scheme has less assets than liabilities.
- The contributions needed to cover the costs incurred in running the Scheme.
- Whether the Scheme would have sufficient resources were it to discontinue.

This report has been prepared in accordance with the version of the Pensions Technical Actuarial Standard current at the date this report is signed. It also complies with the relevant requirements of Technical Actuarial Standards R: Reporting Actuarial Information, D: Data and M: Modelling, where they apply to this report. These Standards are all issued by the Financial Reporting Council. The calculations referred to in the report use methods and assumptions appropriate for reviewing the financial position of the Scheme and determining a contribution rate for the future. Mercer does not accept liability to any third party in respect of this report; nor do we accept liability to the Trustee if the information provided in this report is used for any purpose other than that stated. The report may be disclosed to members and others who have a statutory right to see it. If the Trustee and Mercer consent, this report may be disclosed to other third parties.
KEY RESULTS OF THE SCHEME FUNDING ASSESSMENT

PAST SERVICE FUNDING POSITION

The Trustee has decided on a funding objective and agreed it with the Employer to maintain assets equal to the liabilities where those liabilities are assessed on a ‘solvency’ basis.

The table below compares the assets and liabilities of the Scheme at 31 December 2015. Figures are also shown for the last valuation as at 31 December 2012 for comparison.

<table>
<thead>
<tr>
<th></th>
<th>£000s</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>31 December 2015</td>
</tr>
<tr>
<td>Total assets</td>
<td>12,548</td>
</tr>
<tr>
<td>Liabilities:</td>
<td></td>
</tr>
<tr>
<td>Deferred pensioners</td>
<td>15,584</td>
</tr>
<tr>
<td>Pensioners</td>
<td>4,126</td>
</tr>
<tr>
<td>Expenses</td>
<td>841</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>20,551</td>
</tr>
<tr>
<td>Past service surplus / (shortfall)</td>
<td>(8,003)</td>
</tr>
<tr>
<td>Funding level</td>
<td>61%</td>
</tr>
</tbody>
</table>

The table shows that at 31 December 2015 there was a shortfall of £8.0m. An alternative way of expressing the position is that the Scheme’s assets were sufficient to cover 61% of its liabilities – this percentage is known as the funding level of the Scheme.

At the previous valuation at 31 December 2012 the shortfall was £7.8m, equivalent to a funding level of 55%. The key reasons for the changes between the two valuations are considered in Section 3.

The liability value at 31 December 2015 shown in the table above is known as the Scheme’s “technical provisions”. The technical provisions are calculated using assumptions that the Trustee has determined are appropriate, which in this case is a “solvency basis” or “wind-up basis” being the Trustee’s approximate assessment of what an insurer might typically use, at this time, to base buyout premia on. The assumptions take into consideration the Trustee’s assessment of the strength of the Employer covenant, having consulted with the Employer over the approach. Throughout this report “Employer” means Dudley Bower Group plc.
The solvency basis looks at the position if the Employer were to become insolvent or decide not to support the Scheme and the Trustee decided to wind-up the Scheme and secure the benefits built up with an insurance company. The Trustee’s assumptions for technical provisions when calculating the value of the Scheme’s liabilities is an estimate of the assumptions insurance companies would use to determine the price they would charge to provide the benefits. Although the solvency basis has been used to value the liabilities, this does not mean that the Trustee or Employer is considering winding up the Scheme.

If the Scheme had been wound up at 31 December 2015, on average, members could only expect to receive 61% of the benefits earned to date (although the percentage coverage would differ between members depending on their age and when their benefit was earned).

In practice, if the Scheme was wound up due to the Employer becoming insolvent, the members may be eligible for compensation from the Pension Protection Fund (PPF) if the Scheme’s assets were less than needed to buy that compensation from an insurance company. If this was the case, members could receive a higher proportion of the benefits they have earned to date. Further details of the compensation payable from the PPF are given in Appendix E.

CORRECTING THE SHORTFALL

The Trustee and Employer have agreed a plan to pay off the shortfall of £8.0m which requires the Employer to make the following payments.

<table>
<thead>
<tr>
<th>DATE</th>
<th>PAYMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>From 31 December 2015 to 31 May 2028</td>
<td>£698,490 p.a.</td>
</tr>
</tbody>
</table>

Note that the annual payment amount is the same as agreed for the last valuation, but the end date has been extended from 30 June 2023 to 31 May 2028; and it has been assumed at this valuation that the proportion of growth assets held will be 30% of the total assets over the duration of the recovery plan.
3

EXPERIENCE SINCE LAST VALUATION

SUMMARY OF KEY INTER-VALUATION EXPERIENCE
The last actuarial valuation was carried out with an effective date of 31 December 2012. Since the last valuation, no significant Scheme events or changes to benefits have occurred.

Pensions in payment were increased as guaranteed under the Scheme where pensions accrued after 5 April 1997 as follows:

- 1 March 2013 3.1%
- 1 March 2014 2.7%
- 1 March 2015 2.3%

During the inter-valuation period, the investment return on the Scheme’s assets has been 7.3% per annum.

The table summarises the contributions paid over the inter-valuation period. These figures are from the audited accounts and are at least in line with the rates agreed at the last actuarial valuation.

<table>
<thead>
<tr>
<th>DATE</th>
<th>EMPLOYER CONTRIBUTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 January 2013 to 31 December 2013</td>
<td>£699,000</td>
</tr>
<tr>
<td>1 January 2014 to 31 December 2014</td>
<td>£700,000</td>
</tr>
<tr>
<td>1 January 2015 to 31 December 2015</td>
<td>£699,000</td>
</tr>
</tbody>
</table>
REASONS FOR THE CHANGE IN FUNDING POSITION SINCE THE LAST ACTUARIAL VALUATION

The shortfall at the last valuation date was £7.8m. The table below sets out the main reasons for the change in the shortfall between 31 December 2012 and 31 December 2015.

<table>
<thead>
<tr>
<th>Reason</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shortfall at 31 December 2012</td>
<td>(7.8)</td>
</tr>
<tr>
<td>Expected interest on shortfall</td>
<td>(0.8)</td>
</tr>
<tr>
<td>Employer contributions</td>
<td>2.2</td>
</tr>
<tr>
<td>Higher than expected investment returns</td>
<td>1.1</td>
</tr>
<tr>
<td>Lower than expected pension increases</td>
<td>-</td>
</tr>
<tr>
<td>Lower than expected deferred revaluation</td>
<td>0.4</td>
</tr>
<tr>
<td>Change in financial conditions / assumptions</td>
<td>(3.3)</td>
</tr>
<tr>
<td>Miscellaneous / membership movements</td>
<td>0.2</td>
</tr>
<tr>
<td>Shortfall at 31 December 2015</td>
<td>(8.0)</td>
</tr>
</tbody>
</table>
PROJECTED FUTURE FUNDING LEVEL AND VOLATILITY

PROJECTED FUNDING POSITION AT NEXT ACTUARIAL VALUATION
As part of this valuation, the Trustee has agreed with the Employer to put in place a recovery plan to pay off the shortfall by 31 May 2028. The next actuarial valuation will take place with an effective date no later than 31 December 2018. If experience up to that date is in line with the assumptions made for this current actuarial valuation and contributions are paid at the agreed amounts, the shortfall at 31 December 2018 would be £6.4m, equivalent to a funding level of 72%.

MATERIAL RISKS FACED BY THE SCHEME
The Scheme is subject to some potentially material risks that are, to an extent, outside the Trustee’s control, but could affect the funding level. Any material worsening of the funding level will mean more contributions are needed (either at an increased rate or at the same rate over a longer period) to be able to provide the benefits built up in the Scheme – unless experience acts in other ways to improve the funding level. Examples of such risks, and how the Trustee manages them, are:

- If the Employer becomes unable to pay contributions or to make good deficits in the future, the Scheme’s assets will be lower than expected and the funding level will be worse than expected. The Trustee has taken the following actions to mitigate (but not fully remove) the risk:
  - The Trustee regularly monitors the financial strength of the Employer and has received reports from an independent advisor (Gazelle) advising on the covenant of Carillion plc.

- If future investment returns on assets are lower than assumed in the valuation, the Scheme’s assets will be lower, and the funding level worse than expected. The Trustee has taken the following actions to mitigate (but not fully remove) the risk:
  - The Trustee has a process in place to monitor investment performance quarterly and it reviews the Scheme’s investment strategy alongside each actuarial valuation.
  - The Scheme’s investment strategy and valuation basis takes the make up of the Scheme’s membership into account, which reduces the effect of market movements on funding levels.
  - The Trustee will try to capture any “out-performance” over the expected recovery plan to permit de-risking of the assets.

- If gilt yields change such that the liability values increase by more (or decrease by less) than the assets, the funding level against the technical provisions will be worse than expected. The Trustee has taken the following actions to mitigate (but not fully remove) the risk:
  - A proportion of the Scheme’s assets is invested in gilts, which will help to offset some of the risk associated with movements in gilt yields.
• If improvements in life expectancy are greater than assumed, the cost of benefits will increase because members are living longer than expected. This will mean the funding level will be worse than expected. The Trustee has taken the following actions to mitigate (but not fully remove) the risk:

The Trustee will review the Scheme’s experience as part of each triennial valuation to ensure the assumptions made about members’ life expectancy take the most recent information available into account.

SENSITIVITY OF FUNDING POSITION TO CHANGES IN KEY ASSUMPTIONS

The value placed on the Scheme’s liabilities is critically dependent on the assumptions used to carry out the calculations. If future experience differs from the assumptions the Trustee has used after consulting with the Employer, then the projected future funding level will be different from the level described at the start of Section 4.

To illustrate how sensitive the funding level is to experience being different from assumed, the table below shows how the valuation results at 31 December 2015 would have differed given small changes in the key assumptions:

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Increase in Shortfall (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-retirement investment return is 0.25% lower than assumed</td>
<td>0.4</td>
</tr>
<tr>
<td>Post-retirement investment return is 0.25% lower than assumed</td>
<td>0.8</td>
</tr>
<tr>
<td>Long-term inflation is 0.25% higher than assumed</td>
<td>1.0</td>
</tr>
<tr>
<td>Members live one year longer than assumed</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Changes in the assumptions in the opposite direction would have a similar but opposite effect on the revealed shortfall. For example, if the pre-retirement investment return is 0.25% higher than assumed, the 31 December 2015 shortfall would have reduced by around £0.4m.
ASSUMPTIONS

HOW THE BENEFITS ARE VALUED

In order to calculate the liabilities, the Trustee needs to make assumptions about various factors that affect the cost of the benefits provided by the Scheme — for example, how long members will live, or the future level of inflation. The table below explains the key assumptions being made in the valuation.

<table>
<thead>
<tr>
<th>ASSUMPTION</th>
<th>WHY IT IS IMPORTANT AND HOW IT IMPACTS ON THE LIABILITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate</td>
<td>The majority of benefits in a pension scheme are paid many years in the future. In the period before the benefits are paid, the Trustee invest the funds held by the Scheme with the aim of achieving a return on those funds. When calculating how much money is needed now to make these benefit payments, it is appropriate to make allowance for the investment return that is expected to be earned on these funds. This is known as &quot;discounting&quot;. The higher the investment return achieved, the less money needs to be set aside now to pay for benefits. The calculation reflects this by placing a lower value on the liabilities if the &quot;discount rate&quot; is higher. The Trustee's investment policy is to invest the funds held in respect of retired members in lower risk assets (which therefore have a lower expected return) than those held for members who are still some way from retirement. Therefore, the discount rate assumption is split into pre and post-retirement rates.</td>
</tr>
<tr>
<td>Inflation</td>
<td>Pensions in payment typically increase in line with price inflation, subject to a cap. A higher inflation assumption will, all other things being equal, lead to a higher value being placed on the liabilities.</td>
</tr>
<tr>
<td>Life expectancy</td>
<td>Pensions are paid while the member (and potentially their spouse or partner) is alive. The longer people live, the greater is the cost of providing a pension. Allowing for longer life expectancy therefore increases the liabilities.</td>
</tr>
</tbody>
</table>

The liabilities of the Scheme are calculated by projecting forward all of the future benefit cash flows and discounting them back to the effective date of the valuation, using these assumptions. For example, the liability for a single pensioner is calculated by estimating the amount of each pension payment he/she will receive in the future, multiplying by the probability that the member will still be alive by the date of each payment, then discounting each payment back to the effective date of the valuation and then summing up all of these discounted amounts. The liabilities for the whole Scheme are calculated by summing the liabilities for each of the individual members.
ASSUMPTIONS USED TO CALCULATE TECHNICAL PROVISIONS

The tables below summarise the key assumptions used in the calculation of the technical provisions as at 31 December 2015 (which in this case is an estimated solvency basis) and those used for the 31 December 2012 actuarial valuation.

The solvency basis looks at the Scheme’s funding on the assumption that it had been discontinued on the valuation date and the benefits bought out with an insurance company. In doing this, it is assumed that no further benefits accrue and no further contributions are paid, but given that the Scheme is already closed members do not accrue further benefits and contributions are not paid in respect of such accrual. There is no allowance for any discretionary benefits being paid in the future.

The wind-up position has been estimated using Mercer’s experience of recent buyout quotations and our understanding of the factors affecting this market. Detailed analysis of the reserves that would need to be held by an insurance company has not been carried out. Consideration has been given to the market terms for the financial instruments in which insurance companies would be expected to invest. An approximate allowance has been made for the reserves an insurance company would maintain to cover the risks involved and the statutory reserving requirements. The results are, therefore, only a guide to the wind-up position and should not be taken as a quotation. Market changes, both in interest rates and in supply and demand for buyout business, mean that if a buyout ultimately proceeds, actual quotations may differ materially.

The wind-up funding level is only an estimate since it is not based on an actual quotation. The true position could only be established by completing a buyout exercise.

The table below sets out the assumptions used in the calculation of the technical provisions as at 31 December 2015, along with those from the 31 December 2012 valuation shown for comparison.

<table>
<thead>
<tr>
<th>FINANCIAL ASSUMPTIONS</th>
<th>31 December 2015</th>
<th>31 December 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-retirement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- under 15 years to retirement</td>
<td>3.20% p.a.</td>
<td>3.60% p.a.</td>
</tr>
<tr>
<td>- over 15 years to retirement</td>
<td>2.10% p.a.</td>
<td>3.60% p.a.</td>
</tr>
<tr>
<td>Post-retirement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- pensioners</td>
<td>3.00% p.a.</td>
<td>2.90% p.a.</td>
</tr>
<tr>
<td>- non-pensioners</td>
<td>2.60% p.a.</td>
<td>3.40% p.a.</td>
</tr>
<tr>
<td>Price inflation (RPI/CPI)</td>
<td>3.30% p.a.</td>
<td>3.10% p.a.</td>
</tr>
<tr>
<td>Pension increases in payment:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LPI (5% maximum)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- pensioners</td>
<td>3.20% p.a.</td>
<td>3.00% p.a.</td>
</tr>
<tr>
<td>- non-pensioners</td>
<td>3.90% p.a.</td>
<td>3.70% p.a.</td>
</tr>
</tbody>
</table>
The mortality assumptions used for the 31 December 2015 valuation result in the following life expectancies. This information may be useful to the Trustee when completing the annual scheme return.

<table>
<thead>
<tr>
<th>COHORT</th>
<th>PERIOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life expectancy for a male aged 65 now</td>
<td>23.4</td>
</tr>
<tr>
<td>Life expectancy at 65 for a male aged 45 now</td>
<td>26.6</td>
</tr>
<tr>
<td>Life expectancy for a female aged 65 now</td>
<td>24.8</td>
</tr>
<tr>
<td>Life expectancy at 65 for a female aged 45 now</td>
<td>27.1</td>
</tr>
</tbody>
</table>

These assumptions have been selected by the Trustee to reflect its funding objective, after consulting with the Employer. In setting the assumptions, the Trustee has assumed that the Scheme is ongoing (it is not in the process of being wound up), but has used ‘proxy wind-up’ actuarial assumptions as if the Scheme were being bought out. The Trustee’s stated funding objective (which has also been consulted on with the Employer) is to reach a position where the assets are sufficient to fully cover the technical provisions by 31 May 2028, at which time, if all the assumptions are borne out in practice and an insurer will replicate the Trustee’s technical provisions assumptions, the Scheme benefits could be secured in the market place.

As the Trustee’s current investment policy includes investment in different assets than would typically be held by an insurer, the wind-up position on a given date may be significantly different from the position estimated at the valuation date.
SUMMARY MEMBERSHIP DATA

The membership data is summarised in the table below, with figures at the previous valuation shown for comparison.

Data in relation to members of the Scheme were supplied by the Trustee, via the Scheme's administrator. The accuracy of the data provided has been relied on. While reasonableness checks on the data have been carried out, they do not guarantee the completeness or the accuracy of the data. Consequently Mercer does not accept any liability in respect of its advice where it has relied on data that is incomplete or inaccurate.

The membership data was provided by JLT Employee Benefits who were the Scheme administrators at the date of the valuation.

<table>
<thead>
<tr>
<th></th>
<th>31 December 2015</th>
<th>31 December 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deferred pensioners</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number</td>
<td>175</td>
<td>206</td>
</tr>
<tr>
<td>Total deferred pensions revalued to valuation date (£ p.a.)</td>
<td>497,583</td>
<td>569,000</td>
</tr>
<tr>
<td>Average deferred pension (£ p.a.)</td>
<td>2,843</td>
<td>2,762</td>
</tr>
<tr>
<td>Average age (weighted)</td>
<td>54.7</td>
<td>53.4</td>
</tr>
<tr>
<td><strong>Pensioners</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number</td>
<td>94</td>
<td>66</td>
</tr>
<tr>
<td>Total pensions payable (£ p.a.) *</td>
<td>200,215</td>
<td>137,000</td>
</tr>
<tr>
<td>Average pension (£ p.a.)</td>
<td>2,130</td>
<td>2,068</td>
</tr>
<tr>
<td>Average age (weighted)</td>
<td>69.6</td>
<td>69.2</td>
</tr>
</tbody>
</table>

*excludes pensions payable in respect of partly and fully insured members (13 members with total pensions of £113k pa) but three partly insured members also have a non-insured record and so there are 104 pensioners in total as at 31 December 2015.
C

ASSETS

The market value of the Scheme’s assets was £12,548,000 on the valuation date.

The Trustee’s investment strategy is to proportion the Scheme’s assets by asset class as shown in the table below. The actual distribution of assets will vary over time due to changes in financial markets. The table also shows the distribution of assets at the valuation date.

<table>
<thead>
<tr>
<th>INVESTMENT STRATEGY</th>
<th>ACTUAL MARKET VALUE OF ASSETS AT 31 DECEMBER 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
</tr>
<tr>
<td>Bonds:</td>
<td></td>
</tr>
<tr>
<td>Index-linked gilts</td>
<td>25</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>25</td>
</tr>
<tr>
<td>Growth Assets:</td>
<td></td>
</tr>
<tr>
<td>Global Equity</td>
<td>25</td>
</tr>
<tr>
<td>Diversified growth fund</td>
<td>25</td>
</tr>
<tr>
<td>Net current assets/(liabilities)</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

The Trustee also holds additional voluntary contributions (AVCs), which are separately invested, and the value of any insured pensions. These assets have been excluded from the market value shown as they exactly match the value of the benefits they cover.

The details of the assets at the valuation date and the financial transactions during the inter-valuation period have been obtained from the audited accounts for the Scheme.
BENEFIT SUMMARY

Set out below is a summary of the benefits which were valued as part of the valuation (the “Benefit Summary”).

The Benefit Summary is produced solely based on our working knowledge of the Scheme and not on a review of the Scheme documentation. As you know we are not able to give legal advice. If you wish to confirm that this summary reflects all the relevant benefits in the Scheme documentation, including that they have been properly implemented, then you should consider taking legal advice.

The Benefit Summary is not intended to cover every benefit for every member in every circumstance, but only those which, from my working knowledge, I consider are the main benefit provisions of the Scheme relevant for the valuation.

The Benefit Summary will be supplemental to the statement of funding principles which will set out the policies of the Trustee for securing that the statutory funding target is met. The statement of funding principles will cover such matters as the calculation method, financial and demographic assumptions, allowance for discretionary benefits and policy on reducing transfer values.

The Trustee should inform the Scheme Actuary if this summary does not correctly reflect the Trustee’s understanding of the Scheme’s main benefit provisions and if there are any benefits not included which you believe should be reflected in the valuation.

Eligibility

The Scheme was closed to future accrual from 31 May 2001 and so all members are now either deferred or pensioner members. Those who were Mowlem employees until after 1 August 2002 had their deferred pension revalued in line with the increase in their theoretical pensionable salary as if they had not left service on 31 May 2001, subject to the minimum statutory increase, until 6 April 2009, when they reverted to being treated as normal deferred pensioners. There are also two other groups of Mowlem deferred members who were treated as having the salary link removed as of 1 March 2004 and 1 March 2007.

Normal Retirement Date and sex equality requirements

Members’ normal retirement age is assumed to be 60 for directors and 65 for all other members.

The Scheme equalised retirement ages on 1 March 1993, prior to which female members’ normal retirement age was 60.
 Deferred benefits payable at Normal Retirement Date

Deferred pensions are payable, without reduction, from Normal Retirement Date.

Revaluation to retirement date is from the date of closure to future accrual (except for the Mowlem employees where relevant), or from the date of leaving pensionable service, if earlier.

Any member leaving service entitled to a deferred pension may elect to have the cash equivalent of the deferred pension transferred to another registered pension arrangement. No allowance is made for transfer values in the technical provisions as transfer values are generally no more than the technical provisions value of the deferred benefit foregone.

Ill-health retirement pension

We understand that an ill-health retirement pension was payable if a member left employment on account of Incapacity on or after attainment of age 50. As the Scheme is now closed and there are no active members, no allowance has been made for ill-health retirement.

Option to receive a lump sum payment on retirement

Subject to certain limits, a member taking a pension may elect to receive lump sum payment in place of part of the pension which would otherwise be payable.

The amount of pension which is given up when a member elects to take a lump sum will be determined by dividing the lump sum by the commutation factor applicable to the member’s age.

The option that members have to commute part of their pension at retirement has been ignored in this valuation.

Benefits on death in deferment

Widow(er)s’, civil partners and dependants’ pensions

If a deferred member dies before entering into receipt of pension, a widow(er)’s, civil partner’s or dependant’s pension is payable equal to two-thirds of the member’s pension entitlement at date of leaving plus revaluation, calculated at the date of death only for those leaving Pensionable Service after 28 February 1999.

Lump sum death benefit

A refund of the member’s contributions is paid to the member’s beneficiaries on death before retirement.
Benefits on death after retirement

Widow(er)s', civil partners and dependants' pensions

A widow(er)'s, civil partner's or dependants' pension is payable equal to two-thirds of the pension being paid to the member immediately prior to his (her) death. The spouse's pension is not payable where the marriage takes place after retirement. However, if the member had elected to take a lump sum in lieu of part of his/her pension, the survivor's pension payable is based on the pension that would have been payable to the member had he/she not elected to take part of the pension as a lump sum.

Pension guarantee

On the death within five years of starting to receive a pension, a lump sum benefit is payable to a widow(er), civil partner or dependant equal to the sum of the pension payments that would have been made from the date of death to the end of the five-year period if the pensioner had survived until that time.

Pension increases

Pensions in payment from the Scheme are subject to increases as follows for the majority of members:

- The part of the pension accrued before 6 April 1997 does not increase in payment.
- The part of the pension accrued after 5 April 1997 is increased on an annual basis in line with the increase in the Retail Prices Index, subject to a maximum of 5%.

Deferred pension increases

Deferred pensions are increased over the period of deferment at the rate of 5% per annum, or in line with the increase in the Statutory Order (since 2010 based on the Consumer Price Index) if less over the whole period of deferment.

Contributions

No member contributions are payable as there are now no active members in the Scheme.

Additional voluntary contributions (AVCs)

Some members made additional voluntary contributions in order to obtain additional benefits on death or retirement, although they are no longer able to make further voluntary contributions. For the purpose of the valuation the value of members' benefit is assumed to exactly match the value of their contributions and these AVC values are therefore excluded from the assets and liabilities.
For the pensioners whose pensions have been secured entirely by insured annuities, the liabilities and corresponding assets have been excluded from this valuation (although they have been included in the S179 results). We understand that the insured annuities are held in the Trustee’s name.

**Other member options**

Other benefit options are assumed to be immaterial to the overall valuation outcome relative to the above benefits and are not explicitly funded for. These include:

- Lump sum commutation factors less often used, such as for serious ill-health, trivial commutation, annual allowance “scheme pays” or lifetime allowance excess lump sums.
- Early / late retirements
- Young spouse reductions

**Contracting-out status**

The Scheme is contracted-in to the SERPS/State Second Pension.
SUMMARY OF PPF BENEFITS

If the Scheme winds up when the Employer is insolvent, its members may be eligible for compensation from the Pension Protection Fund. Normally, a scheme's assets and liabilities would only transfer to the PPF if the assets were insufficient to buy out the benefits provided by the PPF. The compensation that the PPF could provide would be broadly 100% of the pension in payment for members over pension age and 90% of a capped amount of the pension built up for members under pension age. Under the current PPF provisions:

- Pensions in payment will be increased annually, at the lower of 2.5% and the change in the Consumer Price Index (CPI), in respect of service after 5 April 1997 only. Pensions accrued before April 1997 are not increased.

- Benefits in deferment are revalued in line with the scheme’s rules for any period between the member’s exit and the scheme’s entry into the PPF. With limited exceptions, revaluation between the entry date and the member’s normal pension age will be in line with increases in the CPI subject to a maximum of 5% per annum compounded over the revaluation period in respect of service pre-6 April 2009.

- Where scheme rules do not provide for revaluation in respect of a period of service then no revaluation will be provided under the PPF in respect of that service.

- With limited exceptions, spouses' pensions will be 50% of members' PPF compensation.

- The pensions of members aged less than their scheme’s normal pension age when the scheme enters the PPF will be capped. The cap depends on the member’s age when the pension is paid and is increased from time to time. For example, in 2015/16 the cap is £36,401 at age 65 – so, the maximum amount of compensation for members retiring at their normal pension age of 65 will be 90% of this (£32,761 per annum).
SECTION 179 CERTIFICATE

This appendix includes a copy of the section 179 valuation certificate which sets out the information required to complete the section 179 section of the scheme return. The certificate is in the format required by the PPF; the terminology used in the certificate reflects the wording used in the section 179 valuation guidance.

In summary, the results of the valuation disclose a deficit of £4.0m, equivalent to a funding level of 78% on the PPF funding basis.

<table>
<thead>
<tr>
<th>SCHEME / SECTION DETAILS</th>
<th>S179 VALUATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full name of scheme:</td>
<td>Bower Group Retirement Benefits Scheme</td>
</tr>
<tr>
<td>Name of section of applicable:</td>
<td>n/a</td>
</tr>
<tr>
<td>Pension Scheme Registration Number</td>
<td>10068399</td>
</tr>
<tr>
<td>Address of scheme (or section, where appropriate)</td>
<td>84 Salop Street Wolverhampton Post code: WV3 0SR</td>
</tr>
</tbody>
</table>

MERCIER
<table>
<thead>
<tr>
<th><strong>ASSETS</strong></th>
<th><strong>LIABILITIES</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total assets (this figure should not be reduced by the amount of any external liabilities and should include the insurance policies referred to below)</td>
<td>£13,736,762</td>
</tr>
<tr>
<td>Date of relevant accounts (dd/mm/yyyy)</td>
<td>31/12/2015</td>
</tr>
<tr>
<td>Percentage of the assets shown above held in the form of a contract of insurance where this is not included in the asset value recorded in the relevant scheme accounts.</td>
<td>9%</td>
</tr>
</tbody>
</table>

Please show the proportion of liabilities which relate to each period of service for:

<table>
<thead>
<tr>
<th><strong>Before 6 April 1997</strong></th>
<th><strong>6 April 1997 to 5 April 2009 (inclusive)</strong></th>
<th><strong>After 5 April 2009</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Active members</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Deferred members</td>
<td>0%</td>
<td>36.3%</td>
</tr>
<tr>
<td>Pensioner members</td>
<td>23.4%</td>
<td>58.3%</td>
</tr>
</tbody>
</table>

Please provide the percentage of liabilities which relate to each period of service for:

<table>
<thead>
<tr>
<th><strong>Active members (excluding expenses)</strong></th>
<th><strong>Deferred members (excluding expenses)</strong></th>
<th><strong>Pensioner members (excluding expenses)</strong></th>
<th><strong>Estimated expenses of winding up</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nil</td>
<td>£11,865,035</td>
<td>£5,075,175</td>
<td>£508,206</td>
</tr>
<tr>
<td>Estimated expense of benefit installation/payment</td>
<td>£249,300</td>
<td></td>
<td></td>
</tr>
<tr>
<td>External liabilities</td>
<td>Nil</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Total protected liabilities | £17,697,716 |

Please provide the percentage of the liabilities shown above that are fully matched by insured annuity contracts for:

- **Active members**: 0%
- **Deferred members**: 0%
- **Pensioner members**: 23.4%
NUMBER OF MEMBERS AND AVERAGE AGES

For each member type. Please show the number of members and the average age (weighted by the protected liabilities) as at the effective date of this valuation. Average ages should be rounded to the nearest whole year.

<table>
<thead>
<tr>
<th></th>
<th>Number</th>
<th>Average age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active members</td>
<td>0</td>
<td>r/a</td>
</tr>
<tr>
<td>Deferred members</td>
<td>175</td>
<td>54</td>
</tr>
<tr>
<td>Pensioner members</td>
<td>104</td>
<td>71</td>
</tr>
</tbody>
</table>

I certify that this valuation has been carried out in accordance with the Pension Protection Fund (Valuation) Regulations 2005 and with the appropriate section 179 guidance and assumptions issued by the Board of the Pension Protection Fund. I also certify that the calculated value of the protected liabilities is, in my opinion, unlikely to have been understated.

**Signature**

Edwin Topper

**Qualification**

Fellow of the Institute and Faculty of Actuaries

**Name**

Edwin Topper

**Employer**

Mercer Limited

**Date**

17 January 2017

As required, under Part 9 of the Guidance on undertaking a section 179 valuation, the section 179 certificate should form part of the scheme actuary's section 179 valuation report. The details contained in this certificate should be separately submitted to the PPF as part of the annual scheme return via the Pension Regulator's system “Exchange” within 15 months of the effective date. **This certificate should not be sent directly to the Pension Protection Fund.**
The key assumptions used to calculate the section 179 liabilities are set out in the table below.

### KEY ASSUMPTIONS

**Investment return:**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>In deferment (allowing for revaluation in deferment): pre 5 April 2009 benefits</td>
<td>-1.00%</td>
</tr>
<tr>
<td>In deferment (allowing for revaluation in deferment): post 5 April 2009 benefits</td>
<td>n/a</td>
</tr>
<tr>
<td>For pensions in payment (flat):</td>
<td>2.32%</td>
</tr>
<tr>
<td>For pensions in payment (increasing):</td>
<td>0.22%</td>
</tr>
</tbody>
</table>

**Mortality**

- Males: S1PMA adjusted to apply a factor of 0.9 to the qx, with future changes in line with CMI_2012_M 1.50 per cent from 2002
- Females: S1PFA adjusted to apply a factor of 0.9 to the qx, with future changes in line with CMI_2012_F 1.0 per cent from 2002

**Proportions "married"**

- 85% males / 75% females

**Age differences between member and dependent**

- Female 3 years younger than male

**Children’s pensions**

- Children's pensions already in payment assumed to stop at 18 (or 23 if already over 17)
- No other allowance

**Expenses:**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Wind-up (% of liabilities)</td>
<td>3% up to £50m; plus 2% between £50m and £100m; plus 1% over £100m</td>
</tr>
<tr>
<td>Benefit installation/payment</td>
<td>per non-pensioner member: £1000 per pensioner (dependent on age):</td>
</tr>
<tr>
<td></td>
<td>Under 60 £900</td>
</tr>
<tr>
<td></td>
<td>60 to 70 £800</td>
</tr>
<tr>
<td></td>
<td>70 to 80 £600</td>
</tr>
<tr>
<td></td>
<td>80 or over £500</td>
</tr>
</tbody>
</table>

The benefits valued for the section 179 valuation are in line with the benefit summary in Appendix D except as follows:

- The provisions outlined in Appendix E (Summary of PPF benefits) are assumed to override the Scheme’s own benefit provisions for the purpose of the section 179 valuation only.
- Revaluation of benefits in deferment after the effective date of the valuation has been ignored as revaluation is allowed for implicitly by the yield in the section 179 assumptions which takes account of increases between the valuation date and Normal Pension Age (NPA).
- Money purchase benefits have been ignored.
- NPA is the normal retirement date under the Scheme rules or such earlier age specified where the only condition for the member to retire without actuarial reduction is the attainment of a particular age or length of service. It is possible for different tranches of benefits to have different NPAs.

The data used for the section 179 valuation is as set out in Appendix B and the assets used are as set out in Appendix C but including allowance for insured annuities.
CERTIFICATE OF TECHNICAL PROVISIONS

Name of the Scheme
Bower Group Retirement Benefits Scheme

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme’s technical provisions as at 31 December 2015 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 17 January 2017.

Signature
Edwin Topper

Name of employer
Mercer Limited

Address
Belvedere
12 Booth Street
Manchester
M2 4AW

Qualification
Fellow of the Institute and Faculty of Actuaries
SCHEDULE OF CONTRIBUTIONS

BOWER GROUP RETIREMENT BENEFITS SCHEME ("THE SCHEME")

ACTUARIAL VALUATION AS AT 31 DECEMBER 2015

Status of this document

This schedule has been prepared by the Trustee of the Bower Group Retirement Benefits Scheme ("the Trustee") to satisfy the requirements of section 227 of the Pensions Act 2004, after obtaining the advice of Edwin Topper, the actuary to the Scheme appointed by the Trustee.

This document supersedes all earlier versions of the Schedule of Contributions.

After discussions, a pattern of contributions was agreed by the Trustee and the Employer, Dudley Bower Group Plc, on 17 January 2017.

The Trustee and the Employer have signed this schedule to indicate that it represents an accurate record of the agreed pattern of contributions.

The schedule is effective from the date it is certified by the Scheme Actuary.

Contributions to be paid to the Scheme from 31 December 2015 to 31 May 2028

Members' contributions

Since the Scheme is now closed to future accrual no member contributions are payable.

Employer's contributions in respect of the shortfall in funding as per the recovery plan of 17 January 2017

The Employer shall pay annual shortfall-correction contributions of at least £698,490, no less frequently than monthly from 31 December 2015 to 31 May 2028 inclusive. These contributions shall normally fall due on the last day of each calendar month in respect of that month, and shall be paid by the 19th of the subsequent month. However, the Trustee and Employer can agree for payments to be made earlier than their due dates if appropriate and, if so, the date of payment will become the due date.

Employer's contributions in respect of benefit augmentations

In addition the Employer shall pay the cost, as determined by the Scheme Actuary, of any benefit augmentations requested by the Employer and approved by the Trustee.
Employer's contributions in respect of administration and other costs

The contributions to be paid by the Employer include an implicit allowance for administration expenses as these are allowed for in the Technical Provisions by including a reserve in the liabilities. The contributions do not include an allowance for the Pension Protection Fund levy to be paid from the Scheme. The Employer will pay the Pension Protection Fund levy in addition.

Payment guarantee

Carillion plc has provided a guarantee to the Trustee in respect of the payment obligations which are due for payment under this schedule of contributions up to 30 June 2023 (or, if earlier, the date any recovery plan relating to the Scheme ceases) limited to £5.95 million less any contributions paid on and from 1 January 2015. Carillion plc has agreed that it will extend the guarantee period to 31 May 2028, and the schedule of contributions is prepared on the basis of that understanding. It is anticipated that this will be formally documented when Carillion next updates the parent company guarantee for the other schemes covered by the guarantee. This is expected to happen in connection with the next valuations of those schemes, which will have an effective date of 31 December 2016.

Dates of review of this schedule

This schedule of contributions will be reviewed by the Trustee and the Employer no later than 15 months after the effective date of each actuarial valuation, due every three years.

Employer and Trustee agreement

This schedule of contributions has been agreed by the Employer Dudley Bower Group Plc, the Trustee of the Bower Group Retirement Benefits Scheme and Carillion Plc on

17 January 2017

Signed on behalf of Carillion Plc

[Signature]

Name

ZAHRA KUAN

Position

Group Finance Director

Date of signing

17 January 2017
<table>
<thead>
<tr>
<th>Signed on behalf of Dudley Bower Group Plc</th>
<th>[Signature]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td>ZAHAN KAYAN</td>
</tr>
<tr>
<td>Position</td>
<td>DIRECTOR</td>
</tr>
<tr>
<td>Date of signing</td>
<td>17 January 2017</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Signed on behalf of the Trustee of the Bower Group Retirement Benefits Scheme</th>
<th>[Signature]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
<td>ROBIN ELLISON</td>
</tr>
<tr>
<td>Position</td>
<td>CHAIRMAN OF TRUSTEE</td>
</tr>
<tr>
<td>Date of signing</td>
<td>17 January 2017</td>
</tr>
</tbody>
</table>
CERTIFICATION OF SCHEDULE OF CONTRIBUTIONS

Name of Scheme

Bower Group Retirement Benefits Scheme

ADEQUACY OF RATES OF CONTRIBUTIONS

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 December 2015 to be met by the end of the period specified in the recovery plan dated 17 January 2017.

ADHERENCE TO STATEMENT OF FUNDING PRINCIPLES

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the statement of funding principles dated 17 January 2017.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the Scheme's liabilities by the purchase of annuities, if the Scheme were to be wound up.

Signature

Edwin Topper

Scheme Actuary

Qualification

Fellow of the Institute and Faculty of Actuaries

Date of signing

17 January 2017

Name of employer

Mercer Limited

Address

Belvedere
12 Booth Street
Manchester
M2 4AW
RECOVERY PLAN

BOWER GROUP RETIREMENT BENEFITS SCHEME ("THE SCHEME")

ACTUARIAL VALUATION AS AT 31 DECEMBER 2015

This recovery plan has been prepared by the Trustee of the Bower Group Retirement Benefits Scheme ("the Trustee") on 17 January 2017 to satisfy the requirements of section 226 of the Pensions Act 2004, after obtaining the advice of Edwin Topper, the actuary to the Scheme. It is part of the Trustee’s plan for meeting the statutory funding objective (defined in section 222 of the Pensions Act 2004), which is that the Scheme must have sufficient and appropriate assets to cover its technical provisions.

After discussions between the Trustee and the Employer, this recovery plan has been agreed by the Employer, Dudley Bower Group Plc.

The recovery plan follows the actuarial valuation of the Scheme as at 31 December 2015, which revealed a shortfall in the assets, when measured against the Scheme’s technical provisions, of £8.0m. It will be reviewed, and may be revised, following the Trustee’s next valuation under section 224 of the Pensions Act 2004, or earlier if the Trustee and Dudley Bower Group Plc agree.

Steps to be taken to ensure that the statutory funding objective is met

To correct the shortfall, the Employer, Dudley Bower Group Plc, will pay a contribution of at least £58,207.50 each month from 31 December 2015 to 31 May 2028 inclusive. The payments will normally be made monthly, but the Trustee and Employer can agree for payments to be made earlier if appropriate.

Period in which the statutory funding objective should be met

The shortfall is expected to be eliminated in 12 years and 5 months, which is by 31 May 2028. This expectation is based on the following assumptions:

- The technical provisions will be calculated according to the method and assumptions set out in the statement of funding principles dated 17 January 2017.
- The return on existing assets and the return on new contributions during the period will be as set out in the statement of funding principles dated 17 January 2017, in the section headed “Assumptions used in calculating contributions payable under the recovery plan”.

Progress towards the statutory funding objective being met

It is expected that 50% of the above additional contributions will be paid in 6 years and 3 months, which is by 31 March 2022.
<table>
<thead>
<tr>
<th>Name</th>
<th>ZAFAR KHAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Position</td>
<td>Director</td>
</tr>
<tr>
<td>Date of signing</td>
<td>17 January 2017</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Name</th>
<th>Robin Ellison</th>
</tr>
</thead>
<tbody>
<tr>
<td>Position</td>
<td>Chair of Trustee</td>
</tr>
<tr>
<td>Date of signing</td>
<td>17 January 2017</td>
</tr>
</tbody>
</table>

This recovery plan, dated 17 January 2017, has been agreed by the Trustee of the Bower Group Retirement Benefits Scheme after obtaining actuarial advice from the Scheme Actuary:

<table>
<thead>
<tr>
<th>Signature</th>
<th>Edwin Topper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheme Actuary</td>
<td>Edwin Topper</td>
</tr>
<tr>
<td>Qualification</td>
<td>Fellow of the Institute and Faculty of Actuaries</td>
</tr>
<tr>
<td>Date of signing</td>
<td>17 January 2017</td>
</tr>
<tr>
<td>Name of employer</td>
<td>Mercer Limited</td>
</tr>
<tr>
<td>Address</td>
<td>Belvedere</td>
</tr>
<tr>
<td></td>
<td>12 Booth Street</td>
</tr>
<tr>
<td></td>
<td>Manchester</td>
</tr>
<tr>
<td></td>
<td>M2 4AW</td>
</tr>
</tbody>
</table>
STATEMENT OF FUNDING PRINCIPLES

BOWER GROUP RETIREMENT BENEFITS SCHEME ("THE SCHEME")

ACTUARIAL VALUATION AS AT 31 DECEMBER 2015

This statement of funding principles sets out the policies of the Trustee ("the Trustee") of the Bower Group Retirement Benefits Scheme for securing that the statutory funding objective is met.

It has been prepared by the Trustee to satisfy the requirements of section 223 of the Pensions Act 2004, after obtaining the advice of Edwin Topper, the actuary to the Scheme. It will be taken into account in the actuarial valuation as at the effective date of 31 December 2015, unless it is revised before the completion of that valuation.

This statement of funding principles has been agreed by the Employer, Dudley Bower Group Plc.

The statutory funding objective

The statutory funding objective is that the Scheme has sufficient and appropriate assets to pay its benefits as they fall due (the technical provisions).

Calculation of the technical provisions

The principal method and assumptions to be used in the calculation of the technical provisions are set out in the Appendix.

The general principles adopted by the Trustee are that the assumptions used, taken as a whole, will be sufficiently prudent for pensions and benefits already in payment to continue to be paid, and to reflect the commitments which will arise from members’ accrued pension rights.

The basis will include appropriate margins to allow for the possibility of events turning out worse than expected.

In particular, a prudent margin will be included in the discount rate and demographic assumptions will be based on prudent principles. Other assumptions may be based on best estimates of future experience, within the constraint of the basis being prudent overall. However, the Trustee does not intend for the method and assumptions to remove completely the risk that the technical provisions could be insufficient to provide benefits in the future.

In determining what is “prudent” the Trustee will take into account its objective assessment of the Employer’s covenant and the level of risk present in the investment strategy of the Scheme.
Policy on discretionary increases and funding strategy

No allowance has been included in the assumptions for paying discretionary benefits or making increases to benefits that are not guaranteed under the Scheme rules. The Trustee will not provide discretionary benefits unless the Employer agrees to finance them or there is no shortfall against the technical provisions.

Rectifying a failure to meet the statutory funding objective

If the assets of the Scheme are less than the technical provisions at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the Employer to meet the shortfall. The Trustee has agreed that any such funding shortfalls should be eliminated as quickly as the Employer can reasonably afford.

Additional contributions will be expressed as level monetary amounts.

In determining the actual recovery period at any particular valuation, the Trustee will take into account the following factors:

- The size of the funding shortfall and the Scheme’s asset and liability structure
- The business plans of the Employer
- The Trustee’s objective assessment of the financial covenant of the Employer

Assuming the assumptions are borne out in practice, the shortfall calculated at the 31 December 2015 valuation will be met by 31 May 2028 which is 12 years and 5 months.

The assumptions to be used in these calculations are set out in the Appendix.

Revising contributions between actuarial valuations

The required contributions will be reviewed each year as part of the annual funding update and having consulted with the Employer for its view on affordability and the timing of any change in contributions, may be increased/reduced as appropriate so as to continue to target correction of the deficit by 31 May 2028. For these updates, the Trustee will use assumptions consistent with those set out in this statement of funding principles. Where experience is positive and the funding level progression is ahead of that anticipated in the recovery plan, the Trustee will generally seek to de-risk investments rather than reduce Employer contributions.

Calculating the normal cost of the Scheme

As the Scheme has no active members the normal cost of the Scheme is not applicable.
Policy on reduction of cash equivalent transfer values (CETVs)

At each valuation, the Trustee will ask the actuary to report on the extent to which assets are sufficient to provide CETVs for all members. If the assets are insufficient to provide 100% of benefits on that basis, so that payment of full CETVs would adversely affect the security of the remaining members’ benefits, and the Employer is unable or unwilling to provide additional funds, the Trustee will consider reducing CETVs as permitted under legislation.

If, at any other time, the Trustee is of the opinion that payment of CETVs at a previously agreed level could adversely affect the security of the remaining members’ benefits, the Trustee will commission a report from the actuary and will use the above criteria to decide whether, and to what extent, CETVs should be reduced.

Payments to the Employer

If the Scheme is not being wound up and the assets of the Scheme exceed the actuary’s estimate of the cost of buying out the benefits of all beneficiaries from an insurance company, including the expenses involved in buying out, the Employer may request a refund of the excess (subject to the rules of the Scheme in force at the time). The Trustee will consider requests on a case-by-case basis. They may agree to refund surplus to the Employer if:

- They receive a request from the Employer for a refund of the excess
- The requirements in the Scheme rules are satisfied
- They consider that such refund is in the interest of the members and
- The actuary certifies that the requirements of the Pensions Act 1995 have been met and certifies the maximum amount that may be paid

If the Trustee agrees a repayment should be made, it will give notice to the members of the proposal before the payment is made.

Frequency of valuations and circumstances for extra valuations

An actuarial valuation is being carried out as at 31 December 2015 and subsequent valuations will in normal circumstances be carried out every three years thereafter. An actuarial report on developments affecting the Scheme’s technical provisions and funding level since the previous valuation will be obtained as at 31 December each other year.

The Trustee may call for a full actuarial valuation instead of an actuarial report when, after considering the actuary’s advice, it is of the opinion that events have made it unsafe to continue to rely on the results of the previous valuation as the basis for future contributions.

The Trustee will consult the Employer before carrying out an early valuation. Commissioning a valuation will not be necessary if agreement can be reached with the Employer to revise the schedule of contributions and/or recovery plan in a way satisfactory to the Trustee on the advice of the actuary.
This statement of funding principles, dated *17 January 2017* has been agreed by the Employer, Dudley Bower Group Plc and the Trustee of the Bower Group Retirement Benefits Scheme:

Signed on behalf of Dudley Bower Group Plc

Name: [Signature]

Position: Director

Date of signing: *17 January 2017*

Signed on behalf of the Trustee of the Bower Group Retirement Benefits Scheme

Name: Robin Ellison

Position: Chair of Trustee

Date of signing: *17 January 2017*

This statement of funding principles, dated *17 January 2017* has been agreed by the Trustee of the Bower Group Retirement Benefits Scheme after obtaining actuarial advice from the Scheme Actuary:

Signed

Name: Edwin Topper, FIA

Position: Actuary to the Bower Group Retirement Benefits Scheme

Date of signing: *17 January 2017*
Method and assumptions used in calculating the technical provisions

Summary of decisions made as to method and key assumptions used for calculating technical provisions as at 31 December 2015

Principal actuarial assumptions for valuation as at 31 December 2015

<table>
<thead>
<tr>
<th>Assumption</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment return pre-retirement</td>
<td></td>
</tr>
<tr>
<td>- less than 15 years to retirement</td>
<td>3.20% p.a.</td>
</tr>
<tr>
<td>- more than 15 years to retirement</td>
<td>2.10% p.a.</td>
</tr>
<tr>
<td>Investment return post-retirement</td>
<td></td>
</tr>
<tr>
<td>- pensioners</td>
<td>3.00% p.a.</td>
</tr>
<tr>
<td>- non-pensioners</td>
<td>2.60% p.a.</td>
</tr>
<tr>
<td>Price inflation – Retail Prices Index</td>
<td>3.30% p.a.</td>
</tr>
<tr>
<td>Price inflation – Consumer Price Index</td>
<td>3.30% p.a.</td>
</tr>
<tr>
<td>Pension increases in payment (LPI 5%)</td>
<td></td>
</tr>
<tr>
<td>- pensioners</td>
<td>3.20% p.a.</td>
</tr>
<tr>
<td>- non-pensioners</td>
<td>3.90% p.a.</td>
</tr>
<tr>
<td>Members' mortality</td>
<td>S2PA YoB tables with CMI 2013_2.0% improvements for males and CMI_2013_1.5% improvements for females, adjusted by -0.1 years to reflect the membership profile of the Scheme</td>
</tr>
</tbody>
</table>

The derivation of these key assumptions and an explanation of the other assumptions to be used in the calculation of the technical provisions are set out below.

Method

The actuarial method to be used in the calculation of the technical provisions is the Accrued Benefit method, under which payments for accrued service are estimated for each member at the date at which the member is assumed to die or retire.

Financial assumptions

The Trustee's approach to setting the assumptions is to consider a 'wind-up' basis, which looks at the Scheme's funding on the assumption that it had been discontinued on the valuation date and the benefits bought out with an insurance company. The wind-up assumptions used are only an estimate since they are not based on an actual quotation. The true position could only be established by completing a buyout exercise.

Investment return pre-retirement (discount rate)

For non-retired members a yield based on the conventional gilt yield curve of a duration appropriate to the liabilities is used, which reflects an estimate of the typical discount rate used by
insurance companies in pricing buy-out terms. The appropriate yield as at 31 December 2015 was determined to be 3.20% p.a. for terms less than 15 years to retirement and 2.10% p.a. for terms greater than 15 years to retirement.

**Investment return post-retirement (discount rate)**

For non-retired members a yield based on the conventional gilt yield curve of a duration appropriate to the liabilities is used, which reflects an estimate of the typical discount rate used by insurance companies in pricing buy-out terms for future pensioners. The appropriate yield as at 31 December 2015 was determined to be 2.60% p.a.

For retired members a yield based on the conventional gilt yield curve of a duration appropriate to the liabilities is used, which reflects an estimate of the typical discount rate used by insurance companies in pricing buy-out terms for pensioners. The appropriate yield as at 31 December 2015 was determined to be 3.0% p.a.

**Inflation**

The assumption for the rate of increase in the Retail Prices Index (RPI) will be taken to be the investment market’s expectation for inflation as indicated by the difference between yields on conventional and index-linked UK Government bonds (gilts) which reflects an estimate of the typical RPI assumption used by insurance companies in pricing buy-out terms for current and future pensioners.

The assumption used for the rate of increase in the Consumer Price Index (CPI) is taken to be the same as for RPI.

**Pension increases**

Increases to pensions earned after April 1997 are in line with the RPI inflation capped at 5%. Nil increases are awarded on pensions accrued before this date. No allowance has been made for discretionary pension increases.

For non-pensioners, the RPI capped at 5% assumption is 3.90% p.a. which reflects an estimate of the typical RPI assumption used by insurance companies in pricing buy-out terms.

For pensioners, the RPI capped at 5% assumption is 3.20% p.a. which reflects an estimate of the typical RPI assumption used by insurance companies in pricing buy-out terms.

For deferred members, accrued benefits are increased in line with the RPI/CPI assumption of 3.30% p.a.

**Demographic assumptions**

**Mortality**

The mortality assumptions will be based on up-to-date information published by the Continuous Mortality Investigation (CMI) and National Statistics, making allowance for future improvements in longevity, the experience of the Scheme and an estimate of the margins built in by insurers. The
mortality tables are S2PA Year of Birth tables adjusted by -0.1 years, with improvements based on the CMI 2013 model with a long term improvement rate of 2% for males and 1.5% for females.

**Early retirement**

No allowance has been made for early retirement and all members are assumed to retire at their Normal Retirement Date except that where members can, as of right, take unreduced benefits before their Normal Retirement Date this has been taken into account. Such benefits are valued using a late retirement factor for the period from 60 to 65.

**Commutation**

The option that members have to commute part of their pension at retirement in return for a lump sum has been ignored.

**Proportion married and age difference**

It has been assumed that 90% of members will have an eligible spouse/civil partner/dependant at the time of retirement or earlier death, and that wives/partners are three years younger, on average, than their husbands/partners.

**Expenses**

The Trustee meets the expenses of the Scheme. With the Employer’s agreement, this is allowed for by including a reserve in the liabilities for future expenses of the Scheme. Investment expenses have been allowed for implicitly in determining the discount rates. Note the Pension Protection Fund levy is paid in addition by the Employer.

**Assumptions used in calculating contributions payable under the recovery plan**

The contributions payable under the recovery plan will be calculated using the same assumptions as those used to calculate the technical provisions, with the exception of the following during the period of the recovery plan:

**Investment return on existing assets and future contributions**

Growth assets – An estimate of the yield available on a notional portfolio of UK Government conventional gilt stocks of a duration appropriate to the liabilities is used plus an additional 3% per annum.

Bonds – An estimate of the yield available on a notional portfolio of UK Government conventional gilt stocks of a duration appropriate to the liabilities is used plus an additional 0.6% per annum of the total assets.

It will further be assumed that the proportion of growth assets held will be 30% of the total assets over the duration of the recovery plan.