[redacted]

*Actuarial report*
*Bower valuation – 31 December 2012 – (see minute2014/C001)*

*2011 Valuations*
The following documents had been circulated and were noted:

- Mercer update of valuations and LMC workstreams dated 4 November 2013
- Letter from tPR to Jeremy May at PWC dated 8 November 2013
- Mercer paper dated 12 November 2013 giving example recovery periods.

Mr Topper tabled a Mercer paper dated 7 January 2014 on the minimum contribution position together with his previous paper dated 20 August 2013. He then went on to update the Board about a meeting the Company had had with tPR on 9 December 2013 to which tPR had invited Mr Topper to maintain transparency. Mr Adam had made a presentation at that meeting on affordability and Mr Topper felt that tPR were sympathetic with the thrust of Mr Adams' presentation which was that the Company was still experiencing recession and although there was a good order book the Company had to spend £40 to £50m on tendering for bids. Carillion had to fund the supply chain due to the Government not financing SMEs and Mr Adams did not wish to borrow money to fund the pension schemes. His presentation lasted 1¼ hours and there was no pushback from tPR. However tPR did ask for proof that the Company could underwrite the level of risk in the investment strategy for the five schemes and this was tPR's focus at the meeting rather than the quantum of cash available.

It was noted that as yet there had not been a response from the Company to the Trustee's request dated 8 October 2013 for a £47m contribution. At the meeting with tPR Mrs Dawson advised that the Company would respond to the Trustee early in the New Year. In the absence of an agreement it was noted that tPR could refer the matter to the Determinations Panel to impose a schedule of contributions but it was estimated this could take 2 to 3 years.

Mr Topper summarised the rationale of how the minimum contribution position had developed. Although the Trustee had requested a stretcjed £39m in an attempt to get an agreement with the Company this had been rejected by the Company and tPR had indicated that the amount was too low. The Trustee had then reconsidered and believed that £47m would be defensible to tPR. The criteria used to get to this figure was affordability, honouring the existing schedules of contributions, compensating some schemes for taking more investment risk, equalising recovery periods where possible, securing adequate funding to cover Carillion Staff discretionary increase and securing adequate funding to cover Carillion B's maturity profile.

Informal soundings from the Company had indicated that from its perspective £47m was neither affordable nor acceptable. The Trustee therefore needed to consider whether it was willing to reduce its minimum position or whether effectively it should hand over to tPR in the hope that the matter would be referred to the Determinations Panel which would reach the same conclusion recognising the length of time this could take to enforce. In the meantime the existing schedules of contributions would remain in place. Comment was passed that the Company may come under pressure from City analysts as they realised that the pension funding had not been resolved. It was noted that the issues raised by tPR in the 2008 valuations had been addressed in this valuation (mortality, expenses, and gross discount rate) except the issue of de-risking which had again been deferred.

Mr Topper outlined the options as he saw them for the Trustee:

1. to stand firm and say £47m is the minimum particularly as de-risking has been deferred.
2. to put forward a revised minimum of £42m as set out in Mr Topper's paper dated 7 January

He then went on to explain the Trustee could be justified in accepting £42m. In terms of the 2014 valuation the result would not be affected as the step up would only happen in 2016 the contributions up to 2016 having been more or less agreed at £33.4m pa cognisant of current cash constraints on the Company. Thus an increased sum would give a better starting position for the 2014 valuation negotiations rather than affect the effective date deficit itself. It was noted that generally it seemed tPR's view was that about 15 years was reasonable for a recovery period.

The deficit would have reduced to approximately £515m as at 31 December 2013 and a settlement of £42m or £47m was second order in relation to the potential market movements over 2014 up to the next valuation date if markets remained at their current level.

The minimum contribution requirement was discussed. Currently there was no offer on the table and the existing schedules were in place which provided for £26.7m plus expenses but there was still the issue of investment expenses which the Company did not seem to believe it had to meet under the existing schedules of contributions. Mr Ellison reported that when he had met with Mrs Dawson he had given her a draft of a letter of claim concerning the investment expenses. It was noted that the Trustee's Report and Accounts for the five relevant schemes as at 31 December 2013 would be qualified due to the issue. The Company's dividend policy was discussed in relation to affordability.

Mr Ellison stated that he expected to receive a revised offer from the Company in the next few days. It was agreed that the Trustee would consider an offer of £42m if it was forthcoming.

**2014/009 Audit and Risk Committee Report**