NEC

Summary Funding Statement 2011

NEC Staff Pension Scheme (UK)

How is the Scheme's financial security measured?

The estimated cost of providing the benefits you and other members have earned to date is known as the Scheme's 'liabilities'. This includes the benefits of members who have left the Company or retired. As these benefits will be paid many years into the future their cost has to be adjusted to a present value using a discount rate which is determined by the market yield on long term gilts.

Until 30 June 2009 the Scheme collected money ('contributions') from the Company and from members still employed by the Company, and invested this to help provide your benefits. It is held in a communal fund, not in separate funds for each individual. The amount of money we have invested is known as the Scheme's 'assets'. Whilst members no longer pay contributions, the Company continues to make contributions to ensure that the Scheme has enough money to pay for the benefits it has promised.

To check the Scheme's financial security we look at its financial position and compare the value of its liabilities to its assets. If the Scheme has fewer assets than liabilities, it is said to have a 'shortfall'. If the assets are more than the liabilities there is said to be a 'surplus'.

An in-depth look at the Scheme's finances is carried out at least every three years. This is called an actuarial valuation. A qualified, independent professional, known as an Actuary is employed to do this. The last actuarial valuation was at 30 June 2009. The financial security of the Scheme is checked at each intervening year. When this is done an Actuarial Report is received summarising the Actuary's conclusions.

What is the Scheme's financial position?

The latest actuarial valuation of the Scheme showed that on 30 June 2009:

The value of the liabilities was	£111.2 million
The Scheme's assets were valued at	£74.1 million
This means that there was a shortfall of	£37.1 million

Last year's summary funding statement included the results from the 30 June 2010 Actuarial Report. This showed that the shortfall in the Scheme was approximately £20.0 million, with assets sufficient to cover 81% of the liabilities.

During this year the 30 June 2011 Actuarial Report was completed. The results of this showed that the financial position had improved, with the shortfall estimated to be £10.2 million, with assets being sufficient to cover 91% of the liabilities.

The improvement in the Scheme's financial position, since 30 June 2010, is mainly due to the Company paying extra money into the Scheme as part of the plan to clear the valuation shortfall (more information on this is included in the next section) and the

investment returns that have been achieved on the Scheme's assets being higher than expected.

Recently, the economic climate has been extremely volatile, causing the investment markets and economic factors that drive asset values and liability calculations to move considerably. If sustained, the combined effect could have a material impact on the Scheme's funding level. In the current climate, the Trustees are remaining vigilant and continue to monitor the Scheme's funding level closely.

How is the shortfall going to be paid off?

Following the actuarial valuation at 30 June 2009 the Trustees and the Company agreed a plan to clear the valuation shortfall of £37.1 million by 31 March 2013. This plan is detailed below:

- £3,032,850 was paid during the period 1 July 2009 to 31 March 2010;
- £9,543,800 was paid during the period 1 April 2010 to 31 March 2011;
- £6,070,500 is being paid during the period 1 April 2011 to 31 March 2012;
- £5,060,000 is to be paid during the period 1 April 2012 to 31 March 2013.

In calculating the shortfall, assumptions have to be made about what will happen in the future, for example, the rate at which the Scheme's assets will grow. If the assumptions do not all turn out to be exactly right, it may be necessary to increase the level of contributions to the Scheme for the shortfall to be paid off by 31 March 2013, or for further contributions to be paid after 31 March 2013.

What type of assets does the Scheme invest in?

We invest the assets of the Scheme in a broad range of different types of assets. As at 30 June 2011 the Scheme's asset allocation was:

UK company shares	9%
Global company shares	13%
'Cash Plus' funds	13%
Corporate bonds	16%
'Enhanced Matching' funds	32%
Global tactical asset allocation funds	10%
Commercial property	7%

The 'Cash Plus' funds are targeted (but not guaranteed) to make a long term rate of return higher than government bonds without increasing risk. The 'Enhanced Matching' funds invest in bond funds that have a longer duration, similar to the liabilities of the Scheme, which are targeted (but not guaranteed) to reduce funding volatility arising from investment and money market fluctuations.

Is my pension guaranteed?

The aim is for there to be enough money in the Scheme to pay pensions now and in the future, but this depends on the Company carrying on in business and continuing to pay for the Scheme.

If the Company goes out of business or decides to stop paying for the Scheme, it is expected to pay the Scheme enough money to buy all the benefits built up by members from an insurance company. This is known as the Scheme being 'wound-up'.

The comparison of the Scheme's assets to the cost of buying the benefits from an insurance company is known as the 'solvency position'.

Is there enough money in the Scheme to provide my full benefits if the Scheme was wound–up?

The actuarial valuation at 30 June 2009 showed that the Scheme's assets could not have paid for the full benefits of all members to be provided by an insurance company if the Scheme had wound–up at that date.

The liabilities if the Scheme were to be wound–up were	£166.3 million
The Scheme's assets were	£74.1 million
This means that there was a shortfall of	£92.2 million

The shortfall is significantly higher than the ongoing basis and so if the Scheme were to wind–up, the Company would have to pay further money into the Scheme to secure members' benefits with an insurance company, if it can.

What happens if the Scheme is wound–up and there is not enough money to pay for all my benefits?

If the Scheme winds up without enough money to buy all the benefits with an insurer then, unless the employer can afford to pay the difference, you are unlikely to receive the full benefits you were expecting. To help members in this situation, the Government set up the Pension Protection Fund (PPF) which came into effect on 6 April 2005. The PPF pays a legally defined level of benefits to members of eligible UK pension schemes which are wound–up when the scheme does not have enough money to cover the cost of buying this level of benefits for members with an insurer and the company is insolvent and so cannot provide extra finance.

If the Scheme were to be wound-up and go into the PPF, the pension you would receive from the PPF may be less than the full benefit you have earned in the Scheme, depending on your age and when your benefits were earned.

Further information and guidance is available on the PPF website at www.pensionprotectionfund.org.uk. Or you can write to the Pension Protection Fund at Knollys House, 17 Addiscombe Road, Croydon, Surrey, CR0 6SR.

Can I leave the Scheme before I am due to retire?

All members who have not yet taken their retirement benefits are deferred members. Deferred members can, if they wish, transfer their benefits to another pension arrangement prior to retirement.

Your membership of the Scheme is a valuable and important benefit for you and your family. If you are thinking of leaving the Scheme for any reason, you should consult a professional advisor, such as an independent financial advisor, before taking any action. The law prevents us from providing you with financial advice.

Where can I get more information?

If you have any other questions, or would like any more information, please contact either Mercer (the Scheme Administrators) Westgate House, 52 Westgate, Chichester, West Sussex, PO19 3HF or the Trustees Office, NEC House, 1 Victoria Road, London W3 6BL.

To the right is a list of documents which provide further information. If you want us to send you a copy of any of these documents please contact Mercer at the address given above.

Please help us to keep in touch with you by telling the Trustees Office if you change address.

Additional documents available on request:

The Statement of Funding Principles
This explains how the Trustees plan to manage the Scheme with the aim of being able to continue to provide the benefits that members have built up.

The Statement of Investment Principles
This explains how the Trustees invest the money paid into the Scheme.

The Annual Report and Accounts of the NEC Staff Pension Scheme (UK)
This shows the Scheme's income and expenditure during the year.

The Formal Actuarial Valuation Report as at 30 June 2009
This contains the details of the Actuary's check of the Scheme's situation as at 30 June 2011.

The NEC Staff Pension Scheme (UK) Information Booklet
Following the Pensions Act 2005 and other legislative changes, the Trustees and the Company made certain changes to the Rules of the Scheme to ensure compliance with the new legislation. As a result, the members' handbook issued to you may have become out of date. Further rules changes may be required. You are advised to check with the Trustees Office before taking any action that relies on the information contained in the handbook.

Trustees Office, NEC House, 1 Victoria Road, London W3 6BL.