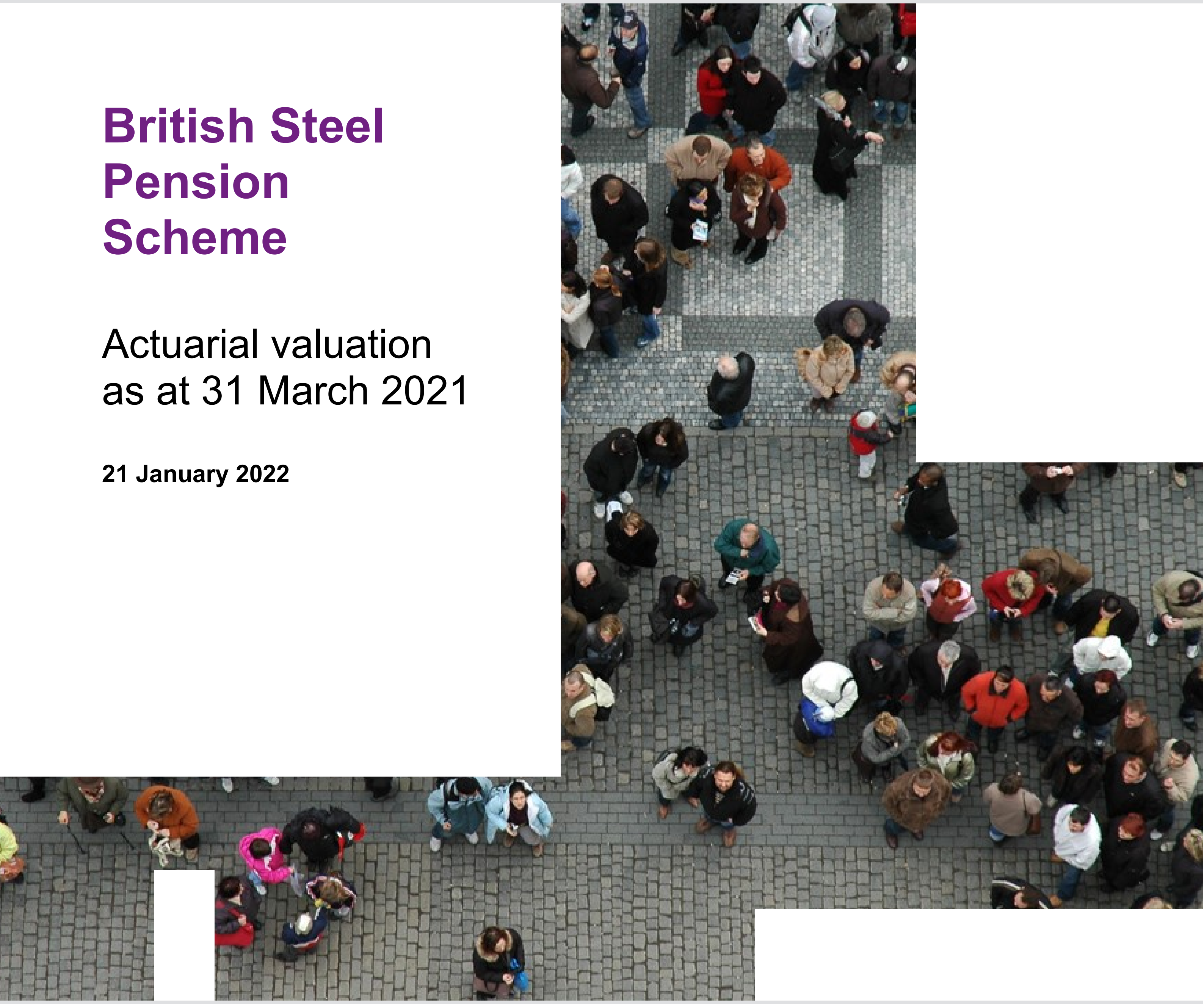
Willis Towers Watson

British Steel Pension Scheme

Actuarial valuation as at 31 March 2021

21 January 2022



Summary

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

- Technical provisions funding level as at 31 March 2021 has decreased slightly to 105.0% (2018: 106.3%)

- Surplus of assets relative to technical provisions has decreased to £492 million (2018: £668 million)

- The Scheme Actuary's statutory estimate of solvency as at 31 March 2021 has increased to 94.5% (2018: 90.1%)

Willis Towers Watson

Contents

Throughout this report the following terms are used:

Scheme
British Steel Pension Scheme

Trustee
Trustee of the British Steel Pension Scheme

Company
Tata Steel UK Limited

Framework Agreement
The Framework Agreement between the Trustee, Company and other parties dated 10 August 2017

Introduction

Scope

Under the terms of the Framework Agreement, the Company agreed to establish a new scheme (the British Steel Pension Scheme) to accept a transfer of assets and liabilities from the predecessor scheme (also called the British Steel Pension Scheme, referred to in this report as the Old Scheme) in respect of members who elected to join the Scheme. That transfer took place in March 2018.

The initial valuation of the Scheme was carried out as at 31 March 2018. This is my report on the second triennial actuarial valuation of the British Steel Pension Scheme as at 31 March 2021 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 Framework Agreement 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 (if any – in practice, it is not anticipated that the Company will need to contribute to the Scheme).

The report explains the financial position of the Scheme at 31 March 2021 using several different measures of its liabilities and how it has changed since the previous valuation at 31 March 2018. 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 2024.

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 2022, must be completed by 31 March 2023.

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

Watson House
London Road
Reigate
Surrey
RH2 9PQ

21 January 2022

https://wtwonlineuk.sharepoint.com/sites/tctclient_615449_BSteel21FV/Documents/7. Reporting (CO)/7.1 Valuation report/British Steel - 31 March 2021 - Valuation report.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 membership data at 31 March 2021 was provided to me by the British Steel Pension Office during April and May 2021. 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. 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) 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 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 https://www.willistowerswatson.com/en-GB/Notices/how-willis-towers-watson-uses-personal-data-for-actuarial-services-to-uk-pension-scheme-trustees.

Assumptions

The choice of long-term assumptions, as set out in the Scheme's Statement of Funding Principles dated 21 January 2022, 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 been made for climate-related risks.

The structure of the Willis Towers Watson Investment model, used to determine the spread of likely future outcomes for the Scheme's finances, is based on an historical analysis of investment returns, although we have incorporated our subjective judgement to complement the information provided by historical returns. The model is designed to illustrate the future range of returns stemming from different asset classes and their inter-relationship and the consequent uncertainty in the future financial development of the Scheme. It should be noted that no economic model could be expected to capture future uncertainty perfectly or to be precise about the risk of extreme events. In particular, it should be noted that the timeframe in establishing our asset model and the assumptions used in this investigation are intentionally long-term, and are not meant to be reflective of the possible, or even likely, course of the investment markets in the short term.

Funding

Statutory funding objective

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

The 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. 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 are either fixed amounts, or 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 2021 have been agreed between the Trustee and Company and are documented in the Statement of Funding Principles dated 21 January 2022.

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 2021 Single equivalent rates* % pa	31 March 2018 Single equivalent rates % pa
Discount rate	**1.45**	1.80
CPI inflation	**3.05**	2.50
Section 148 increases	**4.45**	4.05
Deferred pension revaluation		
- CPI	**3.05**	2.50
- CPI capped at 5% pa	**2.80**	2.35
- CPI capped at 4% pa	**2.65**	2.25
- CPI capped at 3% pa	**2.25**	1.95
- CPI capped at 2.5% pa over the whole deferment period	**2.50**	2.50
Pension increases in payment		
- CPI capped at 5% pa	**2.80**	2.25
- CPI capped at 3% pa	**2.20**	1.90
- CPI capped at 2.5% pa	**1.95**	1.65

*Details of the underlying curves are set out in the Statement of Funding Principles dated 21 January 2022.

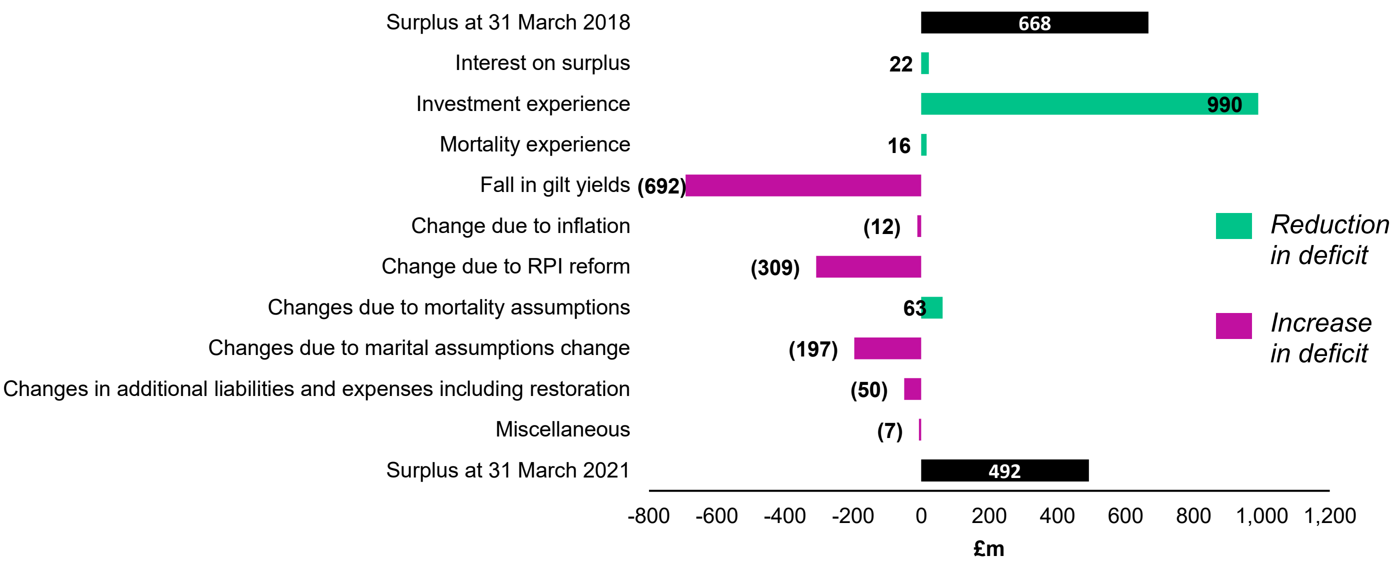
Demographic and other assumptions	31 March 2021	31 March 2018
Mortality base tables	**Males: SAPS S3 male pensioner tables for "middle" pension amounts with a 1.03 multiplier** **Female pensioners: SAPS S3 female pensioner tables with a 1.03 multiplier** **Female dependants: SAPS S3 female dependant tables with a 1.04 multiplier**	Males: SAPS2 Normal health tables with a 1.15 multiplier and CMI 2015 projections with a 1.50% pa long term trend applying from 2007 to 2016 Females: SAPS2 Dependant tables with a 1.21 multiplier and CMI 2015 projections with a 1.50% pa long term trend applying from 2007 to 2016
Future improvements in longevity	**CMI 2020 core projections model (with nil weight on 2020 data) with a 1.5% pa long term rate (LTR), including the core value of the (period) smoothing parameter (S_K) of 7.0 and a nil initial addition to mortality improvements.**	CMI 2016 projections with a 1.50% pa long term trend applying from 2016
Allowance for commutation	**Members are assumed to commute 25% of their pension at retirement (subject to HMRC restrictions), based upon the current commutation factors**	Members are assumed to commute 25% of their pension at retirement (subject to HMRC restrictions), based upon the current commutation factors
Operational expenses	**0.5% of liabilities**	0.5% of liabilities
PPF levy reserve and other costs	**A reserve equal to 9 x the level of expected PPF levies plus a reserve in respect of potential liabilities arising from GMPs which have not been reconciled with HMRC**	A reserve equal to 12 x the level of expected PPF levies plus Nil
GMP equalisation reserve	**0.4% of liabilities, plus allowance for equalising historic transfer payments**	0.45% of liabilities
2021 AV Restoration budget	**Reserve for additional payment due to some members following the 2021 valuation as prescribed in the Framework Agreement**	Nil

The table overleaf compares the Scheme's technical provisions as at the date of the actuarial valuation (31 March 2021) with the market value of the Scheme's assets and the corresponding figures from the previous actuarial valuation.

Valuation statement	**31 March 2021 £m**	31 March 2018 £m
Amount required to provide for the Scheme's liabilities in respect of:		
Deferred pensioners	**2,354**	2,886
Pensioners and dependants	**7,257**	7,479
plus GMP equalisation reserve	**42**	47
plus PPF levy reserve and other costs	**82**	89
plus Reserve for operational expenses	**48**	52
plus 2021 AV Restoration budget	**58**	-
Technical provisions	**9,841**	10,553
Market value of assets	**10,333**	11,221
Past service (deficit)/surplus (assets less technical provisions)	**492**	668
Funding level (assets ÷ technical provisions)	**105.0%**	106.3%

Developments since the previous valuation

The funding level has decreased to 105.0% from 106.3% at the previous valuation. The main factors contributing to this fall are shown below.



Contribution requirements

The Scheme is closed to future accrual, and therefore no contributions are required from the Company or members in relation to further accrual of benefits. The costs of future levies and operational expenses borne by the Scheme are expected to be met from Scheme assets.

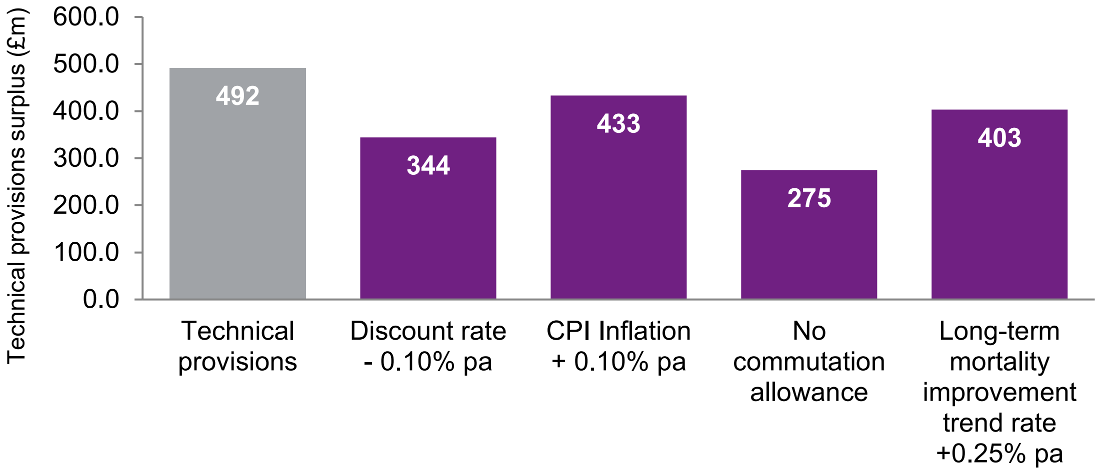
Recovery plan

As there were sufficient assets to cover the Scheme's technical provisions at the valuation date, a recovery plan is not required. Therefore no Company contributions are required.

Projections and sensitivities

Based on the assumptions underlying the calculation of the Scheme's technical provisions as at 31 March 2021, and in particular allowing for the expected best estimate investment returns on the assets to exceed the return implied by the prudent discount rate underlying the Technical Provisions, the funding level is expected to increase by around 1.5% by the time of the next valuation on 31 March 2024.

The charts below illustrates the sensitivity of the technical provisions as at 31 March 2021 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.)



Solvency

Discontinuance

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 and taking into account full Scheme buy-in quotations received from insurers over the last few years. I have assumed the cost of implementing the winding-up to be £30m. This has been calculated based upon Willis Towers Watson's experience of pension scheme wind-ups with particular considerations of how this may differ for a large scheme. No allowance has been made for the cost of the 3% restoration uplift that is expected to apply to all benefits on buyout in circumstances other than employer insolvency.

The table below summarises the main assumptions used to estimate the Scheme's solvency position at 31 March 2021 where they differ from the assumptions used to calculate the technical provisions liabilities, and the equivalent assumptions for the previous actuarial valuation.

Financial assumptions – solvency	31 March 2021 Single equivalent rate % pa	31 March 2018 Single equivalent rate % pa
Pensioner discount rate	1.55	1.60
Non-pensioner discount rate	0.90	1.10
Section 148 increases	4.45	4.25
CPI inflation	3.10	2.85
Deferred pension revaluation		
- CPI	3.10	2.85
- CPI capped at 5% pa	3.15	2.85
- CPI capped at 4% pa	3.20	2.85
- CPI capped at 3% pa	2.90	2.70
Pension increases		
- CPI capped at 5% pa	3.00	2.75
- CPI capped at 3% pa	2.75	2.65
- CPI capped at 2.5% pa	2.40	2.35

Demographic and other assumptions - solvency	31 March 2021	31 March 2018
2021 AV Restoration budget	**No allowance**	Nil
Future improvements in longevity	**CMI 2019 core projections model with a 1.5% pa long term rate (LTR), including the core value of the (period) smoothing parameter (S_K) of 7.5 and a nil initial addition to mortality improvements.**	Same as Technical Provisions
Allowance for commutation	**No allowance is made for commutation**	No allowance is made for commutation
Expenses	**A fixed winding-up expense of £30m, plus additional reserves to reflect the potential purchase of residual risks cover, asset valuation differences for illiquid assets, and potential liabilities arising from GMPs which have not been reconciled with HMRC**	A fixed expense allowance of £30m
PPF levy reserve	**No allowance**	No allowance

My estimate of the solvency position of the Scheme as at 31 March 2021 is that the assets of the Scheme would have met 94.5% 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 2021 £m	31 March 2018 £m
Estimated cost of buying insurance policies to cover:		
Deferred pensioners	**3,263**	4,447
Pensioners and dependants	**7,374**	7,922
plus GMP equalisation reserve	**46**	56
plus Reserves for wind-up costs and other expenses	**247**	30
Total estimated cost	**10,930**	12,455
Market value of assets	**10,333**	11,221
Solvency (deficit)/surplus (assets less total estimated cost)	**(597)**	(1,234)
Solvency level (assets ÷ total estimated cost)	**94.5%**	90.1%

The change in the solvency level from 90.1% to 94.5% is due mainly to the investment performance of the Scheme's assets relative to changes in estimated insurance company pricing being better than assumed, and the maturing of the membership over time.

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.

- 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).

As the Scheme assets covered the Section 179 liabilities as at 31 March 2021 but were less than the estimated cost of securing benefits with an insurer, the Scheme would probably not have qualified for entry to the PPF had the Company become insolvent at 31 March 2021, in which case the Trustee would have attempted to secure benefits for members with an insurance company in excess of PPF compensation.

Relationship between the cost of securing benefits and the technical provisions

My estimate of the cost of securing benefits with an insurance company of £10,930 million is £1,089 million higher than the Scheme's technical provisions of £9,841 million.

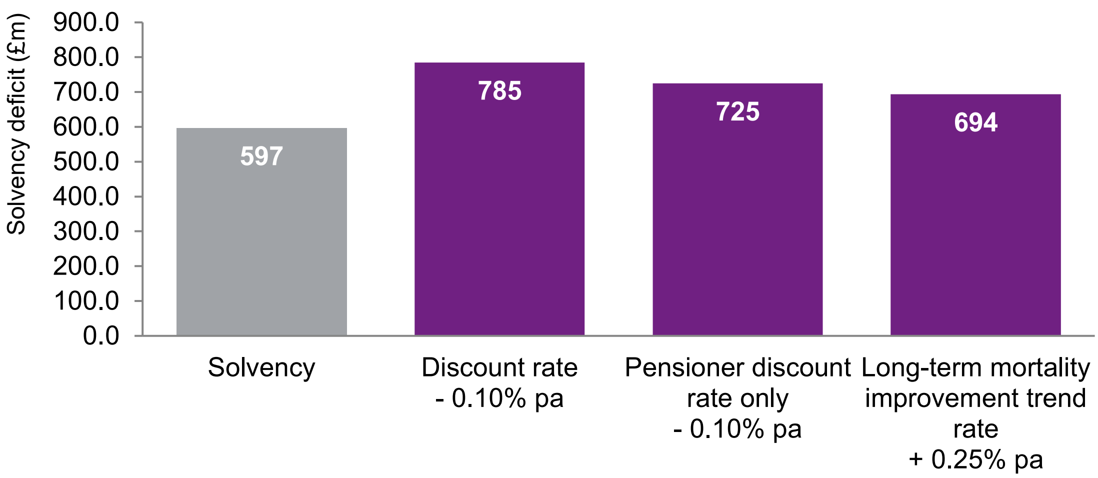
The technical provisions are intended to be a prudent assessment of the assets required under the Scheme's investment strategy to meet future benefit payments as and when they fall due but with reliance placed on the Company being able to support the Scheme in future if the assumptions are not borne 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 2021 (ie there had been no funding surplus or deficit), I estimate that the solvency level of the Scheme would have been 90.0%. This compares with 84.7% at the 31 March 2018 actuarial valuation.

Projections and sensitivities

Based on the assumptions underlying the calculation of the Scheme's technical provisions as at 31 March 2021, the solvency level is also projected to increase by the next valuation date of 31 March 2024. This is due to the maturing of the membership over time (as more members become pensioners and therefore become cheaper to insure), and also the outperformance of the Scheme's assets relative to the assumed return within our solvency estimate.

The chart below illustrates the sensitivity of the solvency position as at 31 March 2021 to variations of individual key 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.)



Additional Information

Risks

The Trustee has prepared a risk management policy to record its Integrated Risk Management (IRM) Framework. This document comprehensively sets out the key risks impacting the viability of the Scheme and its ability to meet the Trustee's primary objective. The table below summarises some of the main risks to the financial position of the Scheme and the some of the actions taken to manage them.

Risk	Approach taken to risk
Company unable to pay contributions or make good deficits in the future	At each valuation the Trustee takes advice from an independent specialist on the ability of the Company to continue to sponsor the Scheme, including its ability to pay contributions if required 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's financial strength regularly, and has also adopted a low risk investment strategy.
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.
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 the majority 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 also currently hedges 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. A significant proportion of assets are matching assets, and the credit, equity, property, manager and currency risks are monitored quarterly. The risk is mitigated by setting appropriate guidelines with the investment manager, allowing for an appropriate margin for prudence in the technical provisions discount rate, and promoting improved governance.
Scheme members live longer than assumed	For the calculation of the technical provisions, the Trustee has adopted mortality assumptions that, as a whole, 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.
Options exercised by members could lead to increases in the Scheme's liabilities	The Trustee (and Company where appropriate) 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.
Changing patterns of weather, temperature or disease could adversely affect the funding of the Scheme	The Trustee recognises that climate-related issues represent a material risk to future economic stability in the long term, with potentially wide-ranging impacts on environmental, societal and governance matters. From the perspective of the funding of the Scheme the key ways these risks could manifest themselves are through unmatched falls in asset values, Scheme members living longer than assumed or a reduction in the strength of the Company covenant. Each of these particular risks are separately addressed above.

Economic risk Demographic risk Legal risk Climate risk

Benefits summary

The Scheme is a registered pension scheme under the Finance Act 2004.

Summary of main benefits in respect of service after 31 March 2016

Normal pension age	65
Lump sum	Member's pension may be surrendered to produce a tax-free lump sum subject to Revenue limits
Widow's and widower's pension	One half of member's pre-commutation pension
In deferment increases	In line with Consumer Price Index up to 2.5% over whole period from leaving service to retirement
Pension increases in payment	In line with the Consumer Price Index capped at 2.5% per year
Supplementary Section	Members generally receive the benefits as above, except that in certain circumstances a different definition of final pensionable earnings applied. The level of risk benefits may also be higher in some cases.
Discretionary benefits (all Sections)	No allowance has been made for any discretionary increases to the benefits listed above.

Summary of Main Section benefits in respect of service before 6 April 1997

As for service after 31 March 2016 but with the following increases:

- In deferment increases: in line with the Retail Price Index (uncapped) until 28 March 2018 and the Consumer Price Index (uncapped) thereafter
- Pension increases in payment:
  - On benefits in excess of GMP, in line with the Retail Price Index (uncapped) until 28 March 2018 and no increases thereafter
  - On pre-April 1988 GMP, nil
  - On post-April 1988 GMP, in line with the Consumer Prices Index capped at 3% per year.

Summary of Main Section benefits in respect of service after 5 April 1997 and before 6 April 2005

As for service after 31 March 2016 but with the following increases:

- In deferment increases: In line with the Retail Price Index (uncapped) until 28 March 2018 and the Consumer Price Index (uncapped) thereafter
- Pension increases in payment: In line with the Retail Price Index (uncapped) until 28 March 2018 and the Consumer Prices Index capped at 5% per year thereafter.

Summary of Main Section in respect of service after 5 April 2005 and before 1 April 2006

As for service after 31 March 2016 but with the following increases:

- In deferment increases: In line with the Retail Price Index (uncapped) until 28 March 2018 and the Consumer Price Index (uncapped) thereafter

- Pension increases in payment: In line with the Retail Price Index (uncapped) until 28 March 2018 and with Consumer Prices Index capped at 2.5% per year thereafter.

Summary of Main Section in respect of service after 31 March 2006 and before 1 April 2012

As for service after 31 March 2016 but with the following increases:

- In deferment increases: In line with the Retail Price Index capped at 4% per year until 28 March 2018 and the Consumer Price Index capped at 4% per year thereafter

- Pension increases in payment: In line with the Retail Price Index capped at 4% per year until 28 March 2018 and with Consumer Prices Index capped at 2.5% per year thereafter.

Summary of Main Section in respect of service after 31 March 2012 and before 1 April 2016

As for service after 31 March 2016 but with the following increases:

- In deferment increases: In line with the Retail Price Index capped at 3% per year until 28 March 2018 and the Consumer Price Index capped at 3% per year thereafter

- Pension increases in payment: In line with the Retail Price Index capped at 3% per year until 28 March 2018 and with Consumer Prices Index capped at 2.5% per year thereafter.

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, other than our understanding of established practices in benefit calculations.

Schedule 12 of the Framework Agreement provides three mechanisms whereby restoration payments can be paid to members in certain circumstances. The cost of these mechanisms, aside from the '2021 AV Increase', have not been allowed for in any of the liabilities quoted in this report.

Uncertainty about the benefits

An allowance of 0.4% of liabilities has been made in the calculation of the technical provisions and statutory estimate of solvency as an estimate for the possible changes to the benefits that may be required to ensure that the Scheme provisions in respect of Guaranteed Minimum Pensions do not unlawfully discriminate between male and female members. A reserve is also included for the potential costs of equalising past transfer payments from the Scheme.

The data verification process undertaken as part of the 'Time to Choose' exercise identified that the Barber equalisation window for former members of the Corus Engineering Steels Pension Scheme had been incorrectly administered. It is probable that the Trustee will need to correct the treatment of the Barber window in due course. An additional liability of c.£27 million has been included in the technical provisions in respect of correcting benefits accordingly.

Membership data

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

Number of members

Number	31 March 2021			31 March 2018		
	Males	**Females**	**Total**	Males	Females	Total
Deferred pensioners	**12,382**	**2,571**	**14,953**	17,392	3,150	20,542
Pensioners	**38,232**	**3,773**	**42,005**	41,128	3,960	45,088
Dependants	**391**	**14,997**	**15,388**	410	16,437	16,847
Total	**51,005**	**21,341**	**72,346**	**58,930**	**23,547**	**82,477**

Annual pensions

Pension (£m)	31 March 2021			31 March 2018		
	Males	**Females**	**Total**	Males	Females	Total
Deferred pensions	69.9	11.1	81.0	106.0	13.2	119.2
Pensioners' pensions	357.7	15.8	373.6	386.9	16.8	403.7
Dependants' pensions	1.0	74.1	75.2	1.0	72.7	73.6

Average age

Years	31 March 2021			31 March 2018		
	Males	**Females**	**All**	Males	Females	All
Deferred pensioners	51.9	50.3	51.7	50.5	48.3	50.2
Pensioners	73.1	74.4	73.2	71.3	73.3	71.4
Dependants	67.9	79.9	79.7	66.7	79.1	79.0

Notes on data tables:

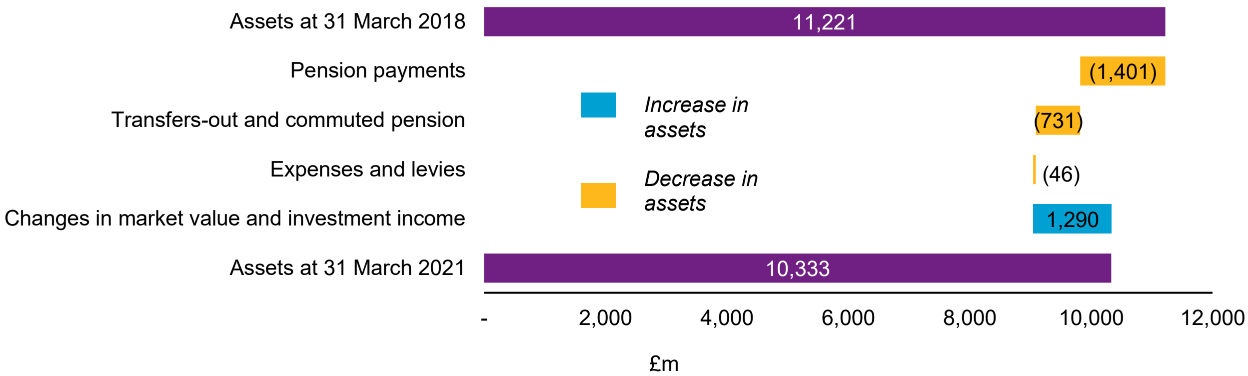
- Figures in respect of dependants exclude children.
- Deferred pension amounts include revaluation to the valuation date, apart for CES members where it is at leaving.
- Average ages are weighted by amount.
- Any inconsistiencies are due to rounding.

Asset information

Movements in the market value of assets

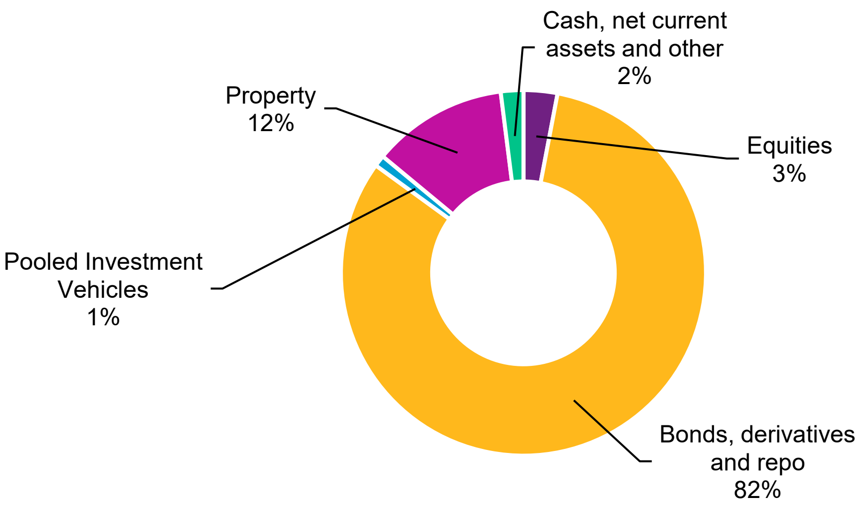
The audited accounts supplied as at 31 March 2021 show that the market value of the Scheme's assets was £10,333 million.

The change in the Scheme's assets from £11,221 million as at 31 March 2018 to £10,333 million as at 31 March 2021 is detailed in the Trustee's Report and Financial Statements over that period. The chart below summarises a broad reconciliation of the change:



Investment strategy

The chart below provides a breakdown of the Scheme's assets between the main asset classes as at 31 March 2021 as shown in the audited financial statements.



The assets were invested as summarised below as at 31 March 2021 and 31 March 2018:

	Market value as at 31 March 2021		Market value as at 31 March 2018	
	£m	%	£m	%
Equities	358	3.5%	778	6.9%
Bonds, derivatives and repo	8,422	81.5%	8,546	76.2%
Pooled Investment Vehicles	89	0.9%	154	1.4%
Property	1,205	11.7%	1,290	11.5%
Cash, net current assets and other	258	2.5%	452	4.0%
Total	10,333	100.0%	11,221	100.0%

**Totals may not add up due to rounding*

The reference benchmark for the Scheme's asset allocation at this valuation date is as follows:

	Strategic Asset Allocation %
Infrastructure / alternative assets	4%
Credit	50%
Gilts and derivatives	31%
Maturity property	15%
Cash, net assets and other	-

Statutory Certificate

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

Name of scheme: **British Steel Pension Scheme**

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 31 March 2021 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 21 January 2022.

Gareth Oxtoby

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

21 January 2022

Watson House
London Road
Reigate
Surrey
RH2 9PQ

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.