

**THE
BRITISH STEEL
PENSION SCHEME**

Registered number – 12014387

REPORT AND FINANCIAL STATEMENTS

For the year ended 31 March 2020

BRITISH STEEL PENSION SCHEME

Contents

Trustee and independent advisers	1
Chairman's introduction	2
Report of the Trustee	4
Report on Actuarial liabilities	6
Trustee's Summary of Contributions	8
Statement of Trustee's responsibilities for the Financial Statements	14
Independent Auditor's report to the Trustee of the British Steel Pension Scheme	15
Independent Auditor's Statement about Contributions to the Trustee	17
Fund Account	18
Statement of Net Assets (available for benefits)	19
Notes (forming part of the Financial Statements)	20
Actuary's Certification of Schedule of Contributions	33

BRITISH STEEL PENSION SCHEME

Trustee and independent advisers

Trustee Company	B.S. Pension Fund Trustee Limited
Registered Office	17 th Floor 125 Old Broad Street London EC2N 1AR
Directors	K Greenfield (Chairman) - <i>Independent Trustee Director</i> C Claydon - <i>Independent Trustee Director</i> S Corten - <i>Member Nominated Trustee Director</i> B Evans - <i>Member Nominated Trustee Director</i> AJ Johnston - <i>Company Nominated Trustee Director</i> J Regan - <i>Company Nominated Trustee Director (retired 31 December 2019)</i> M Wilson – <i>Company Nominated Trustee Director (from 1 January 2020)</i>
Secretary to the Trustee	M Donohue
Administrator	B.S. Pension Fund Trustee Limited 105 Waterloo Street Glasgow G2 7BW
Principal Company and Sponsor	Tata Steel UK Limited
Actuary	G Oxtoby Willis Towers Watson
Auditor	KPMG LLP
Solicitors	Travers Smith LLP
Investment Manager	Pension Services Limited
Investment Consultants	Willis Towers Watson JLL Strutt & Parker
Independent Investment Adviser	S Francis
Custodian	JP Morgan Chase Bank
Bankers	Barclays Bank plc
Corporate Finance Adviser	Penfida Limited
Medical Adviser	PAM Group

BRITISH STEEL PENSION SCHEME

Chairman's introduction

On behalf of the Trustee of the British Steel Pension Scheme (*the Scheme*) I am pleased to present the Report and Financial Statements for the Scheme for the year ended 31 March 2020.

Although the very significant effects of the Corona virus pandemic did not become clear until after the end of the period under review in this year's Annual Report, it would be remiss of me not to make mention of its impact on the operation of the Scheme, on Scheme members, and on the Officers who administer it. Whilst it is to be hoped that this will remain a once in a lifetime event, it has created a very challenging environment for the Scheme, from the management of investments to the administration of benefits.

Pleasingly, no fundamental changes were required to the investment strategy as the Trustee had already implemented material reductions in its exposure to market risk to protect the Scheme's strong funding position and as a result this has remained resilient, despite the market volatility. That said, performance over the year, driven by a significant reduction in Government Bond yields in March 2020, was somewhat behind the target return using the new blended benchmark at 5.4% compared with the benchmark return of 8.9%. You can find more details about the performance of Scheme's investments on page 9.

Properties are valued on the basis of open market value as at the year end date, in accordance with RICS Valuations Standards, by independent valuers. As a result of the pandemic, the Trustee was advised by its valuers that conditions exist in the real estate markets that may result in uncertainty in the reliability of these valuations. Nonetheless, these represent the best estimate of the current valuation at the year end date, and have been adjusted by the valuers to take account of the expected impact of the pandemic, based on the information available at the time that the valuation was prepared. The valuers, JLL and Strutt & Parker, are recognised firms of Chartered Surveyors and have the appropriate expertise practice to value these properties.

From an operational standpoint, measures were quickly and successfully put in place to ensure the administration of the Scheme would continue to operate as efficiently as possible even though many of the Glasgow and London staff were required to work from home or from the Scheme's disaster recovery sites. Crucially for us as trustee directors, the regular monthly pension payroll can be run remotely and so there has been no disruption to pension payments. Numerous other steps to simplify and/or streamline admin processes were implemented and, whilst there was undoubtedly some disruption to service, I am pleased that most members would have experienced near "business as usual". The Trustee monitors the performance of the administration office by means of a series of service standards and was reassured to note that no service standard was missed during the period of greatest disruption.

Throughout the year under review, the Trustee was able to use the Scheme's Integrated Risk Management Framework to monitor the key investment, funding and covenant risks facing it and to track progress against the Scheme's journey plan. Such an ongoing assessment enables the Trustee to take appropriate action promptly if there are material changes in the risks or the Scheme's funding position relative to expectations. During the year the Trustee undertook detailed consideration of what options might be available to further improve the security of members' benefits. This review is still ongoing and no decision on how or whether to proceed has yet been made. As with any decision concerning the Scheme's assets and liabilities, a long-term view is essential and outcomes that might not look attractive at present may do in the future if economic or other circumstances change favourably. I have said consistently that the Trustee will communicate with members when we are in a position to say more, and that remains the case.

I am delighted to welcome Matt Wilson who joined the Trustee board in January 2020 as our latest Company Nominated Trustee director. I would also like to express my thanks to Jo Regan, who stepped down from the Trustee board at the end of December following her retirement from the Company.

Finally, I would like to thank all of my fellow Directors and the Scheme Officers and Advisers for their hard work over what has been a very busy and challenging year.

Keith Greenfield
Chairman of Trustee board

BRITISH STEEL PENSION SCHEME

Report of the Trustee – Year ended 31 March 2020

The British Steel Pension Scheme (*the BSPS or the Scheme*) is operated by a Corporate Trustee, B.S. Pension Fund Trustee Limited. The Directors are pleased to present its annual report on the Scheme, together with the Financial Statements for the period ended 31 March 2020.

Constitution of the Scheme

The BSPS is a defined benefit pension scheme providing benefits for former members of the Old British Steel Pension Scheme (*OBSPS*) who elected to transfer into the Scheme as part of the *Time to Choose* exercise in 2017. It is governed by an interim Trust Deed dated 7 July 2017, as amended from time to time.

The Trustee holds funds on trust to apply them for the purpose of paying pensions and other benefits in accordance with the Trust Deed. The Scheme is closed to future accrual. Benefits in the Scheme reflect the members' entitlement under the OBSPS as at 28 March 2018 but with revised rates of increase applying in the future. No member contributions are payable.

Management of the Scheme

The directors of the Corporate Trustee are listed on page 1. The board comprises two Company Nominated Trustee Directors (*CNTDs*), two Member Nominated Directors (*MNDs*) and two Independent Trustee Directors (*ITDs*).

Tata Steel UK Limited (*the Company*) is responsible for the appointment and removal of the CNTDs. The board is responsible for the appointment of ITDs and is required to consult with the Pensions Regulator ahead of any appointment. The Company must give its approval to any ITD nominee before the appointment can be ratified.

All directors are appointed for a fixed term not exceeding three years and are required to retire by rotation at the end of their term of appointment. ITDs and MNDs can only be removed within their term of appointment with the approval of all other Trustee directors. CNTDs can be removed by the Company within their term of appointment.

K Greenfield's term of appointment as an ITD expired on 30 June 2019 and he was reappointed for a further term of three years from 1 July 2019. Following an appropriate nomination and selection process, S Corten was reappointed and B Evans was appointed as MNDs with effect from 1 April 2019. Their terms of appointment expire on 31 March 2021 and 31 March 2022 respectively.

The day-to-day management and operation of the Scheme is delegated to the in-house pension administration and investment offices set out on page 1 and is supervised by the Trustee board. Five meetings of the Trustee board were held during the year and Trustee directors' attendance is summarised below.

Trustee Director	Meetings attended
<i>K Greenfield</i>	5
<i>C Claydon</i>	4
<i>S Corten</i>	5
<i>B Evans</i>	5
<i>AJ Johnston</i>	5
<i>J Regan</i>	3(3)
<i>M Wilson</i>	2(2)

In addition to scheduled board meetings, the Trustee held a dedicated strategy day. This was held separately from ordinary Scheme business and was to allow the board to consider in detail the pros and cons of various possible risk management strategies.

The Trustee has approved the creation of, and the associated Terms of Reference for, two committees with delegated powers to consider certain matters; the Audit and Risk Committee (*ARC*), and the Disputes and Determinations Panel.

C Claydon, S Corten, J Regan and M Wilson served on the ARC during the year which is chaired by Ms Claydon. The ARC met on 20 June 2019, 16 August 2019, 15 October 2019, and 26 March 2020. S Corten and J Regan served as leads for the Disputes and Determinations Panel and B Evans was appointed to the Panel following J Regan's retirement.

Statement of Trustee's Responsibilities

The Statement of Trustee's Responsibilities is set out on page 14 and forms part of this Trustee's Report.

Recent developments

The Trustee uses a quarterly IRM "dashboard" to provide ongoing monitoring of the key investment, funding and covenant risks facing the Scheme and to track progress against the Scheme's journey plan and targets set by the Trustee. The aim of this regular assessment is to enable the Trustee to take appropriate action promptly if required. The quarterly dashboard was considered at each scheduled meeting. Whilst there were no material changes in the risks or the Scheme's funding position relative to expectations, the Trustee was aware of the decision of Tata Steel Limited and thyssenkrupp AG to suspend discussions during the year around their planned joint venture. The Trustee and its advisers received updates during the year from senior Company representatives on the financial performance of the Scheme sponsor (Tata Steel UK Limited) and is continuing to keep the situation under review.

The investment strategy for the Scheme, as set out in the Statement of Investment Principles (*SIP*), is intended to bring the Scheme to full funding on a "buy-out" basis in due course. The Trustee approved the adoption of a revised benchmark framework aimed at better matching the interest rate and inflation sensitivity of the Scheme's assets to those of its liabilities. This will help determine which assets to hold and how the matching assets have performed. The Trustee was also updated throughout the year on progress in evaluating potential de-risking options for the Scheme.

Recognising that Scheme assets are managed internally, the Trustee undertook an exercise to satisfy itself that this approach did not expose the Scheme to additional risks compared to using external managers. Following an evaluation, the Trustee was satisfied that the internal manager, Pension Services Limited, continued to build up its capabilities and that there was no reason to conclude that the Scheme's approach exposed it to unacceptable additional risks. The Trustee also agreed to amend the benchmark against which the performance of its assets was measured in order to better align the performance of Scheme assets with movements in Scheme liabilities.

During the year consideration was given protecting the Scheme's funding position against adverse movements in interest rates and inflation and appropriate steps taken to increase the Scheme's overall levels of interest rate and inflation hedging.

An independent review of investment governance processes at the Scheme's investment manager was also completed during the year, the results of which noted the many positive processes and procedures in place as well as a number of potential areas for improvement. An action plan to implement the results of the review was subsequently agreed.

The Trustee conducted a “self-assessment” exercise which indicated that most areas of Scheme governance and the activities of the board were considered to be operating effectively, whilst noting there were some areas for improvement. An action plan to address those areas was drawn up and approved. As well as a review of its own effectiveness, the Trustee also assessed the performance of its key advisers. Following the 2019 review, Trustee directors are generally satisfied with the standards of service provided and all of the Scheme’s key advisers were reappointed. The Trustee also considered the forthcoming requirement to set strategic objectives for their investment consultants.

A survey of members was conducted with postal questionnaires designed to gauge the effectiveness of the Scheme’s communications and quality of service being sent to 3,000 Scheme members. Overall members were positive about their experience of the Scheme although a small number of negative responses were also received. Scheme administrators were instructed by the board to implement an action plan in response to the feedback expressed by respondents and a further survey will be carried out during 2022.

Trustee knowledge and understanding

The Pensions Act 2004 requires individual trustee directors to have appropriate knowledge and understanding of the law relating to pensions and trusts and the investment of the assets and to be conversant with the Scheme’s governing documentation. The Pensions Regulator has published a Code of Practice on Trustee Knowledge and Understanding to assist trustees on this matter. The Trustees have agreed a training plan to enable them to meet these requirements.

During the year dedicated training sessions were held covering risk management, Guaranteed Minimum Pensions (**GMP**) conversion options and Environmental, Social and Governance (**ESG**) and stewardship regulations for pension schemes. The Trustee also received training on the legal considerations around how it will be required to reach decisions in the event the Scheme reaches its agreed funding target.

Report on actuarial liabilities

The Financial Statements set out on pages 18 to 32 do not include liabilities in respect of promised retirement benefits which fall due after the period end. These liabilities are considered by the Scheme Actuary who carries out an actuarial valuation of the Scheme every three years. This valuation considers the funding position of the British Steel Pension Scheme and the level of any contributions payable.

Under section 222 of the Pensions Act 2004, every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions, which represent the present value of benefits to which members are entitled based on pensionable service to the valuation date. As described, this is assessed at least every three years using assumptions agreed between the Trustee and the employer and set out in the Statement of Funding Principles, a copy of which is available to Scheme members on request.

The first triennial actuarial valuation of the Scheme was carried out as at 31 March 2018. The Scheme Actuary also provides an Annual Funding Update each year between actuarial valuations to provide an approximate update of the funding position of the Scheme. The Annual Funding Update as at 31 March 2019 showed a decrease in the asset and liabilities values but an increase in the funding level.

<i>Valuation date</i>	31 March 2018	<i>31 March 2019</i>
<i>Value of technical provisions</i>	£10,553 million	£9,862 million
<i>Value of assets available to meet technical provisions</i>	£11,221 million	£10,581 million
<i>Surplus</i>	£668 million	£719 million
<i>Funding level</i>	106.3%	107.3%

The value of technical provisions is based on pension benefits accrued in the Old British Steel Pension Scheme (as at 31 March 2017 and transferred to the Scheme on 28 March 2018), and reflects assumptions about various factors that will influence the Scheme in the future, such as the levels of investment returns, when members will retire and how long they will live.

The actuarial method used in the calculation of the technical provisions is the Projected Unit Method and the significant actuarial assumptions used in the calculations are as follows:

<i>Discount rate</i>	<i>1.80%</i>
<i>CPI inflation</i>	<i>2.50%</i>
<i>Section 148 increases</i>	<i>4.05%</i>
<i>Deferred pension revaluation:</i>	
<i>CPI</i>	<i>2.50%</i>
<i>CPI capped at 5% pa</i>	<i>2.35%</i>
<i>CPI capped at 4% pa</i>	<i>2.25%</i>
<i>CPI capped at 3% pa</i>	<i>1.95%</i>
<i>CPI capped at 2.5% pa over the whole deferment period</i>	<i>2.50%</i>
<i>Pension increases in payment:</i>	
<i>CPI capped at 5% pa</i>	<i>2.25%</i>
<i>CPI capped at 3% pa</i>	<i>1.90%</i>
<i>CPI capped at 2.5% pa</i>	<i>1.65%</i>
<i>Mortality base tables</i>	<i>Males: SAPS2 Normal health tables with a 1.15 multiplier and CMI 2015 projections with a 1.50% p.a. 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% p.a. long term trend applying from 2007 to 2016</i>
<i>Future improvements in longevity</i>	<i>CMI 2016 projections with a 1.50% p.a. long term trend applying from 2016</i>
<i>Allowance for commutation</i>	<i>Members are assumed to commute 25% of their pension at retirement (subject to HMRC restrictions), based upon the current commutation factors</i>
<i>Operational expenses</i>	<i>0.5% of liabilities</i>
<i>PPF levy reserve</i>	<i>A reserve equal to 12 x the level of expected PPF levies</i>
<i>GMP equalisation reserve</i>	<i>0.45% of liabilities</i>

The next triennial valuation is due as at 31 March 2021.

Financial developments of the Scheme

The Financial Statements included in this report for the year to 31 March 2020 are the accounts required by the Pensions Act 1995. They have been prepared and audited in compliance with regulations made under sections 41(1) and (6) of that Act.

A summary of the Scheme's Financial Statements is set out in the table below.

	<i>Year to 31 March 2020</i>	<i>Year to 31 March 2019</i>
	<i>£'000</i>	<i>£'000</i>
<i>Net (payments) from dealings with members</i>	<i>(513,071)</i>	<i>(1,164,427)</i>
<i>Net return on investments</i>	<i>564,152</i>	<i>524,871</i>
<i>Net increase / (decrease) in Scheme</i>	<i>51,081</i>	<i>(639,556)</i>
<i>Net assets at start of year</i>	<i>10,581,147</i>	<i>11,220,703</i>
<i>Net assets at end of year</i>	<i>10,632,228</i>	<i>10,581,147</i>

A more detailed analysis of the financial developments over the period can be found in the Notes to the Financial Statements on pages 20 to 32.

Contributions

The Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the Company and the dates on or before which such contributions are to be paid. The Trustee is also responsible for keeping records of contributions received and for procuring that contributions are made to the Scheme in accordance with the Schedule.

The first actuarial valuation of the Scheme was carried out as at 31 March 2018 and a Schedule of Contributions was thereafter agreed between the Trustee and the Company and certified by the Scheme Actuary on 11 April 2019. No contributions were payable during the Year. A copy of the Scheme Actuary's certificate in respect of the Schedule of Contributions is included on page 33 of this annual report.

Trustee's Summary of Contributions payable under the Schedules in respect of the Scheme year ended 31 March 2020

This Summary of Contributions has been prepared by, and is the responsibility of, the Trustee. It sets out the Employer and Member contributions payable to the Scheme in respect of the Scheme year ended 31 March 2020. The Scheme Auditor reports separately on contributions in the Auditors' Statement about Contributions on page 17.

<i>Contributions payable in respect of the Scheme Year</i>	<i>£'000</i>
<i>Employer</i>	-
<i>Members</i>	-
<i>Contributions payable (as reported on by the Scheme Auditor)</i>	-

Reconciliation of Contributions Payable to Total Contributions reported in the Financial Statements

	<i>£'000</i>
<i>Contributions payable (as above)</i>	-
<i>Member Additional Voluntary Contributions</i>	-
<i>Total contributions reported in the Financial Statements</i>	-

Membership

The membership of the Scheme at the beginning and end of the year to 31 March 2020 (and changes during the year) is set out below.

	<i>Deferred Pensioners</i>	<i>Pensioners</i>	<i>Total</i>
<i>At 1 April 2019</i>	<i>15,699</i>	<i>60,879</i>	<i>76,578</i>
<i>Retirements</i>	-	<i>1,829</i>	<i>1,829</i>
<i>Commutations</i>	-	<i>(165)</i>	<i>(165)</i>
<i>Cessation</i>	-	<i>(17)</i>	<i>(17)</i>
<i>Transfers to other pension arrangements</i>	<i>(67)</i>	-	<i>(67)</i>
<i>Retirements</i>	<i>(882)</i>	-	<i>(882)</i>
<i>Deaths</i>	<i>(35)</i>	<i>(2,996)</i>	<i>(3,031)</i>
<i>Moved from unclaimed file</i>	<i>1</i>	-	<i>1</i>
<i>Adjustments</i>	<i>96</i>	-	<i>96</i>
<i>At 31 March 2020</i>	<i>14,812</i>	<i>59,530</i>	<i>74,342</i>

96 Members were incorrectly retained in the OBSPS following the *Time to Choose* exercise and subsequently moved to the Scheme with effect from 30 September 2019.

Pensioners Analysis

<i>Pensioners</i>	<i>43,496</i>
<i>Widow(er)s, civil partners, and dependants</i>	<i>16,034</i>
	<i>59,530</i>

Included within the above are 119 pensioners and 9 beneficiaries whose benefits are provided by annuities.

Investment management

The Trustee delegates the day-to-day management of investments to Pension Services Limited (*PSL*), its captive in-house investment manager. It is a wholly owned subsidiary of the Scheme and regulated by the Financial Conduct Authority. The Trustee sets the investment strategy for the Scheme after taking advice from the Scheme's Investment Adviser, Investment Consultant and the Scheme Actuary. The Trustee has in place an investment mandate with their investment manager which implements this strategy. The original mandate was signed on 26 March 2018 and since has been amended on annual basis to reflect the various investment strategy changes. In accordance with section 35 of the Pensions Act 1995, a Statement of Investment Principles (*SIP*) has been prepared by the Trustee which incorporates the investment strategy. A copy of the *SIP* can be obtained from the administrator.

PSL is wholly remunerated by a fee which covers any expenses properly incurred in the provision of the services for its sole client, the Scheme. The performance related remuneration for employees of PSL/BSPS is agreed by the Remuneration Committee of the Trustee in conjunction with the Chief Investment Officer and is based on meeting the short to medium term objectives of the Scheme in out-performing the Scheme Specific Benchmark. This is a blended benchmark which includes a liability proxy measure.

In line with the Trustee requirement, from 1 July 2019 PSL had a new incentive plan to outperform the replicating portfolio, a funding ratio which takes into account the liabilities of the Scheme. The performance measurement for the year was a blended version of both the Scheme Specific Benchmark and the liability matching proxy. The main investment objective is to maintain a portfolio of suitable assets of appropriate liquidity which will generate investment returns to meet the benefits payable under the Trust Deed and Rules as they fall due so that returns on the Scheme's assets are maximised whilst managing investment risk at an appropriate level.

The Trustee sets the investment strategy taking into account considerations such as the long-term liabilities and the funding agreed with the Employer. The investment strategy is set out in the SIP. During the year, the Trustee, with the advice from the Actuary and its Investment Adviser, sought to continue to modify the investment strategy and took further steps to de-risk its equities exposure and invested in corporate bonds and gilts. The gilts purchase programme under the Insurance Portfolio II programme was funded by repo. The journey plan set by the Trustee was to buy out liabilities at 103% and Insurance Portfolio II was the stepping stone on that journey. This was undertaken whilst safeguarding the Scheme's assets after navigating the challenges and ongoing market impact of BREXIT, the UK general election, and the CoVid-19 pandemic at the tail end of the Year.

The overall asset allocation, including gilts, had moved to

	2020	2019
	%	%
<i>Maturity portfolio</i>	95	89
<i>Growth portfolio</i>	5	11
<i>Total portfolio</i>	100	100

The Trustee invests directly into equity and bonds, pooled investment vehicles, property and derivative contracts. The Trustee has authorised the use of derivatives by PSL for efficient portfolio management purposes and to reduce certain investment risks. The principle investments in derivatives were interest rate and inflation swaps in the LDI portfolio.

The nature and disposition of Scheme investments are set out below, together with the actual allocation of investments at 31 March 2020, with pooled investment vehicles and derivatives analysed by underlying economic exposure:

2020	<i>Direct investments</i>	<i>Pooled investment vehicles</i>	<i>Derivatives</i>	<i>Total</i>	<i>Percentage</i>
	£'000	£'000	£'000	£'000	%
<i>Fixed Interest and Inflation Swaps</i>	8,372,156	-	(202,102)	8,170,054	77
<i>Insurance Portfolio II</i>	2,082,051	-	-	2,082,051	19
<i>Maturity Property</i>	1,124,244	-	-	1,124,244	11
<i>Equities (UK And Overseas)</i>	344,328	8,861	-	353,189	3
<i>Growth Property</i>	63,600	33,270	-	96,870	1
<i>Private Equity</i>	-	56,537	-	56,537	1
<i>Repo on Insurance Portfolio II</i>	(1,516,622)	-	-	(1,516,622)	(14)
<i>Other</i>	244,885	-	-	244,885	2
	10,714,642	98,668	(202,102)	10,611,208	100

2019	Direct investments	Pooled investment vehicles	Derivatives	Total	Percentage
	£'000	£'000	£'000	£'000	%
<i>Fixed Interest and Interest/Inflation Swaps</i>	8,309,424	-	(106,744)	8,202,680	77
<i>Maturity Property</i>	1,131,933	-	-	1,131,933	11
<i>Equities (UK And Overseas)</i>	720,184	27,693	-	747,877	7
<i>Growth Property</i>	186,843	31,148	-	217,991	2
<i>Private Equity</i>	-	64,818	-	64,818	1
<i>Other</i>	208,818	-	-	208,818	2
	10,557,202	123,659	(106,744)	10,574,117	100

Other than the pooled investment vehicles and OTC (over the counter) derivatives (inflation swaps) and property, all investments described above are quoted on recognised stock exchanges. The property portfolios are managed by the Scheme and valued externally by appointed valuers. With effect from 31 March 2020 the Trustee changed the accounting policy so as to value the property portfolios on an annual basis at each Scheme Year end, with interim updates on a calendar quarterly basis. Valuations are conducted by external valuers (initially JLL LLP and Strutt & Parker LLP). The derivatives are valued mark to market on daily basis and the pooled investment vehicles are priced by the investment manager of those vehicles. The Trustee regards all the investments of the Scheme as readily marketable other than the pooled investment vehicles.

The investments managed by PSL achieved an annualised return inclusive of Insurance Portfolio II of 5.4% compared to its Blended Benchmark of 8.9% over the one year to 31 March 2020 and over three years to 31 March 2020 of 4.0% compared to its Blended Benchmark of 5.0% over the same period. The annualised performance of the investment funds is as follows:

	<i>One year to 31 March 2020</i>	<i>Three years to 31 March 2020</i>
<i>Fund</i>	5.4%	4.0%
<i>Blended Benchmark</i>	8.9%	5.0%

Pension increases

In accordance with the Rules, pensions in payment are increased every year in April in line with statutory requirements. The increases granted with effect from 1 April 2020 were as follows:

<i>Pension accrued pre 05/04/1997</i>	-
<i>Pension accrued post 06/04/1997 pre 05/04/2005</i>	1.7%
<i>Pension accrued post 06/04/2005</i>	1.7%

The pension increases referred to above do not apply to that element of the pensions in payment representing any Guaranteed Minimum Pensions (**GMP**), as these increases are provided in part by the Scheme and in part by the State. GMPs earned after April 1988 will be increased by the Scheme in line with inflation up to a maximum of 3% per annum, as required by legislation.

Deferred pensions were increased in line with statutory requirements as is required under the Scheme Rules. There were no discretionary increases awarded in the year.

Transfers

All of the transfer values paid during the period were calculated and verified by the Scheme Actuary or calculated in accordance with instructions prepared by him in accordance with statutory regulations. The Trustee has instructed the Scheme Actuary not to take account of discretionary increases in calculating cash equivalents for transfer purposes. No transfers were reduced to less than their cash equivalent value.

Guaranteed Minimum Pensions

Before 1997, contracted-out defined benefit schemes, such as the OBSPS, were required to provide Guaranteed Minimum Pensions (GMPs) in respect of contracted-out service. Although contracting-out in defined benefit schemes ceased in April 2016, rights earned at that date were retained and the Scheme is responsible for paying the contracted-out element of benefits payable to members who transferred from the OBSPS.

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded that schemes should be amended to equalise pension benefits for men and women in relation to GMPs. The issues determined by the judgment arise in relation to many other defined benefit pension schemes. Under the ruling, schemes are required to backdate benefit adjustments in relation to GMP equalisation and provide interest on the backdated amounts.

All schemes need to reconcile their GMPs with those held on HMRC's records. The reconciliation process is important because HMRC may have incomplete or inaccurate records, which could lead to their expectation about the GMP entitlement being different from the Scheme's. The finalisation and closedown of the GMP reconciliation exercise was delayed as HMRC's final reconciled listings were only received in May 2020. An analysis of the final HMRC listings indicated that material additional work would be required by the Scheme to complete a comprehensive closedown process ahead of reconciling the Scheme's contracted-out records with those held by HMRC. This work is underway.

At this stage, the Trustee has not agreed the final position on the member population and the GMP amounts nor the equalisation methodology to be used and is therefore not in a position to obtain a reliable estimate of the backdated benefits and related interest. The cost of backdating pension benefits and related interest has therefore not been recognised in the Financial Statements but will be so recognised once the Trustee is able to reach a reliable estimate.

Governance and risk management

The Trustee board operates a governance framework intended to provide reassurance that the Scheme is well run and as a means of monitoring the effectiveness of the arrangements put in place to manage the Scheme. The governance arrangements for the Scheme take account of the recommendations and Codes of Practice of the Pensions Regulator and best practice and are kept under continuous review.

A key part of the Scheme's governance framework is the Integrated Risk Management (*IRM*) framework which is used by the board to facilitate consideration of the risks that may affect the Scheme, in particular how they might interact and how they can best be managed should the risks materialise. The IRM framework is reviewed quarterly at each scheduled meeting of the board to identify, manage and monitor the factors which could impact the prospects of the Scheme achieving its funding objectives and to assist the Trustee to identify when opportunities arise to reduce Scheme risk.

Data Protection

The General Data Protection Regulation (*GDPR*) imposes obligations on those who hold and process personal data and provides data subjects with certain rights. The Trustee is the data controller for the Scheme and is required to hold personal data relating to Scheme members, who are data subjects, in order to administer and pay benefits. The GDPR applies to the Trustee in respect of such data.

The Trustee is committed to protecting and respecting the privacy of members' personal data and has put in place agreements with relevant third parties to ensure that data is protected and used properly. The Trustee will only share the information necessary to administer and operate the Scheme or if required to do so by law.

A Privacy Statement, which describes how the Scheme obtains, holds, and uses personal data can be found on the scheme website.

Disclosure requirements

The Pensions Regulator (**tPR**) is responsible for the regulation of UK workplace pension schemes. In accordance with regulatory requirements the Scheme submits an annual scheme return to tPR. The Trustee is also required to provide certain information to tPR for the purposes of maintaining a record of the addresses and other basic details of all UK occupational pension plans in operation. TPR can be contacted at Napier House, Trafalgar Place, Brighton BN1 4DW

The Early Resolution Service of the Pensions Ombudsman (**TPO**) provides free advice to pension scheme members and beneficiaries who have problems concerning pensions. The Pensions Ombudsman can also investigate and determine any complaint or dispute of fact or law in relation to occupational pension schemes. TPO can be contacted at 10 South Colonnade Canary Wharf London E14 4PU. The Scheme operates an Internal Dispute Resolution Procedure (**IDRP**) and members should raise any disputes with the Trustee in the first instance. Details of the IDRPs can be found on the scheme website.

General enquiries about the Scheme, or about an individual's entitlement to benefits, should be addressed to the Administrator. Alternatively, enquiries may be made by e-mail to pension.enquiries@bspensions.com or via the Scheme website (www.bspensions.com) or by telephone on 0330 440 0844.

Signed for and on behalf of the Trustee of the British Steel Pension Scheme on 27 August 2020.

K Greenfield
Chairman

BRITISH STEEL PENSION SCHEME

Statement of Trustee's responsibilities for the Financial Statements

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland, are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to scheme members, beneficiaries and certain other parties, audited financial statements for each scheme year which:

- show a true and fair view of the financial transactions of the scheme during the year ended 31 March 2020 and of the amount and disposition at the end of the period of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the period; and
- contain the information specified in the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the accounts have been prepared in accordance with the Statement of Recommended Practice Financial Reports of Pension Schemes.

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. It is also responsible for:

- assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- using the going concern basis of accounting unless they either intend to wind up the Scheme, or have no realistic alternative but to do so; and
- making available each year, commonly in the form of a Trustee's annual report, information about the Scheme prescribed by pensions legislation, which it should ensure is consistent with the financial statements it accompanies.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee's responsibilities accompanying the Trustee's summary of contributions.

The Trustee is responsible for such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the scheme and to prevent and detect fraud and other irregularities.

BRITISH STEEL PENSION SCHEME

Independent Auditor's report to the Trustee of the British Steel Pension Scheme

Opinion

We have audited the financial statements of British Steel Pension Scheme (*the Scheme*) for the year ended 31 March 2020 which comprise the Fund Account and the Statement of Net Assets (available for benefits) and related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the scheme during the scheme year ended 31 March 2020 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the scheme year;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*; and
- contain the information specified in Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (*ISAs (UK)*) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the scheme in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The Trustee has prepared the financial statements on the going concern basis as it does not intend to wind up the Scheme, and as it has concluded that the Scheme's financial position means that this is realistic. It has also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Trustee's conclusions, we considered the inherent risks to the Scheme and analysed how those risks might affect the Scheme's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Scheme will continue in operation.

Other information

The Trustee is responsible for the other information, which comprises the Trustee's report (including the report on actuarial liabilities and the summary of contributions) and the actuarial certification of the schedule of contributions. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon in this report.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on this work we have not identified material misstatements in the other information.

Trustee's responsibilities

As explained more fully in their statement set out on page 14, the scheme Trustee is responsible for: supervising the preparation of financial statements which show a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the scheme's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to wind up the scheme, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the scheme trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the scheme trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the scheme trustee, for our audit work, for this report, or for the opinions we have formed.

Jatin Patel
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
28 August 2020

BRITISH STEEL PENSION SCHEME

Independent Auditor's Statement about Contributions to the Trustee

Statement about contributions

We have examined the summary of contributions payable under the Scheme rules and on the recommendation of the actuary to the British Steel Pension Scheme in respect of the scheme year ended 31 March 2020 which is set out on page 8.

In our opinion contributions for the scheme year ended 31 March 2020 as reported in the summary of contributions and payable under the Scheme rules and the recommendation of the actuary have been paid in accordance with the Scheme rules and the recommendation of the actuary to 10 April 2019 and subsequently in accordance with the Schedule of contributions certified by the actuary on 11 April 2019.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid in accordance with the Scheme rules and the recommendation of the actuary. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the scheme and the timing of those payments under the Scheme rules and the recommendation of the actuary.

Respective responsibilities of trustee and auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 14, the scheme's trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the scheme by or on behalf of the employer and the active members of the scheme. The trustee is also responsible for keeping records in respect of contributions received in respect of active members of the scheme and for monitoring whether contributions are made to the scheme by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Scheme rules and the recommendation of the actuary to the scheme and, subsequently under the schedule of contributions and to report our opinion to you.

The purpose of our work and to whom we owe our responsibilities

This statement is made solely to the scheme's trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the scheme's trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the scheme's trustee, for our work, for this statement, or for the opinions we have formed.

Jatin Patel
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
28 August 2020

BRITISH STEEL PENSION SCHEME

Fund Account for the year ended 31 March 2020

		Total Year to 31 March 2020 £'000	Total Year to 31 March 2019 £'000
Contributions and Benefits			
<i>Contributions</i>		-	-
<i>Benefits payable</i>	4	(486,238)	(499,283)
<i>Payments to and on account of leavers</i>	5	(14,130)	(647,029)
<i>Administrative expenses</i>	6	(8,917)	(10,115)
<i>Levies</i>	7	(3,786)	(8,000)
		(513,071)	(1,164,427)
Net (payments) from dealings with members		(513,071)	(1,164,427)
Return on Investments			
<i>Investment income less taxation</i>	8	309,568	297,128
<i>Change in market value of investments</i>	13	271,176	236,722
<i>Interest payable</i>	10	(7,862)	(22)
<i>Investment management and administration expenses</i>	17	(8,730)	(8,957)
Net return on investments		564,152	524,871
Net increase / (decrease) in the fund during the year		51,081	(639,556)
Net Assets of the Scheme			
<i>At beginning of year</i>		10,581,147	11,220,703
<i>At end of year</i>		10,632,228	10,581,147

The notes on pages 20 to 32 form part of these financial statements.

BRITISH STEEL PENSION SCHEME

Statement of Net Assets (available for benefits) as at 31 March 2020

	<i>Notes</i>	<i>Total Year to 31 March 2020 £'000</i>	<i>Total Year to 31 March 2019 £'000</i>
<i>Investment assets</i>	<i>13</i>		
<i>Equities</i>		344,328	720,184
<i>Bonds</i>		8,372,156	8,309,424
<i>Bonds - Insurance Portfolio II</i>		2,082,051	-
<i>Properties</i>		1,187,844	1,318,776
<i>Pooled investment vehicles</i>	<i>11</i>	98,668	123,659
<i>Derivatives</i>	<i>12</i>	-	140
<i>Other investments</i>		11	11
<i>Cash</i>		169,707	128,493
<i>Other investment balances</i>		78,753	82,049
		12,333,518	10,682,736
<i>Investment liabilities</i>			
<i>Derivatives</i>	<i>12</i>	(202,102)	(106,884)
<i>Repo (Insurance Portfolio II)</i>		(1,516,622)	-
<i>Other investment balances</i>		(3,586)	(1,735)
		(1,722,310)	(108,619)
<i>Total net investments</i>		10,611,208	10,574,117
<i>Current assets</i>	<i>19</i>	51,097	43,704
<i>Current liabilities</i>	<i>20</i>	(30,077)	(36,674)
		21,020	7,030
<i>Net Assets of the Scheme</i>		10,632,228	10,581,147

The notes on pages 20 to 32 form part of these Financial Statements. The Financial Statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme period.

Signed for and on behalf of the Trustee of the British Steel Pension Scheme on 27 August 2020.

K Greenfield
Chairman

C Claydon
Director

BRITISH STEEL PENSION SCHEME

Notes to the Financial Statements

1. General information

The British Steel Pension Scheme (*the Scheme*) is an occupational pension scheme established under trust. The Scheme was established to provide retirement benefits to former members of the Old British Steel Pension Scheme who elected to switch into the Scheme in preference to entering a Pension Protection Fund assessment period. The scheme is not open to new members.

The address of the Scheme's principal office is 125 Old Broad Street, London, EC2N 1AR. B.S. Pension Fund Trustee Limited is the corporate managing trustee and its six directors are the owners of the company shares on equal basis and they hold these shares on trust for the membership.

The Scheme is a registered pension scheme under the Chapter 2, Part 4 of the Finance Act 2004. This means that income and capital gains earned by the Scheme receive preferential tax treatment.

2. Basis of Preparation

The Financial Statements have been prepared in accordance with Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and with the guidance set out in the Statement of Recommended Practice (SORP) (Revised November 2014). The financial statements are prepared on a going concern basis, which the Trustee believes to be appropriate as it believes that the Scheme has adequate resources to realise its assets and meet benefit obligations in the normal course of affairs (continue to operate) for at least the next twelve months. In reaching this conclusion, the Trustee considered the impact of the COVID-19 outbreak and the impact on investments, portfolio liquidity, cashflow requirements and the employer covenant. This assessment, together with income and capital growth from its assets, gives the Trustee confidence to prepare the financial statements on a going concern basis.

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a Global Pandemic on 11 March 2020, has impacted global financial markets. The current response to COVID-19 means that real estate valuers are faced with an unprecedented set of circumstances on which to base a judgement. The property valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to the valuations than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market the valuation of these properties is kept under review.

3. Accounting policies

a) Investments

The principal accounting policies of the Scheme are as follows:

- i. Investments are included at fair value.
- ii. The majority of listed investments are stated at bid price at the date of the Statement of Net Assets.
- iii. Accrued income is accounted for within investment income. Where applicable, fixed interest and index linked securities have their respective sinking factors and indexation factors applied to the valuation.
- iv. Insurance Portfolio II has been set up in accordance with the Trustee's SIP requirements to hedge the interest rate exposure of the Scheme and have been separately disclosed.
- v. Unquoted securities are included at fair value estimated by the Trustees based on advice from the investment manager.
- vi. The private equity portfolio, infrastructure funds and the high return fixed interest funds have been valued using the latest company or limited partnership financial statements available as at 31 March 2020, or at fair value if lower, as determined by the Trustee Board on behalf of the Trustee, based on advice from the investment manager.

- vii. On 14 May 2020 the Trustee decided upon a change in accounting policy in relation to the Scheme's real estate holdings. JLL LLP and Strutt & Parker LLP were appointed to provide valuations of the Scheme's property assets in relation to, respectively, Maturity and Growth properties and agricultural properties. Valuations are to be undertaken on an annual basis, with effect from 31 March 2020, and thereafter on a calendar quarterly basis.
- viii. Maturity portfolio properties tend to share certain characteristics, namely long lease terms, good tenant covenants and rent reviews subject to inflation linked uplifts. These properties are valued on the same basis as the properties held in the Growth portfolio. Net income related to these properties has been separately disclosed.
- ix. Property development costs are valued as per the contractual agreement at the balance sheet date and are held at cost until completion.
- x. Annuities purchased in the name of the Trustee have been included at nil value in the Financial Statements on the grounds of materiality.
- xi. Derivatives are stated at fair value as at 31 March 2020.
 - Exchange traded derivatives are stated at fair value determined by using market quoted prices.
 - Swaps are valued taking the current value of future cash flows arising from the swap determined by using discounted cash flow models and market data at 31 March 2020.
 - All gains and losses arising on derivative contracts are reported within "Change in Market Value".
 - Receipts and payments arising from derivative instruments are reported as sale proceeds or purchase of investments.
- xii. Repurchase and Reverse Repurchase arrangement.

Under repurchase (repo) arrangements, the Scheme continues to recognise and value the securities that are delivered out as collateral and includes them in the Financial Statements. The cash received is recognised as an asset and the obligation to pay it back is recognised as a liability.

Under reverse repurchase (reverse repo) arrangements, the Scheme does not recognise the collateral securities received as assets in its Financial Statements. The Scheme does recognise the cash delivered to the counterparty as a receivable in Financial Statements.

b) Investment income

- i. Dividends from quoted securities are accounted for when the security is declared ex-dividend.
- ii. Fixed interest income and index linked interest income have indexation and sinking factors applied to the income receivable where applicable.
- iii. Interest is accrued on a daily basis.
- iv. Income from gilts in the Insurance Portfolio 2 is disclosed separately.
- v. Investment income is reported net of attributable tax credits but gross of withholding taxes which are accrued in line with the associated investment income. Irrecoverable withholding taxes are reported separately as a tax charge.
- vi. Rents from properties are recognised in accordance with the terms of the underlying leases and stated net of expenses.
- vii. Income from reverse repurchase agreements is accrued on a daily basis dependent on the market rate prevailing on the day.
- viii. Receipts from annuity policies held by the Trustees to fund benefits payable to Scheme members are included within investment income on an accruals basis.

c) Foreign currencies

The functional and presentational currency of the Scheme is sterling. Balances denominated in foreign currencies are translated into sterling at the rate prevailing at 31 March 2020. Asset and liability balances are translated at the bid and offer rates respectively. Transactions denominated in foreign currencies are translated at the rate ruling on the date of the transaction. Differences arising on investment balance translation are accounted for in "Change of market value" in the Fund Account.

d) Contributions

- i. There is no further accrual of benefits in the Scheme and no ordinary contributions from employees or employer are payable.
- ii. Employer deficit funding contributions are accounted for on the due dates on which they are payable in accordance with the Schedule of Contributions and Recovery Plan under which they are being paid.

e) Payments to members

- i. Benefits are accounted for in the year in which they fall due for payment. Where there is a choice, benefits are accounted for in the year in which the member notifies the Trustees of their decision on the type or amount of benefit to be taken or, if there is no member choice, they are accounted for on the date of retirement or leaving. Pensions in payment are accounted for in the period to which they relate.
- ii. Individual transfers out are accounted for when paid which is normally when member liability is discharged.
- iii. Group transfers are accounted for in accordance with the terms of the transfer agreement.

f) Expenses

Expenses are accounted for on an accruals basis. The Scheme bears all of the direct costs of administration.

4. Benefits payable

	<i>Year to 31 March 2020 £'000</i>	<i>Year to 31 March 2019 £'000</i>
<i>Pensions</i>	<i>(467,442)</i>	<i>(475,217)</i>
<i>Commutations</i>	<i>(1,138)</i>	<i>(1,866)</i>
<i>Lump sum retirement benefits</i>	<i>(16,366)</i>	<i>(20,142)</i>
<i>Lump sum death benefits</i>	<i>(1,292)</i>	<i>(2,058)</i>
	<i>(486,238)</i>	<i>(499,283)</i>

5. Payments to and on account of leavers

	<i>Year to 31 March 2020 £'000</i>	<i>Year to 31 March 2019 £'000</i>
<i>Transfers to other pension schemes</i>	<i>(130)</i>	<i>(237)</i>
<i>Transfers to personal pensions</i>	<i>(14,000)</i>	<i>(646,792)</i>
	<i>(14,130)</i>	<i>(647,029)</i>

6. Administrative expenses

	<i>Year to</i> 31 March 2020 £'000	<i>Year to</i> 31 March 2019 £'000
<i>Staff costs</i>	(934)	(1,139)
<i>Establishment costs</i>	(469)	(457)
<i>Legal, audit & other professional fees</i>	(6,566)	(7,279)
<i>Computer system costs</i>	(525)	(647)
<i>Communication costs</i>	(143)	(238)
<i>Other costs</i>	(280)	(355)
	(8,917)	(10,115)

7. Levies

	<i>Year to</i> 31 March 2020 £'000	<i>Year to</i> 31 March 2019 £'000
<i>PPF levy</i>	(3,786)	(8,000)
	(3,786)	(8,000)

8. Investment income

	<i>Year to</i> 31 March 2020 £'000	<i>Year to</i> 31 March 2019 £'000
<i>Net dividends from equities</i>	20,905	26,781
<i>Net income from bonds</i>	201,718	205,214
<i>Net income from bonds held on Insurance Portfolio II</i>	22,235	-
<i>Net rental income</i>	60,034	59,582
<i>Income from PIVs</i>	5,096	5,376
<i>Net income from class actions</i>	19	77
<i>Income from annuities</i>	16	14
<i>Income from derivatives</i>	-	629
<i>Income from reverse repo</i>	828	718
<i>Income from cash</i>	191	331
<i>Income before taxation</i>	311,046	298,722
<i>Taxation</i>	(1,474)	(1,594)
<i>Net income</i>	309,568	297,128

9. Taxes on investment income

The British Steel Pension Scheme is a registered pension scheme for tax purposes under the Finance Act 2004. The Scheme is therefore exempt from taxation except for certain withholding taxes relating to overseas investment income. Tax charges are accrued on the same basis as the investment income to which they relate.

10. Interest payable

	<i>Year to 31 March 2020 £'000</i>	<i>Year to 31 March 2019 £'000</i>
<i>Cash deposits – foreign currency</i>	(39)	(22)
<i>Interest payable on Insurance Portfolio 2</i>	(7,823)	-
	(7,862)	(22)

Interest payable is due to interest charges for holding foreign currencies and interest payable on repo agreement for Insurance Portfolio 2 accruing on a daily basis of borrowings of £1,516,622k (31 March 2019: £Nil).

11. Pooled Investment Vehicles (PIVs)

The Scheme's holdings of PIVs are analysed below:

	<i>Year to 31 March 2020 £'000</i>	<i>Year to 31 March 2019 £'000</i>
<i>UK equity funds</i>	4,571	10,044
<i>Global equity funds</i>	4,290	17,649
<i>Global property funds</i>	33,270	31,148
<i>UK private equity funds</i>	28,778	30,594
<i>Global private equity funds</i>	27,759	34,224
	98,668	123,659

12. Derivatives

Objectives and policies

The Trustee has authorised the use of derivatives in a controlled manner to facilitate the timely implementation of significant asset allocation moves, for the purpose of efficient portfolio management, to reduce investment risk and to facilitate closer asset/liability management. The use of derivative contracts for such purposes is subject to prior approval by the Trustee Board.

Swaps

The Trustee's aim is to match, as far as possible, the fixed income portfolio to the Scheme's long-term liabilities, particularly in relation to their sensitivities to inflation rate and interest rate movements.

Inflation swaps are used as "overlays" in conjunction with the increased non-government fixed interest bond holdings to match liabilities and to improve potential returns. The Scheme has inflation swap contracts outstanding as at 31 March 2020 relating to its fixed interest investment portfolio and these contracts are traded Over The Counter (*OTC*). The details are:

	<i>Year to 31 March 2020</i>		<i>Year to 31 March 2019</i>	
	<i>Assets £'000</i>	<i>Liabilities £'000</i>	<i>Assets £'000</i>	<i>Liabilities £'000</i>
<i>Swaps – interest rate</i>	-	-	140	-
<i>Swaps – inflation</i>	-	(202,102)	-	(106,884)
	-	(202,102)	140	(106,884)

OTC contracts are used to transform floating rate interest income from certain investments into fixed income returns which are better suited to the liability profile of the Scheme. The Scheme has no interest rate swap contracts outstanding as at 31 March 2020.

Under the OTC contracts for inflation rate contracts, the Scheme had deposited £201,944k and received £Nil of Gilts as collateral for the fair value with the various market counterparties as at 31 March 2020. The Scheme held collateral against the contracts showing unrealised gains and posted collateral for unrealised losses. The deposited collateral is reported within the Scheme's net assets.

<i>Type of swap</i>	<i>Number of contracts</i>	<i>Expiration</i>	<i>Nature of swap</i>	<i>Notional amount of outstanding contracts</i> £'000 / \$'000	<i>Aggregate assets</i> £'000	<i>Aggregate liabilities</i> £'000
Within 5 years						
<i>Inflation swap</i>	1	February 2024	Pay 2.35% for US CPI	0 / 50,000	-	(7,202)
Within 5 to 10 years						
<i>Inflation swap</i>	12	June 2028 – January 2029	Pay 1.95% - 2.89% for US CPI	0 / 50,000	-	(181,763)
Within 40 years						
<i>Inflation swap</i>	1	January 2059	Pay 3.33% for UK RPI	10,000 / 0	-	(13,137)
					-	(202,102)

During the year there was one redemption of an interest rate swap for £10,000k (31 March 2019: £20,000k) notional with a net profit of £140k (31 March 2019: £311k); there were no redemptions of inflation rate swaps for £Nil (31 March 2019: £100,000k) notional with a net profit of £Nil (31 March 2019: £2,545k).

13. Investments reconciliation

Reconciliation of investments held at the beginning and the end of the year.

	<i>Opening Value</i> £'000	<i>Purchase Costs</i> £'000	<i>Sale Proceeds</i> £'000	<i>Change in Market Value</i> £'000	<i>Closing Value</i> £'000
<i>Equities</i>	720,184	158,282	(532,022)	(2,116)	344,328
<i>Bonds</i>	8,309,424	515,691	(626,577)	173,618	8,372,156
<i>Bonds Insurance Portfolio II</i>	-	1,869,537	-	212,514	2,082,051
<i>Properties</i>	1,318,776	2,389	(117,908)	(15,413)	1,187,844
<i>Pooled Investment Vehicles</i>	123,659	1,630	(24,412)	(2,209)	98,668
<i>Derivatives</i>	(106,744)	-	(140)	(95,218)	(202,102)
<i>Other investments</i>	11	-	-	-	11
	10,365,310	2,547,529	(1,301,059)	271,176	11,882,956
<i>Cash deposits</i>	128,493	-	-	-	169,707
<i>Other investments balances</i>	82,049	-	-	-	78,753
<i>Repo</i>	-	-	-	-	(1,516,622)
<i>Other investment balances</i>	(1,735)	-	-	-	(3,586)
<i>Net current investments</i>	7,030	-	-	-	21,020
<i>Total net investment assets</i>	10,581,147	-	-	-	10,632,228

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

As at 31 March 2020, the borrowings on the Repurchase Agreement for Insurance Portfolio 2 were £1,516,622k (31 March 2019: £Nil) plus an interest payable of £7,823k (31 March 2019: £Nil) as shown in Note 10. The borrowings were collateralised with initial margin of £1,088,861k (31 March 2019: £Nil) from the Scheme and variation margin received from Repo counterparties of £166,432k (31 March 2019: £Nil). As at 31 March 2020, the collateral posted on Reverse Repo was £86,221k (31 March 2019: £101,981k).

14. Transaction costs

Included within the Scheme purchases and sales are direct transaction costs of £1,711k (2019: £8,138k) comprising fees, commissions and stamp duty. These costs are attributable to the key asset classes as follows:

	<i>Fees</i>	<i>Commissions</i>	<i>Stamp duty</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<i>Equities</i>	<i>4</i>	<i>232</i>	<i>61</i>	<i>297</i>
<i>Equities direct research costs</i>	<i>294</i>	<i>-</i>	<i>-</i>	<i>294</i>
<i>Bonds direct research costs including Insurance Portfolio II</i>	<i>47</i>	<i>-</i>	<i>-</i>	<i>47</i>
<i>Legal fees on Insurance Portfolio II</i>	<i>92</i>	<i>-</i>	<i>-</i>	<i>92</i>
<i>Property</i>	<i>981</i>	<i>-</i>	<i>-</i>	<i>981</i>
	<i>1,418</i>	<i>232</i>	<i>61</i>	<i>1,711</i>
	<i>Fees</i>	<i>Commissions</i>	<i>Stamp duty</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<i>Equities</i>	<i>-</i>	<i>233</i>	<i>51</i>	<i>284</i>
<i>Direct research costs</i>	<i>269</i>	<i>-</i>	<i>-</i>	<i>269</i>
<i>Legal fees on Insurance Portfolio II</i>	<i>88</i>	<i>-</i>	<i>-</i>	<i>88</i>
<i>Property</i>	<i>427</i>	<i>-</i>	<i>7,070</i>	<i>7,497</i>
	<i>784</i>	<i>233</i>	<i>7,121</i>	<i>8,138</i>

Since the introduction of MiFID II (Markets in Financial Instrument Directive) II on 3 January 2018, direct Research Costs have been separately disclosed £341k (2019: £269k). Transaction costs are borne by the Scheme in relation to transactions in pooled investments vehicles. Such costs are taken into account in calculating the bid/offer spread of these investments and are not separately reported.

15. Investment fair value hierarchy

The fair value of financial instruments has been determined using the following fair value hierarchy:

Level 1: The unadjusted quoted price in active market for an identical assets or liabilities that the entity can access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for asset or liability, either directly or indirectly.

Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

For the purpose of this analysis, daily priced funds have been included in Level 1, weekly priced funds in Level 2 and monthly and quarterly net asset values for Private Equity funds and Limited Liability Partnerships in Level 3.

The Scheme's investment assets and liabilities have been categorised using the above fair value hierarchy as follows:

<i>As at 31 March 2020</i>	<i>Level 1 £'000</i>	<i>Level 2 £'000</i>	<i>Level 3 £'000</i>	<i>Total £'000</i>
<i>Equities</i>	343,757	571	-	344,328
<i>Bonds</i>	2,402,597	5,969,559	-	8,372,156
<i>Insurance Portfolio II</i>	2,082,051	-	-	2,082,051
<i>Pooled investment vehicles</i>	-	-	98,668	98,668
<i>Swaps</i>	-	(202,102)	-	(202,102)
<i>Properties</i>	-	-	1,187,844	1,187,844
<i>Investment in subsidiaries</i>	-	-	11	11
<i>Cash</i>	83,707	-	-	83,707
<i>Reverse Repo</i>	86,000	-	-	86,000
<i>Repo Insurance Portfolio II</i>	(1,516,622)	-	-	(1,516,622)
<i>Other investment balances</i>	75,167	-	-	75,167
	3,556,657	5,768,028	1,286,523	10,611,208

<i>As at 31 March 2019</i>	<i>Level 1 £'000</i>	<i>Level 2 £'000</i>	<i>Level 3 £'000</i>	<i>Total £'000</i>
<i>Equities</i>	720,183	-	1	720,184
<i>Bonds</i>	3,320,274	4,989,150	-	8,309,424
<i>Pooled investment vehicles</i>	58,842	101	64,716	123,659
<i>Swaps</i>	-	(106,744)	-	(106,744)
<i>Properties</i>	-	-	1,318,776	1,318,776
<i>Investment in subsidiaries</i>	-	-	11	11
<i>Cash</i>	128,493	-	-	128,493
<i>Other investment balances</i>	80,314	-	-	80,314
	4,308,106	4,882,507	1,383,504	10,574,117

16. Investment risk

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: The risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: This comprises currency risk, interest rate risk and other price risk.

Currency risk: This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.

Interest rate risk: This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.

Other price risk: This is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee manages investment risk, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreement in place with the Scheme's investment manager, Pension Services Limited and monitored by the Trustee with regular reviews of the investment portfolios.

Further information on the Trustee's approach to risk management and the Scheme's exposures to credit and market risks are set out below.

Credit risk

The Scheme is subject to credit risk as it invests in bonds, OTC derivatives, has cash balances, undertakes securities lending activities and enters into repurchase agreements. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles and is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

Analysis of direct credit risk

<i>Year to 31 March 2020</i>	<i>Investment grade</i>	<i>Non-investment grade</i>	<i>Unrated</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<i>Bonds</i>	<i>8,317,931</i>	<i>37,877</i>	<i>16,348</i>	<i>8,372,156</i>
<i>Bonds Insurance Portfolio II</i>	<i>2,082,051</i>	<i>-</i>	<i>-</i>	<i>2,082,051</i>
<i>Pooled investment vehicles</i>	<i>-</i>	<i>-</i>	<i>98,668</i>	<i>98,668</i>
<i>Swaps</i>	<i>(202,102)</i>	<i>-</i>	<i>-</i>	<i>(202,102)</i>
<i>Reverse Repos</i>	<i>86,000</i>	<i>-</i>	<i>-</i>	<i>86,000</i>
<i>Cash</i>	<i>83,707</i>	<i>-</i>	<i>-</i>	<i>83,707</i>
	<i>10,367,587</i>	<i>37,877</i>	<i>115,016</i>	<i>10,520,480</i>

<i>Year to 31 March 2019</i>	<i>Investment grade</i>	<i>Non-investment grade</i>	<i>Unrated</i>	<i>Total</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
<i>Bonds</i>	<i>8,156,693</i>	<i>113,257</i>	<i>39,474</i>	<i>8,309,424</i>
<i>Pooled investment vehicles</i>	<i>-</i>	<i>-</i>	<i>123,659</i>	<i>123,659</i>
<i>Swaps</i>	<i>(106,744)</i>	<i>-</i>	<i>-</i>	<i>(106,744)</i>
<i>Cash</i>	<i>128,493</i>	<i>-</i>	<i>-</i>	<i>128,493</i>
	<i>8,178,442</i>	<i>113,257</i>	<i>163,133</i>	<i>8,454,832</i>

Credit risk arising on bonds is mitigated by investing in government bonds where the credit risk is minimal, or corporate bonds which are rated at least investment grade. The Scheme also invests in high yield bonds which are non-investment grade. The Trustee manages the associated credit risk by requesting the investment manager to diversify the portfolio to minimise the impact of default by any one issuer.

Credit risk arising on other investments is mitigated by investment mandates requiring counterparties to have at least investment grade credit rating. This is the position at the period-end.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or OTC. OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC swaps is reduced by collateral arrangements (see Note 12).

Cash is held within financial institutions which are at least investment grade credit rated. The Scheme engaged in a Reverse Repurchase agreement during the period, and on 31 March 2020, received £nil in collateral from the market counterparty.

The Scheme's holdings in pooled investment vehicles are unrated. Direct credit risk from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the regulatory and operating environment of the pooled manager.

A summary of pooled investment vehicles by type of arrangement is as follows:

	<i>Year to 31 March 2020 £'000</i>	<i>Year to 31 March 2019 £'000</i>
<i>Authorised unit trusts</i>	37,562	38,262
<i>Limited liability partnerships</i>	7,280	60,169
<i>Closed ended funds</i>	53,826	25,228
	98,668	123,659

Indirect credit risk arises in relation to underlying investments held in the bond pooled investment vehicles. This risk is mitigated by only investing in pooled funds which invest in at least investment grade credit rated securities.

Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments or via pooled investment vehicles. The Trustee limits overseas currency exposures through a selective currency hedging policy.

The Scheme's total net unhedged exposure by major currency at the year end was as follows:

	<i>Year to 31 March 2020 £'000</i>	<i>Year to 31 March 2019 £'000</i>
<i>US Dollar</i>	85,603	338,636
<i>Euro</i>	19,442	129,582
<i>Japanese Yen</i>	28,709	39,474
<i>Canadian Dollar</i>	54,855	71,710
<i>Hong Kong Dollar</i>	16,189	20,869
<i>Swiss Franc</i>	13	19,074
<i>Swedish Krona</i>	1	6,119
<i>Australian Dollar</i>	4,611	7,400
<i>Danish Krona</i>	1	7,122
<i>Norwegian Krona</i>	1	2,730
<i>Other</i>	209	137
	209,634	642,853

Interest rate risk

The Scheme is subject to interest rate risk on the investments comprising bonds and interest rate swaps held directly or through pooled investment vehicles and cash. At the year end the portfolio comprised of:

	<i>Year to 31 March 2020 £'000</i>	<i>Year to 31 March 2019 £'000</i>
Direct		
<i>Bonds</i>	<i>8,372,156</i>	<i>8,309,424</i>
<i>Bonds Insurance Portfolio II</i>	<i>2,082,051</i>	<i>-</i>
<i>Swaps</i>	<i>(202,102)</i>	<i>(106,744)</i>
	<i>10,252,105</i>	<i>8,202,680</i>

Other price risk

Other price risk arises principally in relation to the Scheme's growth portfolio which includes directly held equities, equities held in pooled vehicles, hedge funds, and private equity and investment properties. The Scheme manages this exposure to other price risk by constructing a diverse portfolio of investments across various markets. At the year-end, the Scheme's exposure to investments subject to other price risk was:

	<i>Year to 31 March 2020 £'000</i>	<i>Year to 31 March 2019 £'000</i>
<i>Direct</i>		
<i>Equities</i>	<i>344,328</i>	<i>720,184</i>
<i>Investment properties</i>	<i>1,190,691</i>	<i>1,318,776</i>
	<i>1,535,019</i>	<i>2,038,960</i>
<i>Indirect</i>		
<i>Equity PIVs</i>	<i>8,861</i>	<i>27,693</i>
<i>Property PIVs</i>	<i>33,270</i>	<i>31,148</i>
<i>Private Equity PIVs</i>	<i>56,537</i>	<i>64,818</i>
	<i>98,668</i>	<i>123,659</i>
	<i>1,633,687</i>	<i>2,162,619</i>

Other risks

The Scheme's longevity risk is currently borne by means of a prudent financial buffer, which can act to offset any rise in longevity. The Trustee is currently considering whether and how to mitigate longevity risk. The risk that the employer may become insolvent, thus putting the Scheme into a PPF assessment period, or may be unable to meet future financial obligations to the Scheme, is measured by receiving regular financial updates from the Company and by carrying out periodic independent covenant assessments.

17. Investment management and administration expenses

	<i>Year to</i> 31 March 2020 £'000	<i>Year to</i> 31 March 2019 £'000
<i>Staff costs</i>	(4,769)	(5,446)
<i>Establishment costs</i>	(423)	(459)
<i>Utilities</i>	(116)	(116)
<i>IT costs</i>	(1,395)	(1,230)
<i>IT data costs</i>	(559)	(705)
<i>Legal and professional fees</i>	(555)	(236)
<i>Fees paid to custodian</i>	(327)	(298)
<i>Fees paid to adviser</i>	(20)	(12)
<i>Audit fees</i>	(41)	(31)
<i>Other expenses</i>	(51)	(31)
<i>Non-recoverable VAT</i>	(474)	(393)
	(8,730)	(8,957)

Pension Services Limited is an in-house investment manager with sole responsibility for managing Scheme investments. The legal fees incurred for the Insurance Portfolio II was £92,000 (31 March 2019: £88,000).

18. Outstanding capital commitments

	<i>Year to</i> 31 March 2020 £'000	<i>Year to</i> 31 March 2019 £'000
<i>Properties</i>		
<i>Commitments in Maturity properties</i>	150	3,854
<i>Commitments in Growth properties</i>	47	199
	197	4,053
<i>Other</i>		
<i>Commitments in infrastructure and alternative investments</i>	9,137	11,199
	9,137	11,199
	9,334	15,252

19. Current Assets

	<i>Year to</i> 31 March 2020 £'000	<i>Year to</i> 31 March 2019 £'000
<i>UK Cash</i>	2,316	1,457
<i>Pre-paid pensions</i>	32,212	32,227
<i>Other</i>	16,569	10,020
	51,097	43,704

20. Current liabilities

	<i>Year to</i> 31 March 2020 £'000	<i>Year to</i> 31 March 2019 £'000
<i>Other</i>	(30,077)	(36,674)
	(30,077)	(36,674)

21. Related party transactions

At 31 March 2020, the two independent directors were not members of the pension scheme. Of the remaining four directors of the Trustee, three were members of the Scheme and one had transferred their benefit to an external pension provider. The three directors who are Scheme members receive benefits on the same basis as other members of the Scheme. Trustee directors received remuneration of £118,000 (2019: £135,000).

The Scheme bears all costs of administration in the Glasgow and London offices.

22. Employer related investments

The Scheme holds a stake in Tata Steel UK Limited which was granted as a condition of the Regulated Apportionment Arrangement entered into by the Company and the Trustee of the OBSPS in 2018. This stake was apportioned in relation to the asset split in March 2018 and was subsequently reduced to less than 1%. The Trustee values this stake to be £Nil (2019 : £Nil).

In early 2020, a new coronavirus, COVID-19, impacted a significant number of countries globally. COVID-19 has caused disruption to economic activity which has been reflected in recent fluctuations in global stock markets and, in turn, in the valuation of pension schemes assets. The emergence and spread of COVID-19 is considered to be a non-adjusting post balance sheet event.

Given the inherent uncertainties, it is not practical at this time to provide a quantitative estimate of the impact of COVID-19 on the Scheme. The Scheme's assets include different strategies and invest across multiple sectors and locations, and so returns will vary due to these factors and the specific nature of the underlying deals, as well as the occurrence of credit events on the underlying investments which would determine a write down. Assets that could be more impacted than others are equities, bonds, property mandates and pooled investments which invest in private debt, energy, and illiquid credit.

The Trustee has designed and implemented the investment strategy of the Scheme taking a long-term view and have built in resilience to withstand short term fluctuations that may impact the Scheme.

BRITISH STEEL PENSION SCHEME

Actuary's Certification of Schedule of Contributions

1. Adequacy of rates of contributions

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 expected on 31 March 2018 to continue to be met for the period for which the Schedule is to be in force.

2. Adherence to statement of funding principles

I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 11 April 2019.

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.

11 April 2019

G M Oxtoby

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