Pensions Teach-in

7 July 2020
Forward-looking statement caution

This presentation contains certain forward-looking statements which are made in reliance on the safe harbour provisions of the US Private Securities Litigation Reform Act of 1995. These statements relate to analyses and other information which are based on forecasts of future results and estimates of amounts not yet determinable. These statements include, without limitation, those concerning: the potential impact of Covid-19 on our people, operations, suppliers and customers; current and future years’ outlook; revenue and revenue trends; EBITDA and profitability; free cash flow; capital expenditure; return on capital employed; shareholder returns including dividends and share buyback; net debt; credit ratings; our group-wide transformation and restructuring programme, cost transformation plans and restructuring costs; investment in and roll out of our fibre network and its reach, innovations, increased speeds and speed availability; our broadband-based service and strategy; investment in and rollout of 5G; the investment in converged network; improvements to the customer experience; our investment in TV, enhancing our TV service and BT Sport; the recovery plan, operating charge, regular cash contributions and interest expense for our defined benefit pension schemes; effective tax rate; growth opportunities in networked IT services, the pay-TV services market, broadband, artificial intelligence and mobility and future voice; growth of, and opportunities available in, the communications industry and BT’s positioning to take advantage of those opportunities; expectations regarding competition, market shares, prices and growth; expectations regarding the convergence of technologies; plans for the launch of new products and services; network performance and quality; the impact of regulatory initiatives, decisions and outcomes on operations; BT’s possible or assumed future results of operations and/or those of its associates and joint ventures; investment plans; adequacy of capital; financing plans and refinancing requirements; demand for and access to broadband and the promotion of broadband by third-party service providers; improvements to the control environment; and those statements preceded by, followed by, or that include the words ‘aims’, ‘believes’, ‘expects’, ‘anticipates’, ‘intends’, ‘will’, ‘should’, ‘plans’, ‘strategy’, ‘future’, ‘likely’, ‘seeks’, ‘projects’, ‘estimates’ or similar expressions.

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An introduction to today’s speakers

Neil Harris – Director Tax, Treasury, Insurance & Pensions
- Joined BT in 2015
- 30+ years’ experience in corporate finance roles, including AstraZeneca, BHP Billiton, Cable & Wireless, Centrica & Serco
- Accountant

Paul Rogers – Pensions Risk Director
- Joined BT in 2011
- 20+ years’ experience in pensions
- Actuary

Shan Abdullah – Pensions Senior Manager
- Joined BT in 2014
- 10+ years’ experience in pensions
- Actuary

Bob Scott – LCP, Partner (Independent expert)
- 40+ years’ experience in pensions including 38 at LCP
- Actuary
- Past chair of the Association of Consulting Actuaries
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How the IAS 19 position changed over FY20 22

BT Pension Scheme: triennial funding valuation 27

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Key messages

We use two methods to calculate our pension deficit:

- IAS 19, to determine our balance sheet position, is measured on a “best-estimate” basis, but does not allow for the scheme's investment strategy
- Funding, to determine our cash payments, reflects the scheme’s investment strategy, but is measured prudently

Our recent dividend decision and investment plans, including our FTTP programme, are positive for our covenant

The 2017 BTPS funding agreement provides a strong foundation on which to build our 2020 agreement, such as over what period we seek to pay off deficits

Covid-19 may reduce the pace and scale of any changes to the pension regulatory regime
BT focused on sustainable growth in value, which includes supporting its pension plans

Drive sustainable growth in value

Grow EBITDA

Grow free cash flow

Invest in value-enhancing growth
Support pension plans
Progressive dividends
Maintain strong balance sheet

- Target 20m FTTP by mid-to-late 2020s
- 5G footprint doubled by March 2021
- Modernisation of BT to deliver £2bn annualised gross cost savings by March 2025

- Fair and affordable recovery plan
  - £2bn bonds issued to BTPS\(^1\) in 2018/19
  - £1.25bn & £900m deficit payments to BTPS\(^1\) in 2019/20 & 2020/21 respectively

- Dividend re-based to 7.7p per share for 2021/22
  - Continued progressive policy from re-based level

- Smooth long-dated debt maturity profile
  - Targeting BBB+ through cycle rating
  - BBB rating floor

\(^1\) BT Pension Scheme
Overview of BT’s pension plans
What are the different types of pension plans?

**Defined Benefit (“DB”)**

Benefits:
- determined by the plan rules
- dependent on factors such as age, years of service and pensionable pay
- not dependent on actual contributions made by the company or members

BT exposed to investment and other risks, leading to liabilities recognised on the balance sheet

**Defined Contribution (“DC”)**

Benefits linked to:
- contributions paid
- the performance of each individual's chosen investments
- the form in which individuals choose to take their benefits

BT not exposed to investment and other risks
The Group’s main plans are in the UK

<table>
<thead>
<tr>
<th>Scheme</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>BT Pension Scheme (BTPS)</td>
<td>• DB&lt;br&gt;• Closed to future benefit accrual on 30 June 2018 for majority of members&lt;br&gt;• 286,000 deferred members and pensioners</td>
</tr>
<tr>
<td>BT Retirement Saving Scheme (BTRSS)</td>
<td>• DC&lt;br&gt;• Contract-based arrangement operated by Standard Life&lt;br&gt;• 67,000 active members</td>
</tr>
<tr>
<td>EE Pension Scheme (EEPS)</td>
<td>• DB section closed to future benefit accrual in 2014&lt;br&gt;• DC section open to new joiners with 9,000 active members</td>
</tr>
<tr>
<td>BT Hybrid Scheme (BTHS)</td>
<td>• Combines elements of DB and DC&lt;br&gt;• Set up in April 2019 for non-management employees formerly in the BTPS&lt;br&gt;• Closed to new entrants on 30 September 2019&lt;br&gt;• 4,000 active members</td>
</tr>
</tbody>
</table>

- BT also has retirement arrangements around the world in line with local markets and culture

Source: BT Group plc Annual Report 2020, pg. 164, 172
Closing the BTPS has significantly reduced the build-up of DB benefits & risk

Changes to pension benefits in 2018

**BTPS (DB)**
- Closed to future accrual for >99% of active members from 30 June 2018

Affected employees were:
- eligible to join:
  - BTRSS
  - BTHS, if non-management
- provided enhanced contribution rate from BT for a temporary period

**BTRSS (DC)**
- BT’s standard contribution rate increased from around 8% to 10% from 1 June 2018

**BTHS (DB + DC)**
- Set up in 2019 for non-management employees impacted by closure of the BTPS

Service cost (including administration expenses and PPF\(^1\) levy)

![Bar chart showing service cost for FY18 and FY20](chart.png)

Source: BT Group plc Annual Report 2020, pg. 162

\(^1\) Pension Protection Fund
The BTPS represents over 97% of the Group’s DB pension liabilities

Source: BT Group plc Annual Report 2020, pg. 162
Background to the BT Pension Scheme
The BTPS is administered and managed by an independent Trustee

**Trustee**
- Trustee duties include:
  - acting in the best interests of beneficiaries
  - administering the Scheme in line with Scheme rules
  - acting prudently, responsibly and honestly
- Nine Trustee directors, appointed by BT
- Usually appointed for a three-year term and eligible for re-appointment

**Chairman of the Trustees**
- Member nominated Trustees
- Employer nominated Trustees

**Trustee supported by**
- BT Pension Scheme Management
  - Executive arm of the Trustee and principal investment adviser
- Scheme Actuary
  - Carries out number of statutory roles, including performing triennial valuation
- Independent advisers
  - Across a range of specialisms, including legal, covenant and investment

**The Pensions Regulator (TPR)**
- Ensures scheme sponsors and pension schemes fulfil their duties to scheme members

Source: BT Group plc Annual Report 2020, pg. 165
BTPS has a well-diversified investment strategy

£52bn (31 March 2020)

<table>
<thead>
<tr>
<th>Category</th>
<th>Value at 31 Mar 2020 (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK government bonds</td>
<td>13.9</td>
</tr>
<tr>
<td>Global investment grade credit</td>
<td>14.4</td>
</tr>
<tr>
<td>UK listed equity</td>
<td>0.3</td>
</tr>
<tr>
<td>Overseas developed listed equity</td>
<td>6.7</td>
</tr>
<tr>
<td>Emerging markets listed equity</td>
<td>1.0</td>
</tr>
<tr>
<td>Private equity</td>
<td>1.3</td>
</tr>
<tr>
<td>UK property</td>
<td>3.5</td>
</tr>
<tr>
<td>Overseas property</td>
<td>1.1</td>
</tr>
<tr>
<td>Absolute return</td>
<td>1.2</td>
</tr>
<tr>
<td>Non core credit</td>
<td>4.2</td>
</tr>
<tr>
<td>Mature infrastructure</td>
<td>1.5</td>
</tr>
<tr>
<td>Cash balances</td>
<td>2.3</td>
</tr>
<tr>
<td>Longevity insurance contract</td>
<td>(0.8)</td>
</tr>
<tr>
<td>Other¹</td>
<td>1.6</td>
</tr>
</tbody>
</table>

¹ Includes collateral posted in relation to derivatives held by the BTPS, e.g. equity, interest rate, inflation and FX derivatives

Source: BT Group plc Annual Report 2020, pg. 166
BTPS assets today are better matched to movements in the liabilities

Source: BT Group plc Annual Report 2010, pg. 130

Source: BT Group plc Annual Report 2020, pg. 166
Benefits from the BTPS are expected to be paid over more than 60 years

• Projecting future expected benefit payments requires a number of assumptions:
  – inflation, life expectancy, member behaviour (e.g. options at retirement; retirement patterns; existence of a spouse or dependant on death)

• Liabilities are the present value of the future estimated benefit payments

1 Forecast benefits payable from the BTPS at 31 March 2020, based on IAS 19 assumptions
Source: BT Group plc Annual Report 2020, pg. 164
Different approaches are used for IAS 19 and the funding valuation

<table>
<thead>
<tr>
<th></th>
<th>IAS 19</th>
<th>Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Purpose</strong></td>
<td>Balance sheet in BT plc accounts</td>
<td>Setting cash payments</td>
</tr>
<tr>
<td><strong>Regulation</strong></td>
<td>IFRS standards</td>
<td>2004 Pensions Act</td>
</tr>
<tr>
<td><strong>Frequency</strong></td>
<td>Semi-annually</td>
<td>At least every three years</td>
</tr>
<tr>
<td><strong>Key assumptions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Determined by</td>
<td>BT</td>
<td>BT and Trustee agreement</td>
</tr>
<tr>
<td>Discount rate</td>
<td>Yield curve based on AA corporate bonds</td>
<td>Yield curve reflecting prudent(^1) return expected from BTPS assets</td>
</tr>
<tr>
<td>Inflation</td>
<td>Best estimate</td>
<td>Prudent overall approach(^1)</td>
</tr>
<tr>
<td>Mortality</td>
<td>Best estimate</td>
<td>Prudent overall approach(^1)</td>
</tr>
<tr>
<td>Asset value</td>
<td>BT’s estimate of market value</td>
<td>Market value</td>
</tr>
</tbody>
</table>

\(^1\) Prudence is not defined in legislation and is reviewed as part of each funding valuation. An increase in prudence would lead to higher liabilities and deficit.
IAS 19 position at 31 March 2020 (all plans)
Group IAS 19 deficit fell to £1.1bn at 31 March 2020

Note: We estimate our IAS 19 deficit materially worsened in April 2020 principally reflecting a reversion in credit spreads
Source: BT Group plc Annual Report 2020, pg. 162
31 March 2020 IAS 19: Discount rate and RPI inflation

Discount rate
- Uses **AA corporate bond yield curve** and projected benefit cash flows

RPI inflation
- Uses **inflation curve derived from gilts** and projected benefit cash flows
  - 0.2ppt adjustment for an inflation risk premium

Source: Standard corporate bond yield curve derived by Willis Towers Watson (WTW)

Source: RPI inflation spot rates, Bank of England (BoE) website

1 Represents a single-equivalent rate which provides the same present value as applying the full curve to each cashflow
## 31 March 2020 IAS 19: mortality, CPI inflation and other assumptions

<table>
<thead>
<tr>
<th>Approach</th>
<th></th>
</tr>
</thead>
</table>
| **Mortality** | • Uses:  
  – **current mortality rates**, based on experience of BTPS members  
  – **future improvements** based on a model published by UK actuarial profession’s Continuous Mortality Investigation (CMI 2018 Mortality Projections model) |
| **Inflation** | • CPI inflation set in relation to RPI inflation assumption  
  • Consultation on the future of RPI creates **uncertainty around future expectations of RPI and CPI** |
| **Other assumptions** | • Significant number of other assumptions required to value liabilities based on scheme experience and actuarial input, such as:  
  – member behaviour (e.g. options chosen at retirement; retirement patterns; existence of a spouse or dependant on death) |
How the IAS 19 position changed over FY20
The assets were broadly unchanged over FY20

Under IAS 19, asset returns are partly recognised in the Income Statement (net interest expense on pensions deficit) and the balance in the Group Statement of Comprehensive Income.

Source: BT Group plc Annual Report 2020, pg. 163
## Illustrative roll-forward of assets over FY20

<table>
<thead>
<tr>
<th>Assets at 31 March 2019</th>
<th>Change in illustrative market indicator</th>
<th>Sensitivity(^1,2)</th>
<th>Example calculation</th>
<th>Implied impact (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit payments</td>
<td></td>
<td></td>
<td>From FY19</td>
<td>(2.6)</td>
</tr>
<tr>
<td>Deficit contributions</td>
<td></td>
<td></td>
<td></td>
<td>1.3</td>
</tr>
<tr>
<td>Investment returns</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- bond yields</td>
<td>Bank of England: 0.7% fall</td>
<td>£9.1bn increase for 1.1% fall</td>
<td>= (0.7)% x £9.1bn / (1.1)%</td>
<td>5.8</td>
</tr>
<tr>
<td>- inflation</td>
<td>Bank of England: 0.6% fall</td>
<td>£4.2bn increase for 0.7% increase</td>
<td>= (0.6)% x £4.2bn / 0.7%</td>
<td>(3.6)</td>
</tr>
<tr>
<td>- equities</td>
<td>MSCI world (GBP): 6% fall</td>
<td>£2.8bn fall for 30% fall in equities</td>
<td>= (6)% x £(2.8)bn / (30)%</td>
<td>(0.6)</td>
</tr>
<tr>
<td>- life expectancy</td>
<td>CMI paper: 0.5 years fall</td>
<td>£0.7bn increase for 1.25 years increase</td>
<td>= (0.5) x £0.7bn / 1.25</td>
<td>(0.3)</td>
</tr>
</tbody>
</table>

### Est. assets at 31 March 2020

<table>
<thead>
<tr>
<th>Other (e.g. FX, property returns, credit spreads)</th>
<th>Assets at 31 March 2020</th>
<th>Implied impact (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>53.4</td>
</tr>
</tbody>
</table>

### Assets at 31 March 2020

<table>
<thead>
<tr>
<th>Implied impact (£bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>53.5</td>
</tr>
</tbody>
</table>

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\(^1\) The sensitivities represent the impact of each event in isolation - in practice a combination of events could arise and the impact may differ, e.g. due to changes in the market value of the assets, the investment strategy, or if the shape of the bond/inflation curves change.

\(^2\) Source: BT Group plc Annual Report 2019, pg. 152
The IAS 19 liabilities reduced over FY20

Includes:
- Benefit accrual
- Scheme experience (e.g. actual deaths vs expected; members’ options at retirement where different to expected)

Source: BT Group plc Annual Report 2020, pg. 163
## Illustrative roll-forward of liabilities over FY20

<table>
<thead>
<tr>
<th>Liabilities at 31 March 2019</th>
<th>Change in illustrative market indicator</th>
<th>Sensitivity(^1,2)</th>
<th>Example calculation</th>
<th>Implied impact (£bn)</th>
</tr>
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<td>Liabilities at 31 March 2019</td>
<td>Change in illustrative market indicator</td>
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<td>Example calculation</td>
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</tr>
</tbody>
</table>

1. The sensitivities represent the impact of each event in isolation - in practice a combination of events could arise and the impact may differ, e.g. due to changes in the value of the liabilities, or if the shape of the corporate bond/inflation curve changes

2. Source: BT Group plc Annual Report 2019, pg. 152
BT Pension Scheme: triennial funding valuation
At the 2017 valuation, BT agreed to eliminate the £11.3bn deficit by 2030.

Deficit at 30 June 2017

Scheduled contributions to eliminate deficit

Source: BT Group plc Annual Report 2020, pg. 169

Source: BT Group plc Annual Report 2020, pg. 170, BT RNS announcing valuation agreement
### A number of protections were agreed as part of the 2017 valuation

<table>
<thead>
<tr>
<th>Feature</th>
<th>Detail</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Shareholder distributions</strong></td>
<td>Additional contributions where shareholder distributions exceed a threshold which allows for:</td>
</tr>
<tr>
<td></td>
<td>• 10% pa dividend per share growth; plus</td>
</tr>
<tr>
<td></td>
<td>• £200m per year of share buybacks on a cumulative basis</td>
</tr>
<tr>
<td><strong>Material corporate events</strong></td>
<td>Additional contributions where net cash proceeds &gt;£1.0bn from disposals (net of acquisitions):</td>
</tr>
<tr>
<td></td>
<td>• additional contributions payable to the BTPS equal to one third of those net cash proceeds</td>
</tr>
<tr>
<td></td>
<td>BT will consult with the Trustee if:</td>
</tr>
<tr>
<td></td>
<td>• acquisitions / disposals &gt;£1.0bn</td>
</tr>
<tr>
<td></td>
<td>• it considers making a Class 1 transaction (acquisition or disposal) which will have material impact on BTPS</td>
</tr>
<tr>
<td></td>
<td>• it is, or is likely to be, subject to a takeover offer</td>
</tr>
<tr>
<td></td>
<td>BT will advise the Trustee if:</td>
</tr>
<tr>
<td></td>
<td>• other material corporate actions which would materially impact BT’s covenant to the BTPS</td>
</tr>
<tr>
<td><strong>Negative pledge</strong></td>
<td>Future creditors will not be granted superior security to the BTPS in excess of a £1.5bn threshold</td>
</tr>
</tbody>
</table>

Source: BT Group plc Annual Report 2020, pg. 171
The valuation used an average discount rate of 2.6%

Risk-free curve

- Yield curve based on gilt and swap rates¹
- Equivalent to: 1.6% pa² at 30 June 2017

Prudent investment return (above risk-free)

- Takes account of: future asset strategy; expected returns; prudent margin (allowing for covenant)
- Reviewed at each valuation
- Equivalent to: 1.0% pa² at 30 June 2017

¹ Chart illustrates average of spot rates on nominal UK government bonds (source: Bank of England) and zero coupon swap rates (source: Bloomberg)

² Assumption represents a single-equivalent rate which provides the same present value as applying the full curve to each cashflow

Source: BT Group plc Annual Report 2020, pg. 170
## 2017 funding valuation: other assumptions

<table>
<thead>
<tr>
<th>Approach</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mortality</strong></td>
<td>Uses:</td>
</tr>
<tr>
<td></td>
<td>– current mortality rates, based on experience of BTPS members</td>
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<tr>
<td></td>
<td>– future improvements based on a model published by UK actuarial profession’s Continuous Mortality Investigation (CMI 2016 Mortality Projections model)</td>
</tr>
<tr>
<td><strong>Inflation</strong></td>
<td>RPI set using inflation curve derived from gilts and swaps, weighted by projected BTPS benefit cash flow</td>
</tr>
<tr>
<td></td>
<td>CPI inflation set in relation to RPI inflation assumption</td>
</tr>
<tr>
<td></td>
<td>Consultation on the future of RPI creates uncertainty around future expectations of RPI and CPI</td>
</tr>
<tr>
<td><strong>Other assumptions</strong></td>
<td>Significant number of other assumptions required to value liabilities based on scheme experience and actuarial input, such as:</td>
</tr>
<tr>
<td></td>
<td>– member behaviour (e.g. options chosen at retirement; retirement patterns; existence of a spouse or dependant on death)</td>
</tr>
</tbody>
</table>
The BTPS’s investments provide a hedge to movements in the funding liabilities

- Changes in external factors, such as interest rates, can impact the assumptions and the measurement of BTPS liabilities
- These factors can also impact the scheme assets and derivatives

Illustrative scenario which might occur no more than once in every 20 years¹

<table>
<thead>
<tr>
<th>Event</th>
<th>Funding liabilities from 30 June 2019</th>
<th>Assets from 31 March 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 percentage point fall in bond yields</td>
<td>13.1</td>
<td>11.8</td>
</tr>
<tr>
<td>0.7 percentage point increase to inflation rate</td>
<td>7.1</td>
<td>4.9</td>
</tr>
<tr>
<td>1.25 year increase to life expectancy</td>
<td>3.1</td>
<td>0.6</td>
</tr>
<tr>
<td>20% fall in growth assets</td>
<td>0.0</td>
<td>(3.6)</td>
</tr>
</tbody>
</table>

¹The impact shown will vary as the size of the assets/liabilities changes. The impact shown under each scenario looks at each event in isolation – in practice a combination of events could arise.

Looking ahead to the 2020 valuation

The funding valuation has a number of steps that take time to complete:

- collate and check membership data at 30 June 2020
- review company covenant
- determine any changes to assumptions / prudence level / approach
- member-by-member actuarial calculations using updated assumptions
- agree contribution schedule and any other legal protections
- valuation documents submitted to Pensions Regulator

Aiming to conclude in first half of 2021

1.5 month statutory deadline
Pensions landscape
Funding valuation: a budgeting exercise carried out every three years

How much does the company need to pay in future:
• to recover a prudent estimate of the deficit
• to provide for ongoing benefits (if applicable)
• after taking appropriate account of future investment returns?
Key facets of a covenant assessment

Covenant assessors take account of a range of factors to inform their conclusions.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Positive indicator</th>
<th>Adverse indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal structure</td>
<td>Parent company support / Employers are key group entities</td>
<td>Small insignificant employer within a wider group</td>
</tr>
<tr>
<td>Historic trading &amp; cash flow trends</td>
<td>Stable / Growing</td>
<td>Volatile / Declining</td>
</tr>
<tr>
<td>Trading &amp; cash flow forecasts</td>
<td>Growth / Supportable assumptions</td>
<td>Decline / Unreasonable assumptions</td>
</tr>
<tr>
<td>Sector prospects</td>
<td>Growing sector</td>
<td>Declining sector</td>
</tr>
<tr>
<td>Scheme creditor position</td>
<td>Scheme ranks ahead of or at least equal to other creditors</td>
<td>Scheme ranks behind prior ranking creditors</td>
</tr>
<tr>
<td>Balance sheet assets</td>
<td>High proportion having value independent of the Employer (eg property)</td>
<td>High proportion tied to the continued success of the employer (eg goodwill)</td>
</tr>
<tr>
<td>Relative size of Employer to Scheme</td>
<td>Profits, cash flows and net assets high vs Scheme deficits and investment volatility</td>
<td>Profits, cash flows and net assets low vs Scheme deficits and investment volatility</td>
</tr>
<tr>
<td>Covenant leakage</td>
<td>No / low dividends and other leakage vs contributions to the Scheme</td>
<td>High dividends and other leakage vs contributions to the Scheme</td>
</tr>
<tr>
<td>Recovery plan length</td>
<td>Short</td>
<td>Long</td>
</tr>
</tbody>
</table>

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Current considerations in funding valuations

What pension scheme trustees are thinking about in current unpredictable market conditions

• A Regulator that wants to be “Clearer, Quicker, Tougher”
• Consultation on a new statutory funding regime – originally planned for 2021
• But...Government focused on economic recovery and helping UK plc

• Emphasis on pension schemes being treated equitably
• Particularly in the context of dividends paid to shareholders
• TPR¹ sanctioning contribution holidays, where appropriate

¹ TPR – The Pensions Regulator
Current considerations in funding valuations

What pension scheme trustees are thinking about in current unpredictable market conditions

Assumptions

- Continuing low gilt yields – possibility of negative inflation
- RPI reform changing future increases and asset values
- Slowing life expectancy improvements (even before Covid-19)

Long-term

- Schemes very focused on endgame planning
- Increased use of insurance to remove pensions risk
- Further solutions and products emerging
Key messages and Q&A
Key messages

We use two methods to calculate our pension deficit:

• IAS 19, to determine our balance sheet position, is measured on a “best-estimate” basis, but does not allow for the scheme's investment strategy
• Funding, to determine our cash payments, reflects the scheme’s investment strategy, but is measured prudently

Our recent dividend decision and investment plans, including our FTTP programme, are positive for our covenant

The 2017 BTPS funding agreement provides a strong foundation on which to build our 2020 agreement, such as over what period we seek to pay off deficits

Covid-19 may reduce the pace and scale of any changes to the pension regulatory regime