Summary FUNDING STATEMENT

October 2016

The Plan's Trustee Directors are legally obliged to issue a **Summary Funding Statement** on an annual basis, to update all members and beneficiaries on the Plan's financial position.

The Statement is to be based either on a full three-yearly actuarial valuation (if one has been carried out that year) or on an interim actuarial update report (which is obtained in the intervening years between full valuations). This year's Statement is therefore based on the last full valuation carried out as at 5 April 2014, updated to provide an indication as to how the position has changed since then.

The actuarial valuation

The valuation, carried out every three years by an external professional adviser called an actuary, uses a complex mix of economics and statistical forecasting to make important checks on the financial standing of the Plan. Then, taking advice from the actuary, the Trustee Directors set assumptions for variables such as interest rates, inflation, members' life expectancy and so on. These are then used in the valuation which calculates whether:

- the value of the Plan's **assets** (the amount of money in the Plan and its estimated future income)

  is sufficient to cover

- its **liabilities** (the target level of assets needed to pay the benefits earned by all the Plan's members, when they come to retire).

If the assets do cover its liabilities, the Plan is said to be in **surplus.** If not, there is a **deficit,** and action must be taken to correct it and bring the Plan's finances back into a balanced position.

The Plan's funding position at 5 April 2014

The results of the valuation carried out at 5 April 2014 were as follows:

- On an **"ongoing funding level"** basis (which assumes that the Plan will continue indefinitely), the ratio of the actual value of the Plan's assets to its target level (its liabilities) was as follows:

The target level of the Plan's assets was:	£282.0 million
The actual value of the Plan's assets was:	£264.2 million
And therefore there was a **deficit** of:	**£17.8 million**
Giving a **funding level** of:	**93.7%**

- Using a different measure (called the **"solvency funding level"**), if the Plan had been discontinued on 5 April 2014 and it had been necessary to purchase members' benefits as annuity policies from an insurance company, the equivalent figures would have been as follows:

Target level of the Plan's assets:	£361.0 million
Actual value of the Plan's assets:	£264.2 million
Deficit:	**£96.8 million**
Funding level:	**73.2%**

It should be noted that it is a legislative requirement to look at both the "ongoing" and "solvency" positions; since the Company and the Directors do not anticipate the Plan being discontinued they would expect members to focus on the "ongoing" basis, but the "solvency" position is also included for information. It should also be noted that this "solvency" measure invariably suggests a worse funding position than the "ongoing" method, because insurers are obliged to take a very cautious view of the future and annuity costs have risen to historically high levels in recent years.

In the event that the Company was to go out of business and there were insufficient assets to pay members' benefits, further protection would be available in the form of the Pension Protection Fund (PPF). The PPF is a compensation scheme created by the Pensions Act 2004, which is designed to act as a safety net for members of salary-related schemes if their employers become insolvent and are unable to pay their employees' pension benefits. If the Plan were to be wound up and go into the PPF, the pension you would receive from the PPF may however be less than the full benefit you have earned in the Plan, depending on your age and when your benefits were earned. Further information is available on the PPF website: www.pensionprotectionfund.org.uk.

continued overleaf...

How is the deficit being addressed?

A "recovery plan" is in place, agreed between the Company and the Directors, which was designed to correct the identified £17.8 million deficit by 30 September 2019. Under this plan, the Company is making extra annual contributions into the Plan as follows (in addition to its normal ongoing contributions which are currently just under £2.4 million per year):

- From 1 June 2015 to 31 December 2015 - extra monthly contributions of £242,583.
- From 1 January 2016 to 30 September 2019 - extra annual contributions of £3,930,000, payable monthly (ie. £327,500 per month).

How has the position changed since 5 April 2014?

As mentioned earlier, the actuary makes certain assumptions when valuing the Plan's assets and liabilities, with regard to variables like future investment growth, gilt yields, members' life expectancy and so on. The actuary calculates that if the estimates used for the April 2014 valuation had been borne out in practice then, taking into account the extra Company contributions referred to above, the deficit would have decreased to £14.2 million by 5 April 2016 (equivalent to a funding level of 95%).

However, a new actuarial update carried out at 5 April 2016 in fact concluded that the Plan's funding position had instead worsened significantly. Whilst the assets had increased in value by £4.8 million to £269.0 million, the estimated value of the Plan's liabilities had risen markedly to £338.6 million, giving a new deficit figure of £69.6 million (and a funding level of just over 79%).

This continued rise in the value of the Plan's liabilities was again largely the result of government bonds (also known as "gilts") increasing in price, which at the same time caused the rate of return that they pay (the "gilt yield") to fall further. The Directors are obliged to take a prudent view and value the Plan's liabilities by reference to gilt yields, so as gilt yields have fallen, the value of the Plan's liabilities has risen correspondingly. Volatility in the equity investment markets also contributed to the funding deterioration, despite the fact that the Directors began a programme of "de-risking" the Plan's investment strategy during 2015 (as reported in last year's "DB Update" newsletter). The deterioration was offset to a minor extent by a reduction in long-term inflation expectations.

Members should note that these issues have affected all UK pension schemes (not just ours) and you should also bear in mind that these actuarial updates provide just snapshots of the situation at particular moments in time - the position fluctuates constantly in response to a wide range of external financial factors, and these are closely monitored by the Trustee Directors and their professional advisers at all times.

The Directors also confirm, as they are required to, that there have been no payments from the Plan to the Company within the last 12 months.

Next full valuation

The next full three-yearly actuarial valuation is to be carried out as at 5 April 2017. The "recovery plan" described above will then be reassessed, and the Directors and the Company will work together with a continued commitment to bringing the Plan back into a balanced financial position over an agreed period. We will report to members on the valuation and the revised "recovery plan" during late 2017 or early 2018.

Further information

Further information about the Plan, including a copy of the latest actuarial valuation report, can be requested from:

Pensions Department, Firth Rixson (Trustees) Limited, Unit 36, Jessops Riverside, 800 Brightside Lane, Sheffield S9 2RX
Telephone: (0114) 219 3499 Fax: (0114) 219 1118
Email: group.pensions@alcoa.com

We need to send you a Summary Funding Statement like this one each year, so if you change address you should let the Pensions Department know so that they can update their records.

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