Avon Rubber Retirement and Death Benefits Plan
Summary Funding Statement at 31 March 2012

Dear Member,

In accordance with our obligations under legislation, I enclose the annual funding statement for the Avon Rubber Retirement and Death Benefits Plan. The statement shows the funding position of the Plan at 31 March 2011 – the date of the latest formal valuation – and 31 March 2012.

As you read through the statement, you will see that the Plan’s funding level has decreased slightly between 31 March 2011 and 31 March 2012.

The Trustee will receive an update from the Plan’s Actuary on the funding position of the Plan at 31 March 2013, and the results of this update together with the 2013 newsletter will be sent to all members later in the year.

We are taking this opportunity to send active and pensioner members the following additional information:

Member Nominated Director Election

We are nearing the end of the tenure for both Eric Fielding and Brian Hatton as Member Nominated Directors of the Trustee Board. Whilst Eric has confirmed that he will stand for re-election for the next 4 year period (commencing 1 October 2013), Brian has confirmed that he will be standing down.

Please take the time to read the enclosed notice inviting nominations from pensioner and active members of the Plan who wish to act as Member Nominated Directors of the Trustee Board. All active and pensioner members of the Plan are eligible to nominate themselves. Each nomination will require the signature of two eligible members. Please note that nominations must be received by 2 August 2013.

We have received one nomination already in response to an internal announcement at Hampton Park West to active members. David Little is currently the Group Chief Accountant and was a member of the defined benefit (final salary) section of the Plan until it was closed and is an active member of the defined contribution section. David is a long standing employee who first joined Avon as a management accounting trainee in 1976.

If further nominations are received a selection panel will be convened to interview the candidates and decide which two should be appointed. The selection panel will comprise Brian Hatton, departing MND, myself as Chairman and one other Trustee Director who is a Member of the Plan. Should no further nominations be received, Eric and David will be automatically selected as MNDs for the next 4 year period. Both Eric and Brian will continue in their capacity as MNDs until 1 October 2013.

Contacting us

If you have any queries on any of the above items then you can contact us using the details provided on the final page of the Summary Funding Statement.

Yours sincerely,

Miles Ingrey-Counter
Chairman
On behalf of Avon Rubber Pension Trust Limited
Avon Rubber Retirement and Death Benefits Plan
Summary Funding Statement at 31 March 2012

This Statement explains the funding that supports benefits in the Avon Rubber Retirement and Death Benefits Plan ("the Plan"). It tells you about the longer-term outlook for the Plan and the financial support the employer provides.

Pension scheme valuations are carried out every three years in accordance with legislation. The latest valuation of the Plan was carried out at 31 March 2011. The purpose of this Statement is to provide the results of that valuation along with the results of the latest actuarial update as at 31 March 2012.

At 31 March 2011, the Plan’s actuary found that the Plan had a shortfall of £4.3 million, which is the same as a funding level of 98%.

At 31 March 2011, the amount of money required to provide benefits under the technical provisions in full (i.e. the benefits promised to members) was £273.6 million. The value of the Plan’s assets at that date was £269.3 million.

The Scheme Actuary is required to provide the Trustee with an approximate update of the funding position each year. The position as at 31 March 2012 is set out below:

At 31 March 2012, the amount of money required to provide benefits under the technical provisions in full (i.e. the benefits promised to members) was £309.2 million. The value of the Plan’s assets at that date was £290.3 million. Therefore the shortfall at that date was £18.9 million, corresponding to a funding level of 94%.

Over the period between 31 March 2011 and 31 March 2012, the Plan's funding position has deteriorated. This is primarily due to a decrease in the interest rate on Government bonds which leads to a higher value being placed on the benefits the Plan needs to pay out, although this has been partially offset by higher than expected asset returns.
Understanding the statement

As a Trustee Board, we are responsible for developing a funding target for the Plan. We set out our aims, the funding target we believe is suitable for the Plan, and how we aim to achieve this. To work out the funding target, the actuary needs to make a number of assumptions and look at how the outcome can change if any one of these turns out to be too low, or too high. We then use our judgement to consider how confident or cautious we want to be and we decide on a suitable safety margin to build into our target.

In the valuation, the actuary works out the amount the Plan needs to cover its funding target under the technical provisions. Then she takes the value of the Plan’s assets from the audited accounts. The actuary then compares the assets with the funding target. This gives the funding level. The chart shows you the level for our Plan.

The Company’s support

The funding target we agree for the Plan meets the requirements of the Pensions Act 2004 and is called the ‘technical provisions’. It aims to produce a prudent reserve of money to hold against the Plan’s future needs. We have discussed our funding plan with Avon Rubber plc and they have accepted the target and agreed to make the contributions. The Plan relies on Avon Rubber plc and its financial support to:
- make extra contributions when there is a funding shortfall, and
- put in more money if the target set for funding the Plan turns out to be too low.

To address the shortfall disclosed in the 31 March 2011 valuation, the Company agreed to pay £400K in the year to 31 March 2012, £500K in the year to 31 March 2013, and £300K each year from 1 April 2013 to 31 March 2016. These amounts are payable in equal monthly installments. Dividend related payments of £212K and £140K were received in April 2011 and September 2011 respectively, in line with the previous Schedule of Contributions.

We must also tell you if there have been any payments to Avon Rubber plc out of Plan funds in the last twelve months. There have not.

The Pensions Regulator can change the Plan, give directions about working out its technical provisions or impose a schedule of contributions. We are pleased to say that it has not needed to use its powers in this way for our Plan.

What if the Plan started to wind up?

Even though funding may temporarily be below target, the Plan will continue to pay benefits in full as long as it continues. As part of the valuation, the actuary must also look at the Plan’s solvency estimate – the position if it started to wind up (come to an end). This does not mean that the Company is thinking of ending the Plan.

The actuary looked at whether the Plan had enough money at the valuation date to buy insurance policies to provide members’ benefits. Insurance companies have to invest in ‘low risk’ assets, which are likely to give low returns and policy prices will include administration charges and a profit margin. This means that even if a plan is fully funded on the technical provisions basis, the solvency figure is likely to be less than 100%.

If the Plan had started winding up at 31 March 2011, the actuary estimates the amount the Plan needed to ensure benefits were paid in full (the full solvency position) was £391.8 million. On this basis the Plan’s shortfall was £122.5 million.

As at 31 March 2012, the amount needed to pay benefits in full (the full solvency position) was £452 million. The Plan’s shortfall on this basis was £161.7 million.

The Pension Protection Fund

If the Plan starts to wind up before you retire, Avon Rubber plc has to pay whatever the Plan needs to buy the insurance policies for members. If Avon Rubber plc becomes insolvent, the Pension Protection Fund (the PPF) may step in and pay some compensation to members. There are more details on the PPF website at www.pensionprotectionfund.org.uk.

Any questions?

If you have any questions about the Plan or your benefits, please contact us. You can also ask to see the Plan’s formal documents, including our Statements of Funding and Investment Principles. We may make a charge to cover the cost of photocopying, postage and packaging if we need to send you copies. The latest audited accounts and actuarial report, as well as the Schedule of Contributions are also available.

Please contact Avon Rubber Retirement & Death Benefits Plan, c/o Mercer Limited, PO Box 505, Chichester, PO19 9AF. Tel: 0800 046 6183, email: AvonRubber@Mercer.com.

By law, we cannot give you advice about your pension arrangements. If you are thinking about any changes, you may want to obtain independent financial advice.