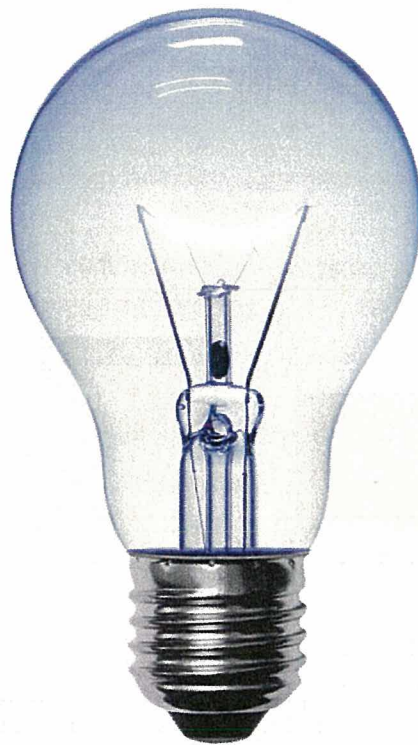


Actuarial valuation at 30 April 2013

Scheme funding report

Clifford Chance Pension Scheme



Prepared for The Trustee of the Clifford Chance Pension Scheme

Prepared by

Keith Poulson

Keith Poulson FIA
Scheme Actuary
Aon Hewitt Ltd

Date 17 June 2014

Executive Summary

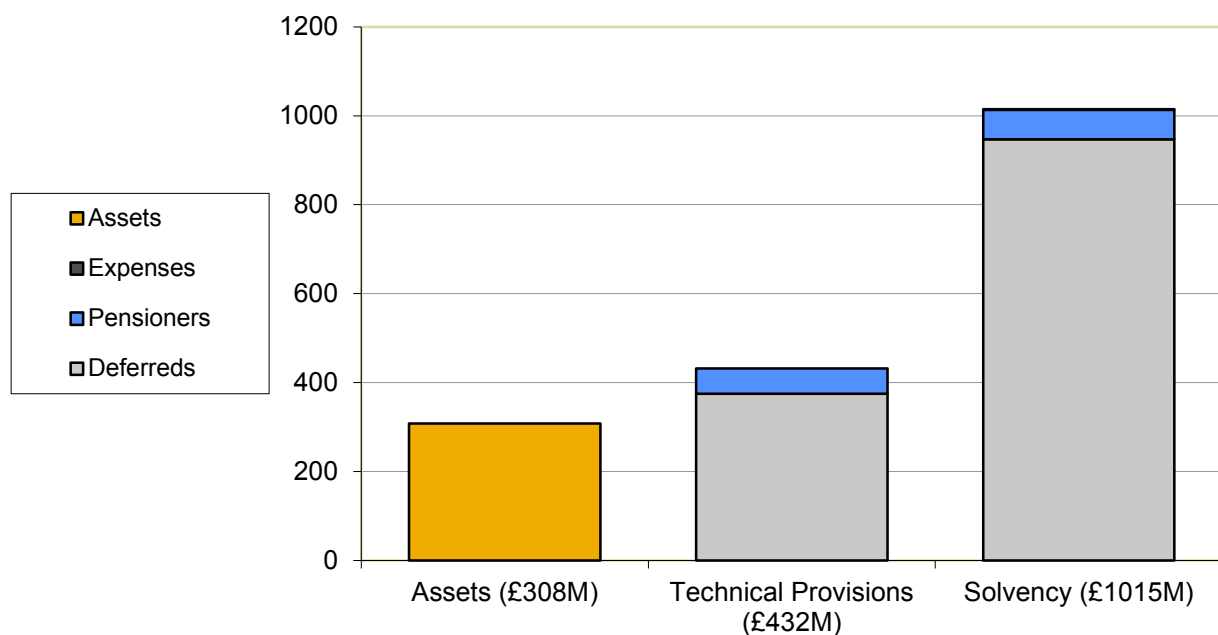
The key results of the valuation at 30 April 2013 are set out below.

There was a deficit of £124M relative to the technical provisions

(i.e. the level of assets was £124M less than the level of liabilities or 'Technical Provisions' agreed by the Trustee and the Employer as being appropriate to meet member benefits, assuming the Scheme continues as a going concern).

There was an estimated deficit of £707M relative to the solvency liabilities

(i.e. the estimated level of assets needed to buy insurance policies for benefits earned to the valuation date was £707M less than the estimated cost of securing the benefits in the insurance market).



Following discussions, it has been agreed that the Employer will pay:

- Deficit reducing contributions from 30 April 2013, for 11 years and 5 months of £12.7M pa, increasing annually in line with RPI. Note the first payment for the year to 30 April 2014 will be the amount set out in the Schedule of Contributions dated 28 April 2011. Subsequent payments will be set at £12.7M increased annually in line with RPI. The final contribution will be £5.3M (increased with RPI inflation) and is due by 30 September 2024;
- the costs of administering the Scheme;
- the Pension Protection Fund levy, and other levies collected by the Pensions Regulator; and
- the cost of any augmentations to benefits.

Actuarial valuation at 30 April 2013

Scheme funding report

Clifford Chance Pension Scheme

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Introduction

This report has been prepared for the Trustee. It sets out the results and conclusions of the valuation as at 30 April 2013.

- This is a scheme funding report. It relies on and draws together other pieces of work and advice from throughout the valuation process which are listed in Appendix 1.
- Appendix 1 also sets out the legal and actuarial framework within which the valuation has been completed.
- Throughout the body of this report, defined contribution (DC) benefits (including DC AVCs) have been excluded from the valuation results because in my view this provides a clearer picture. In order to comply formally with the legislation, an alternative presentation of the valuation results is shown in Appendix 1 which includes DC benefits in both the asset and liability measures.
- Some shorthand used in this report is explained opposite with other technical pensions terms explained in the glossary in Appendix 7.

Shorthand

Scheme

Clifford Chance Pension Scheme

Trustee

The Trustee of Clifford Chance Pension Scheme

Employer

Clifford Chance London Limited

Rules

The Scheme's Trust Deed and Rules

Snapshot view

The report concentrates on the Scheme's financial position at the valuation date. As time moves on, the Scheme's finances will fluctuate. If you are reading this report some time after it was produced, the Scheme's financial position could have changed significantly.

Update since the previous valuation

The key results from the previous valuation at 30 April 2010 were:

The Scheme's assets were £215M and the technical provisions were £288M, which corresponded to a deficit of £72M and a funding level of 75%.

The Scheme was 30% funded using a solvency measure.

It was also agreed that the Employer would pay the following contributions:

- 12.25% pa of Pensionable Salaries to meet the cost of future accrual of benefits,
- the costs of administering the Scheme; and
- the Pension Protection Fund levy.

The Trustee and the Employer agreed a recovery plan that was designed to restore the funding level to 100% by 31 October 2017. This was based on contributions of £10.925M each year (increasing annually with RPI inflation) for 7 years and 5 months from 30 April 2010.

Membership data & key developments

This valuation is based on membership data as at 30 April 2013 supplied to us by Andrew Darlison of Clifford Chance on your behalf.

Membership data

A summary of the membership data is included in Appendix 2. The chart below shows how the membership profile of the Scheme has changed over the last three valuations.

I have carried out some general checks to satisfy myself that:

- The information used for this valuation is sensible compared with the information used for the previous valuation and also with that shown in the Scheme's Trustee's Report and Accounts.
- The results of this valuation can be traced from the results of the previous valuation.

However, the results in this report rely entirely on the accuracy of the information supplied. If you believe the data I have used may be incomplete or inaccurate, please let me know.

Key developments

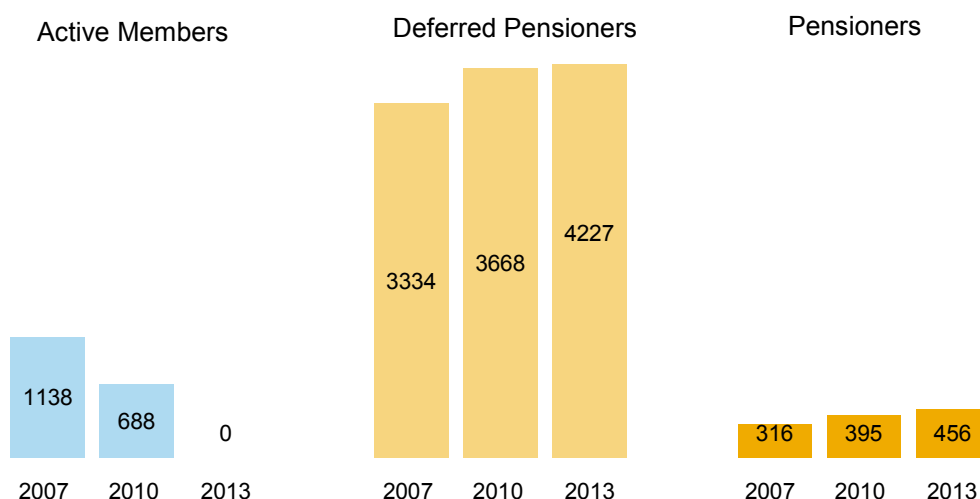
The Scheme was closed to future accrual with effect from 30 April 2011. There have been no other material changes to the Scheme over the intervaluation period.

Benefits valued

Members are entitled to benefits defined in the Rules and summarised in Appendix 3.

No allowance has been made for discretionary benefits as the Scheme has no recent history of granting such benefits.

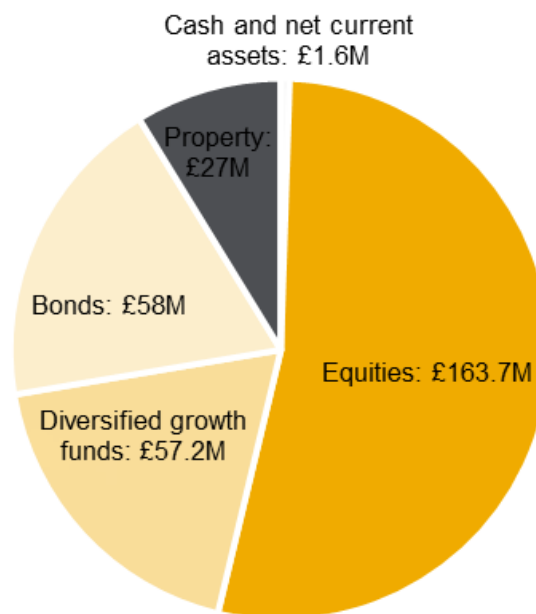
Membership profile of the Scheme



Asset data

The audited accounts for the Scheme for the year ended 30 April 2013 show the total net assets of the Scheme to be £343.1M. Of these assets £10.9M is attributable to the Money Purchase Section and £24.6M is attributable to members' additional voluntary contributions. I have therefore taken the assets in respect of the Final Salary Section to be £307.5M.

At 30 April 2013 the assets were invested as follows:



The Trustee's primary objectives for setting the investment strategy of the Final Salary Section of the Scheme are:

- "funding objective" - to return the Scheme to full funding using assumptions that contain a modest margin for prudence. Where an actuarial valuation reveals a deficit, a recovery plan will be put in place which will take into account the financial covenant of the employer;
- "stability objective" – to have due regard to the likely level and volatility of required contributions when setting the Scheme's investment strategy; and
- "security objective" – to ensure that the solvency position of the Scheme (as assessed on a gilt basis) is expected to improve. The Trustee will take into account the strength of the employer's covenant when determining the expected improvement in the solvency position of the Scheme.

Funding objective

Terminology

Technical provisions

The funding target for a scheme agreed as part of the actuarial valuation.

Statutory funding objective

To hold sufficient and appropriate assets to meet the technical provisions.

Statement of funding principles

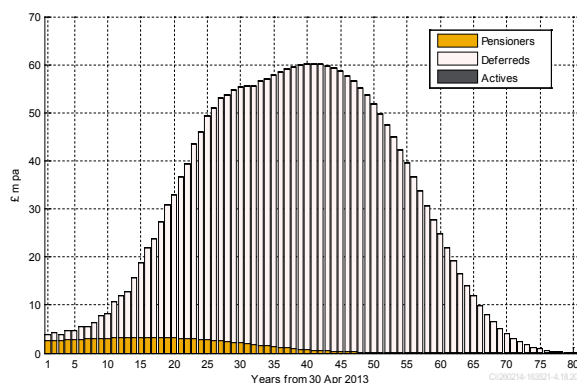
Sets out the Trustee's policy for meeting the statutory funding objective

The Trustee's funding objective is to hold assets which are at least equal to the technical provisions ie to meet the statutory funding objective.

In order to calculate the technical provisions, the benefits paid out by the Scheme are estimated for each year into the future. The estimated benefit payments are then 'discounted back' to the valuation date using an agreed rate of interest known as the discount rate.

The benefit payments from the Scheme are expected to be made for a very long period – the chart below shows the cashflow expected from the Scheme. Virtually all cashflows are linked to future levels of inflation.

A key factor in setting the funding objective is the Trustee's assessment of the employer covenant. The Trustee has reviewed the employer covenant and concluded it to be strong. This has been taken into account in setting the assumptions to be adopted for technical provisions and in agreeing the recovery plan.



Summary of method and assumptions for technical provisions

The Trustee and Employer have agreed the assumptions that will be used to calculate the technical provisions. The table below summarises the key assumptions, together with those used for the previous valuation, and the reasons for any change. Further details of all of the assumptions are set out in Appendix 4.

| Assumption | This valuation | Previous valuation | Rationale for change |
|--------------------------------------|----------------|--------------------|--|
| Pre-retirement discount rate | 6.75% pa | 7.35% pa | <p>In 2010 the pre-retirement discount rate was set at 3.7% pa above inflation (RPI).</p> <p>For the 2013 valuation the pre-retirement discount rate has been reduced to 3.25% pa over inflation to reduce the allowance for future investment returns.</p> |
| Post-retirement discount rate | 3.80% pa | 5.00% pa | <p>For the 2010 and 2013 valuations the post retirement discount rate is set at 0.5% pa above gilt yields.</p> <p>For the 2013 valuation the reference gilt yield has been set as the yield at 25 year duration such that it is based on a similar duration to the liabilities.</p> |
| RPI inflation | 3.50% pa | 3.65% pa | <p>For the 2010 and 2013 valuations the RPI inflation assumption has been based on the market implied inflation (derived from the difference in the yields on fixed interest and index linked gilts). The 2013 assumption is based on the implied inflation at 25 year duration such that it is based on a similar duration to the liabilities.</p> <p>An inflation risk premium of 0.1% pa was allowed for in both 2010 and 2013.</p> |
| Pension increases in payment | | | Pension increases in payment are based on the underlying RPI inflation assumption. |
| Pre 2005 | 3.35% pa | 3.50% pa | <p>Pre 2005 benefits are increase in payment in line with inflation capped at 5%. The impact of this cap has been allowed for by assuming inflation volatility of 1.5% pa. This approach is unchanged from 2010.</p> |
| Post 2005 | 2.50%pa | 2.50% pa | |

| | | | |
|---|---|---|--|
| Post-retirement mortality assumption – base table | SAPS Light tables with 100% scaling factor | SAPS Light tables with 100% scaling factor | |
| Post-retirement mortality assumption – future improvements | CMI 2012 core projections with long-term improvement rate of 1.50% pa | CMI 2009 core projections with long-term improvement rate of 1.25% pa | <p>The allowance for future longevity improvements has been updated to be based upon the more recent 2012 CMI projections.</p> <p>In addition the long term rate of longevity improvement has been increased from 1.25% pa to 1.50% pa to increase the level of prudence in this assumption.</p> |
| Cash Commutation | Assumed 20% of pension commuted for cash at a factor of 16.9 | Assumed 20% of pension commuted for cash at a factor of 16.9 | |

As for the previous valuation, the technical provisions have been calculated using the projected unit method.

Technical provisions

The Scheme's technical provisions are shown below. They have been calculated using the assumptions in the previous section.

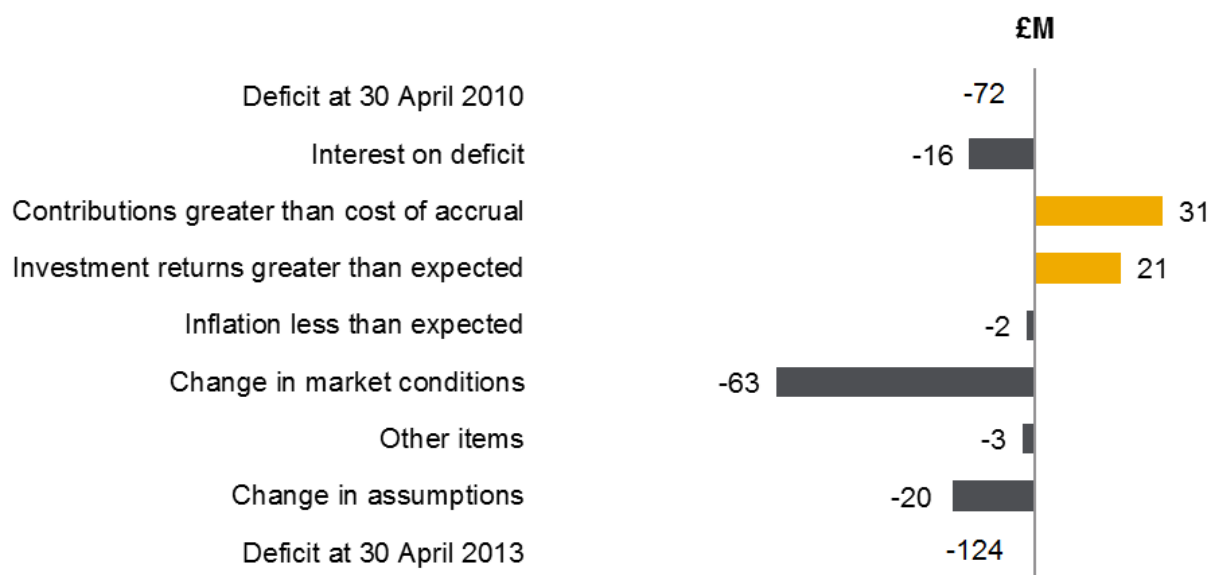
| | £M |
|------------------------------------|------------|
| Value of past service benefits for | |
| Deferreds | 375 |
| Pensioners | 57 |
| Total i.e. technical provisions | 432 |
| Value of assets | 308 |
| Past service surplus (deficit) | (124) |
| Funding ratio | 71% |

My statutory certification of the Scheme's technical provisions is attached as Appendix 6.

Reasons for change in past service position

At the previous valuation, the Scheme had a deficit of £72M. The funding position has therefore worsened by £52M over the period to a deficit of £124M.

The chart below shows the key reasons for the change in funding position:



The analysis shows that the main factors affecting the funding position since the previous valuation have been:

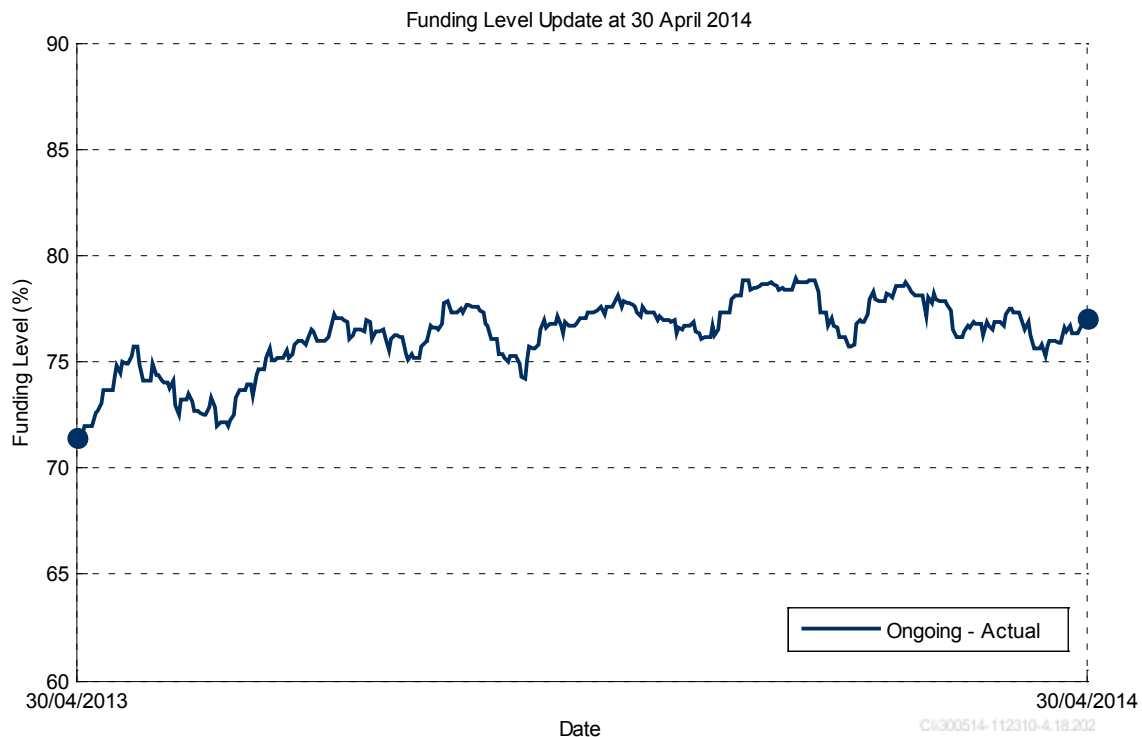
- The change in market conditions (in particular the falls in gilt yields) and the change in assumptions which have worsened the position; and
- The deficit contributions made and the greater than expected investment returns which have improved the position.

Update since the valuation date

Since the valuation date, the funding position is estimated to have improved.

This is based on assumptions consistent with those used to calculate the technical provisions, with financial assumptions updated to reflect changes in market conditions. The main reason for the improvement is returns on the assets being higher than assumed, and further deficit contributions paid over the period.

The chart below illustrates how the position has changed. It is approximate and has been based on valuation data at 30 April 2013, rolled forward to 30 April 2014.



Recovery plan

Following discussions, the Trustee and Employer have agreed a recovery plan.

The recovery plan is designed to eliminate the deficit at the valuation date by the end of the recovery period.

The assumptions underlying the recovery plan are the same as those used to calculate the technical provisions.

This results in additional contributions of £12.7M pa increasing with RPI inflation for 11 years 5 months from the valuation date (i.e. to 30 September 2024).

Terminology

Recovery plan

A plan for making good any deficit relative to the technical provisions.

Solvency

The solvency estimate below represents the cost of purchasing annuities at the valuation date from an insurance company to meet the Scheme's benefits.

The assumptions include an allowance for the expenses of winding-up the Scheme. Further details and the assumptions used in the solvency estimate are summarised in Appendix 5.

| | £M |
|---|--------------|
| Value of past service benefits for | |
| Deferreds | 947 |
| Pensioners | 66 |
| Expenses | 2 |
| Value of liabilities (solvency estimate) | 1,015 |
| Value of assets | 308 |
| Deficit (statutory estimate of solvency) | (707) |
| Solvency ratio | 30% |

In practice, if the Scheme were to be discontinued with no solvent employer then the assets are unlikely to be sufficient to provide the benefits in full. If this were the case then:

- Benefits corresponding to those covered by the PPF would be met first (either through the PPF or, if there were sufficient funds, by securing these benefits with an insurance company).
- Any remaining assets would be used to secure part of the remaining benefits with an insurance company.

The proportion of full benefits provided will vary from member to member and may be higher or lower than the statutory estimate of solvency ratio quoted above.

Risks and uncertainties

The Scheme faces a number of key risks which could affect its funding position.

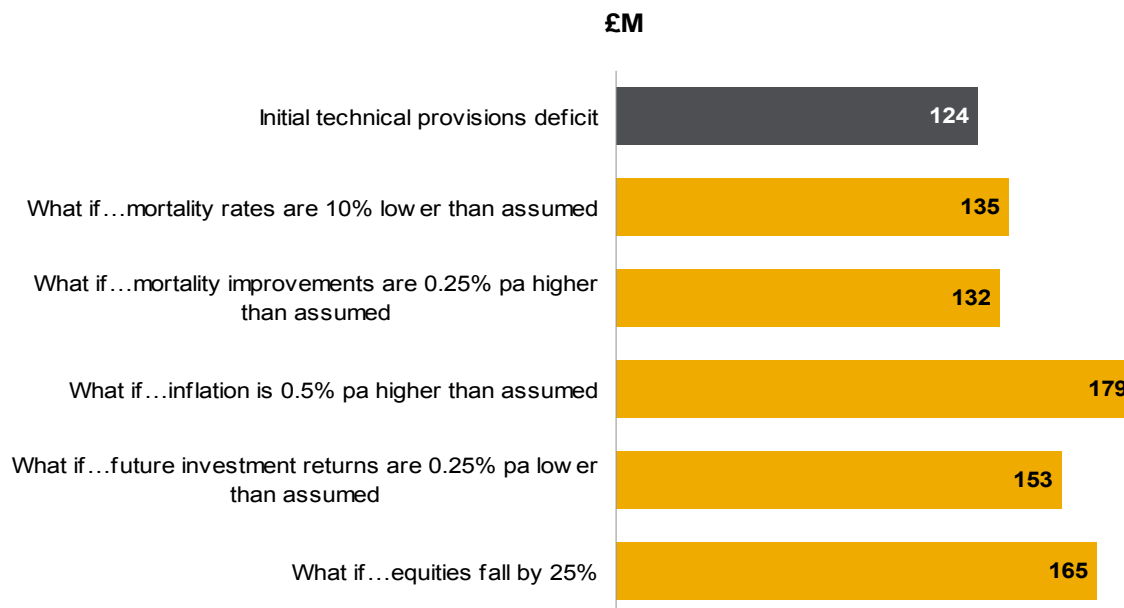
These risks include:

- Funding risk – the risk that the technical provisions are set too low and prove insufficient to meet the liabilities (e.g. in the event of discontinuance).
- Sponsor covenant risk – the risk that the Employer is no longer willing or able to support the Scheme, if things go wrong.
- Investment risks – the risk that investment returns are lower than assumed in the valuation, and also that the assets are volatile and move out of line with the liabilities, so the funding position is not stable.
- Longevity risk – the risk that Scheme members live for longer than assumed and that pensions would therefore need to be paid for longer.
- Inflation risk – the risk that inflation is higher than assumed, increasing the pensions that need to be paid.

To quantify some of these risks, the chart on the following page shows the approximate impact of the following one-off step changes on the Scheme's funding position on the technical provisions basis:

- 1) Mortality rates are 10% lower than assumed (broadly equivalent to members living one year longer than anticipated).
- 2) Mortality improvements are 0.25% pa higher than assumed (broadly equivalent to members living 6 months longer than anticipated).
- 3) Inflation is 0.5% pa higher than assumed.
- 4) Future investment returns are 0.25% pa lower than assumed.
- 5) The market value of equities falls by 25% (with no change in bond markets). Note for this simplistic analysis it has been assumed that only pure equity holdings are affected, and not for example the diversified growth funds (DGFs). In reality we would expect such an extreme fall in equities to affect the value of the DGFs.

Risks and uncertainties



The analysis emphasises that the Scheme is highly susceptible to:

- Equity markets falling
- Lower future returns than assumed
- Rising inflation expectations
- Members living longer than expected

The scenarios considered are not 'worst case' scenarios, and could occur in combination (rather than in isolation).

The Solvency measure is also highly sensitive to these factors.

Agreed contributions

Following discussions, the Employer has agreed to pay

- £12.7M pa, increasing annually with RPI, for 11 years and 5 months from the valuation date – if the assumptions play out in practice, these contributions will correct the deficit relative to the technical provisions;
- the costs of administering the Scheme;
- the Pension Protection Fund and other levies collected by the Pensions Regulator; and
- the cost of any augmentations to benefits.

A full review of the Employer's contributions will be undertaken no later than following the next valuation, which is due to take place by 30 April 2016.

The contributions above are set out in the schedule of contributions. As agreed, my certification of the schedule will be based on the position at the valuation date.

I estimate that, by the next valuation, these contributions will have:

- Increased the technical provisions funding ratio to around 80%; and
- Increased the solvency level to around 35%.

These estimates assume that:

- The experience of the Scheme is in line with the assumptions underlying the technical provisions and recovery plan;
- The assumptions underlying the technical provisions and solvency bases remain unchanged.

Terminology

Schedule of contributions

Specifies the amounts and dates of contributions payable by the Employer and the members over the next five years or the recovery period, if longer. I am required to certify that the contributions in the schedule are expected to remove the deficit over the period stated based on the agreed assumptions.

Next steps

As part of the valuation, the Trustee and the Employer have already agreed a statement of funding principles.

The next steps are:

- For the Trustee to provide a copy of this report to the Employer within 7 days.
- For the Trustee and Employer to sign the recovery plan and schedule of contributions by 30 July 2014 i.e. within 15 months of the valuation date.
- To submit the valuation summary and supporting documentation to the recovery plan to the Pensions Regulator via Exchange.
- To provide a summary funding statement to members by 31 October 2014 i.e. 18 months from valuation date.

Checklist

The valuation process is complete when all of the following have been agreed and are in place:

- Statement of funding principles
- This scheme funding report
- Recovery plan
- Schedule of contributions
- Actuarial certification of the schedule of contributions

The statutory deadline for completing the valuation process is 30 July 2014, i.e. 15 months after the valuation date.

Appendix 1: Legal and actuarial framework

It is a legal requirement to carry out a full valuation at least once every three years.

This report is produced in compliance with:

- Clause 17.1 of the Scheme's rules.
- Section 224 of the Pensions Act 2004.
- The terms of the Scheme Actuary Agreement dated 12 March 2008 between the Trustee and me, on the understanding that it is solely for the benefit of the addressee.

Unless prior written consent has been given by me or Aon Hewitt Limited, this report should not be disclosed to or discussed with anyone else unless they have a statutory right to see it. Notwithstanding such consent, neither Aon Hewitt Limited nor I accept or assume responsibility to anyone other than the addressee of this report.

Actuaries who provide written advice on scheme funding matters are under a professional obligation to ensure that their advice is reviewed by another actuary. This is called a 'compliance review'. The reviewing actuary is required to have the necessary experience to have given the original advice.

This valuation report has been reviewed by another actuary within Aon Hewitt Limited, before it was issued. The reviewer was Miles Whitfield who meets the professional requirements.

This report builds on and draws together the following documents:

- My presentation to the Trustee dated 18 June 2013
- My report on "Financial Assumptions" dated 13 June 2013
- My report on "Life Expectancy and Mortality" dated 12 September 2013
- My report on "Other assumptions" dated 12 September 2013
- My report setting out the initial results dated 12 September 2013

If you require further copies of any of these documents please let me know.

Appendix 1: Legal and actuarial framework

The Technical Actuarial Standards on Reporting Actuarial Information, Data, Modelling and Pensions apply to this report, and the work relating to it, and have been complied with.

Alternative presentation including defined contribution benefits

Defined contribution benefits (including DC AVCs) amounted to £35.5M at the valuation date. If these benefits are included in the valuation:

- The value of the assets is £343M.
- The technical provisions are £467M (funding ratio 73%).
- The value of the solvency liabilities is £1,050M (solvency ratio 33%).

Appendix 2: Membership data

| Deferred pensioners | | Number | Average age | Total pension (£000 pa) | Average pension (£000 pa) |
|---------------------|------|--------|-------------|-------------------------|---------------------------|
| Men | 2013 | 1,626 | 45.8 | 12,664 | 7.8 |
| | 2010 | 1,457 | 43.2 | 9,246 | 6.3 |
| Women | 2013 | 2,601 | 45.4 | 13,305 | 5.1 |
| | 2010 | 2,211 | 42.8 | 8,535 | 3.9 |
| Total | 2013 | 4,227 | 45.5 | 25,969 | 6.1 |
| | 2010 | 3,668 | 43.0 | 17,782 | 4.8 |

Note: The deferred pension amounts shown above are at date of exit from the Scheme.

| Pensioners | | Number | Average age | Total pension (£000 pa) | Average pension (£000 pa) |
|------------|------|--------|-------------|-------------------------|---------------------------|
| Men | 2013 | 149 | 69.8 | 1,443 | 9.7 |
| | 2010 | 126 | 68.8 | 1,326 | 10.5 |
| Women | 2013 | 307 | 68.7 | 1,107 | 3.6 |
| | 2010 | 269 | 67.6 | 783 | 2.9 |
| Total | 2013 | 456 | 69.0 | 2,550 | 5.6 |
| | 2010 | 395 | 68.0 | 2,109 | 5.3 |

Note: The pension amounts shown above include the increase awarded in April 2013.

Appendix 3: Benefits

The Scheme is defined benefit in nature and is not contracted out of the State Second Pension. The benefits of the Scheme used for the purposes of this valuation are summarised in the following table (note the details below are not intended to be an exhaustive list of the benefits which are set out in the Scheme's Trust Deed and Rules).

| | |
|---|---|
| Eligibility | The scheme closed to new entrants with effect from 1 January 2005 and closed to future accrual from 30 April 2011. |
| Normal Retirement Age | 65 |
| Pensionable Service | Complete years and months of Scheme membership plus any earlier service credited under previous schemes |
| Pensionable Salaries | Basic annual salary (limited to the Earnings Cap, which was £123,600 at the valuation date, for Post 1 June 1989 joiners) including any guaranteed bonus. For leavers after 1 May 2006, Pensionable Salary is restricted so that increases after this date are the lower of the member's actual salary increase and inflation (capped at 5% pa over the period to retirement or leaving). |
| Final Pensionable Salaries | Pensionable Salaries, applicable at the date of leaving, death or retirement. |
| Normal retirement pension | <ul style="list-style-type: none"> i. 1/100th of the Final Pensionable Salaries below the Upper Earnings Limit for each year of Pensionable Service; plus ii. 1/60th of Final Pensionable Salary above the Upper Earnings Limit for each year of Pensionable Service |
| Normal retirement lump sum | Pension can be exchanged for cash in accordance with the rules of the Scheme |
| Early retirement | Members may take benefits from age 55 with Trustee consent; the benefit will be reduced actuarially for early payment |
| Pension increases (in payment) | RPI (with a maximum of 5% pa). Benefits accrued after 5 April 2005 receive pension increases of inflation capped at 2.5% pa. |
| Death after retirement spouse's pension | 50% of the member's pension at date of death before any exchange for cash |
| Death after retirement lump sum | Balance of first 5 years pension instalments |
| Death before retirement benefits | Spouse's pension of 50% of the member's pension revalued to the date of death |

Since 2008 the Scheme has applied a Scheme specific Upper Earnings Limit (UEL).

There are no further practices of discretionary benefits being provided by either the Trustee or the Employer.

Appendix 4: Draft Statement of Funding Principles

30 April 2013

Introduction

This document sets out the main principles and objectives for the funding of the Clifford Chance Pension Scheme (the "Scheme"). It has been prepared by the Trustee, after taking advice from the Scheme Actuary, and has been agreed by Clifford Chance London Limited (the "Employer").

Legal background

The relevant powers of the Trustee and the Employer are contained in the trust deed and the various Pension Acts. The effect of these provisions is as follows.

Contributions

Contributions to the Scheme are payable by the Employer. There are no arrangements for persons other than the Employer and in certain circumstances Clifford Chance LLP (the "Guarantor") to contribute to the Scheme.

The power of determining the contributions to be made by the Employer rests jointly with the Trustee and the Employer, after taking the advice of the Scheme Actuary. The trust deed gives the power of determining the contribution rate to the Employer, who is required to set a contribution rate that is sufficient "to fund the benefits of the members". However, the Pensions Act 2004 requires that the Trustee and the Employer should agree on the way the Scheme is to be funded, and that the Trustee should then determine the contributions in accordance with that agreement.

Investment

The Trustee also has the power and duty to determine the investment policy of the Scheme, but they must take expert advice, and consult with the Employer. The Trustee's policy on investments is contained in a separate Statement of Investment Principles.

Objectives and policy for securing objectives

The funding objective will be to ensure that the Scheme is fully funded, using assumptions that contain a margin for prudence. Assets will be taken at market value. Liabilities will be discounted at the expected rate of return on the fund, this being determined on the assumption that the investment policy will be that non-pensioner member liabilities are backed by equities and other growth assets, and pensioner liabilities by bonds. (The specific method and assumptions to be used at the valuation as at 30 April 2013 are detailed in the Annex.)

Where a valuation shows a deficit then a Recovery Plan will be put in place, which will take account of the financial covenant of the Employer and the Guarantor. Assuming that the assumptions made are borne out in practice, the recovery period over which the shortfall calculated at the valuation date will be met is 11 years and 5 months.

In providing an annual update the Trustee will instruct the Scheme Actuary to adopt assumptions derived in a manner consistent with those set out in the Annex.

An actuarial valuation will in normal circumstances be carried out every three years thereafter. However, the Trustee may call for an additional full actuarial valuation, after considering the actuary's advice, if they are of the opinion that events have made it unsuitable to continue to rely on the results of the previous valuation as the basis for future contributions. However, the Trustee will consult the Employer before doing so.

Commissioning a valuation will not be necessary if agreement can be reached with the Employer to revise the schedule of contributions and/or Recovery Plan in a way satisfactory to the Trustees on the advice of the actuary.

This Statement will be reviewed if either the Employer or the Trustee request such a review or if an application for clearance is submitted. Prior to each actuarial valuation the Scheme Actuary will review this Statement and report the results of that review to the Trustee.

Other matters

Payments to the Employer

A refund to the Employer can only be paid once the full buyout cost of the benefits is met.

Discretionary benefits

There is no recent practice of discretionary benefits being provided by either the Trustee or the Employer. No allowance is therefore made for such benefits. This will be reviewed should such practices begin.

Cash equivalents

Cash equivalents are calculated in accordance with assumptions agreed by the Trustee after taking advice from the Scheme Actuary. These assumptions will typically ascribe a 'best estimate' (ie less prudent) value to members' benefits and would therefore not be expected to produce a strain on the valuation basis as set out in the Annex.

Cash equivalents are not currently being reduced on account of any underfunding in the Scheme.

This statement has been agreed by Clifford Chance London Limited:

Signed on behalf of Clifford Chance London Limited:.....

Name:.....

Position:.....

Date:.....

This statement has been agreed by the Trustee:

Signed on behalf of Clifford Chance Pension Trustees Limited:.....

Name:.....

Position:.....

Date:.....

This statement has been agreed by the Trustee after obtaining actuarial advice from me:

Signed:

Name: Keith Poulson

Position: Scheme Actuary

Date:

Annex - Funding method and assumptions at 30 April 2013

The Trustee and the Employer have agreed to use the following funding method and funding assumptions to determine the Technical Provisions as at 30 April 2013. The same method and assumptions have been used to determine the future contribution rates and Recovery Plan.

Funding Method

The funding method will be the Projected Unit method.

Funding Assumptions

The key assumptions are

| | |
|--|--|
| Price inflation | 3.50% pa |
| Investment return pre-retirement | 6.75% pa |
| Investment return post-retirement | 3.80% pa |
| Pension increases in payment | |
| - pension accrued pre 5 April 2005 | 3.35% pa |
| - pension accrued post 5 April 2005 | 2.50% pa |
| Pension increases in deferment | 3.50% pa |
| Mortality pre-retirement | SAPS Light tables with CMI 2012 improvements and a long term rate of improvement of 1.5% pa |
| Mortality post-retirement | SAPS Light tables with CMI 2012 improvements and a long term rate of improvement of 1.5% pa |
| Marital status | 93% married at retirement or earlier death, with males assumed to be 3 years older than females |
| Early retirements | All members retire at normal retirement age |
| Proportion of pension exchanged for cash | Assumed 20% of pension commuted for cash assuming a commutation factor at age 65 of 16.9 |
| Discretionary benefits | No allowance |
| Expenses | No allowance – the Employer bears the administration and management costs and expenses (including PPF levy and other levies) of the Scheme (other than expenses connected with the investment of Scheme funds, which are paid from the Scheme and are allowed for in the investment returns set out above) |

Appendix 5: Assumptions for solvency estimate

The solvency estimate has been calculated in line with statutory requirements. However, I have not carried out a detailed analysis of the cost of risks that might apply specifically to the Scheme and so my estimate is only a guide. In practice, the true position can only be established by completing a buy-out as interest rates and supply and demand affect pricing.

I have taken into account margins that a life insurance company is likely to use in the setting of its premium basis.

I have set the discount rate for this estimate equal to the yield on fixed-interest gilts of appropriate term at the valuation date, less 0.1% pa for pensioners and less 0.5% pa for non-pensioners. The allowance for the expenses of winding up is separate.

Solvency estimate

This considers the position if:

- The Scheme were discontinued on the valuation date.
- Member benefits were crystallised.
- Discretionary benefits were suspended permanently.
- The assets were used to buy immediate and deferred annuities from an insurance company, with an extra margin needed to cover the expenses of shutting down the Scheme.
- The solvency estimate is a regulatory requirement and also provides a useful benchmark against which the Trustees and others can assess the prudence of the other funding measures.

Appendix 5: Assumptions for solvency estimate

The table below shows the main assumptions used in calculating the solvency estimate, where these are different from those used for the technical provisions.

| | |
|--|--|
| Pensioner discount rate | Derived from the Bank of England gilt yield curve less 0.1% pa |
| Non-pensioner discount rate (before and after retirement) | Derived from the Bank of England gilt yield curve less 0.5% pa |
| Increase in RPI | Derived from the Bank of England break-even inflation curve |
| Pension increases | Derived from the price inflation assumptions with allowance for caps and floors and with the aim of approximately reflecting the cost of hedging these increases using swaps |
| Commutation | No allowance |
| Expenses | Allowance made to cover expenses an insurance company charges associated with winding-up |

Appendix 6: Certificate of technical provisions

Actuarial certificate given for the purposes of Regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Clifford Chance Pension Scheme

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 30 April 2013 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the statement of funding principles dated 17 June 2014.



Keith Poulson

Fellow of the Institute and Faculty of Actuaries

17 June 2014

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Appendix 7: Glossary

Deficit

This is the funding target less the value of assets. If the value of assets is greater than the funding target, then the difference is called the surplus.

Discount rate

This is used to place a present value on a future payment. A 'risk-free' discount rate is usually derived from the investment return achievable by investing in government gilt-edged stock. A discount rate higher than the 'risk-free' rate is often used to allow for some of the extra investment return that is expected by investing in assets other than gilts.

Funding ratio

This is the ratio of the value of assets to the funding target.

Funding target

An assessment of the present value of the benefits that will be paid from the scheme in the future, normally based on pensionable service prior to the valuation date. Often, the funding target is equal to the technical provisions.

Limited Price Indexation (LPI)

The Pensions Act 1995 required schemes to provide a minimum level of annual increase to pensions in payment. The minimum level is the smaller of 5% and the increase in inflation* and applies to the pension earned from 6 April 1997 to 5 April 2005. With effect from 6 April 2005, the cap for statutorily required LPI for future service was reduced from 5% to 2.5%.

Pension Protection Fund (PPF)

The PPF was established with effect from 6 April 2005. The PPF will normally take over the assets of a pension scheme in the event of its employer becoming insolvent and the scheme having insufficient assets to provide the PPF benefits. The PPF will not provide the scheme benefits in full. The PPF is financed by a levy on most defined benefit pension schemes.

The PPF benefits are broadly 100% of benefits for pensioners over normal retirement age and 90% of benefits up to a cap for all other members. Pension increases granted on benefits are at lower levels than apply in many schemes, in particular, benefits earned before 6 April 1997 would not be given any pension increases within the PPF.

Present value

Actuarial valuations involve projections of pay, pensions and other benefits into the future. To express the value of the projected benefits in terms of a cash amount at the valuation date, the projected amounts are discounted back to the valuation date by a discount rate. This value is known as the present value. For example, if the discount rate was 6% a year and if we had to pay a lump sum of £1,060 in one year's time the present value would be £1,000.

Appendix 7: Glossary (continued)

Projected Unit Method

One of the common methods used by actuaries to calculate a contribution rate to a scheme.

This method calculates the present value of the benefits expected to be paid. It allows for projected future increases to through to the date the benefit is paid.

Prudent

Prudent assumptions are assumptions that, if a scheme continues on an ongoing basis, are more likely to overstate than understate the amount of money actually required to meet the cost of the benefits.

Recovery plan

Where a valuation shows a funding shortfall against the technical provisions, trustee must prepare a recovery plan setting out how they plan to meet the statutory funding objective.

Schedule of contributions

Trustees of pension schemes must prepare and maintain a schedule of contributions. This shows the dates and amounts of contributions due from the employer and members. Under the Pensions Act 2004 the schedule must be put in place within 15 months of the valuation date.

Solvency ratio

This is the ratio of the market value of a scheme's assets to the estimated cost of securing a scheme's liabilities in the event of the discontinuance of the scheme.

The Statement of Funding Principles

The Pensions Act 2004 requires trustees to prepare (and from time to time review and if necessary revise) a written statement of their policy for securing that the statutory funding objective is met. This is referred to as a statement of funding principles.

Statutory estimate of solvency

This is the difference between the market value of a scheme's assets and the estimated cost of securing a scheme's liabilities in the event of the discontinuance of the scheme.

Statutory funding objective

Under 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.

Surplus

This is the value of assets less the funding target. If the funding target is greater than the value of assets, then the difference is called a deficit.

Technical provisions

This is the present value of the benefits members are entitled to, based on pensionable service to the valuation date, assessed using the assumptions agreed between a scheme's trustees and the company. It generally allows for projected future increases to pay through to retirement or date of leaving service.