General Dynamics UK Limited
Retirement and Death Benefit Scheme

SUMMARY FUNDING STATEMENT 2014
We recommend you read this statement as it contains important information about your pension.

We are responsible for providing you with a summary funding statement from time to time to let you know about the scheme's financial security and the funding of the scheme. The information in this summary is based on the approximate assessment that was carried out as at 5 April 2014.

A full actuarial valuation is carried out at least every three years. In the years where a full valuation is not carried out, we are required to obtain an approximate assessment of the scheme’s funding.

If you have any questions about the contents of this statement then please contact us at the address below:

Trustees of the General Dynamics Retirement and Death Benefit Scheme
C/O Jardine Lloyd Thompson
Post Handling Centre,
St James’s House,
7 Charlotte Street,
Manchester
M1 4DZ

Please ensure that correspondence to Jardine Lloyd Thompson is sent to the address above (and not to any other address which may appear on previous correspondence) quoting the reference “summary funding statement” along with your full name, National Insurance number and pension scheme name.

Pension Helpline
08456 189 659
1.1 How is my pension paid for?

Your benefit entitlement under the Defined Benefit (DB) section of the scheme is calculated using a formula based on your earnings and length of active membership of the scheme. This calculation is carried out at your retirement or earlier date of leaving service and you will be advised of the amount of your benefit at that time. Your pension does not come from the post 1997 element of your personal account but comes from a larger pool of money put aside with the aim of meeting all of the scheme’s future pension payments.

All contributions and investment income for the DB element of the scheme are held in this common fund and make up the scheme’s assets. The assets supporting the scheme are managed by Legal & General Assurance (Pensions Management) Limited. The investments are in the form of units in specialised tracker funds, which track the various FTSE indices. The performance of the respective FTSE index provides the benchmark return against which the performance of the fund is compared.

Further details of our investment strategy are given in the statement of investment principles, which is available on request.

This document does not relate to any part of your benefits that are provided on a “money purchase” or “defined contribution” basis such as those provided from the Defined Contribution Section of the scheme, or from additional voluntary contributions. Any such benefits are dependent on the value of your personal account at your retirement and are equal to the pension that this money can buy at that time.

1.2 How well funded is the scheme?

The valuation of the scheme showed that on 5 April 2012, the funding position of the defined benefit sections was as follows, together with updated approximate assessments of the scheme as at 5 April 2013 and 5 April 2014:

<table>
<thead>
<tr>
<th></th>
<th>2012 (£m’s)</th>
<th>2013 (£m’s)</th>
<th>2014 (£m’s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
<td>19,986</td>
<td>23,329</td>
<td>25,957</td>
</tr>
<tr>
<td>Amount needed to provide benefits earned to date (technical provisions)</td>
<td>26,683</td>
<td>30,763</td>
<td>27,213</td>
</tr>
<tr>
<td>Shortfall</td>
<td>6,697</td>
<td>7,434</td>
<td>1,256</td>
</tr>
<tr>
<td>Funding level</td>
<td>75%</td>
<td>75%</td>
<td>95%</td>
</tr>
</tbody>
</table>

It should be noted that these figures have been calculated using the actuarial assumptions derived from the funding plan (statement of funding principles) agreed at the last full actuarial valuation. There is no requirement to update this funding plan between full valuations. Significant changes in circumstances might mean that, were a full actuarial valuation to be carried out now, different actuarial assumptions would be used that would show a significantly different position.
1.3 Change in funding position

Since the last full actuarial valuation the funding level of the scheme has improved. The main factors which have contributed to the change in the funding level since 5 April 2012 have been:

- changes in gilt yields relative to expected future inflation have resulted in a decrease in the value of the past service liabilities since last year
- investment performance has been better than assumed
- recovery plan contributions and transfers between sections have reduced the deficit

When placing a value on the accrued liabilities at any point in time, reference is made to prevailing bond market prices. In periods of global economic uncertainty, UK Government bonds tend to be treated as a safe-haven against future investment risks, and this pushes up their price. When fears subside, investment monies tend to flow back out to more risky, growth-seeking asset classes and the price of bonds falls. As a consequence, pension scheme liability values can be very sensitive to short-term investment market perceptions of threats and opportunities, and funding levels can fluctuate rapidly in the short-term. The Trustees job is to navigate a long term route through these market fluctuations.

1.4 How will the shortfall be met?

The last full actuarial valuation showed a Defined Benefit shortfall of £6,697,000 and we agreed a recovery plan with the employer which aims to eliminate this shortfall by 30 November 2019. This is being achieved through payment of contributions of £70,833 per month in respect of the shortfall coupled with the expectation that investment returns on the scheme’s investments will exceed the valuation assumptions, to help remove the shortfall. A recovery plan is usually only revised following each full actuarial valuation and so this recovery plan will remain in place until the next full actuarial valuation. The recovery plan put in place following the next full actuarial valuation will reflect the amount of any shortfall at that time.

We agreed a funding plan with the employer that aims to make sure there is enough money in the scheme to pay for pensions now and in the future. The amount of money that the employer pays into the scheme may go up or down following regular funding checks by the actuary (known as actuarial valuations), which are carried out at least every three years. Following each full actuarial valuation, we come to an agreement with the employer on future contributions, which allow for making good any shortfall over an agreed time scale. These matters are documented in the statement of funding principles, recovery plan and schedule of contributions. A copy of these documents is available on request.
We have not made any payments to the employer since the last summary funding statement was produced.

Under the provisions of the Pensions Act 2004, the Pensions Regulator has the authority to:

- Instruct a pension scheme on how to value members’ benefits.
- Set a deadline for making good the shortfall.
- Set the future level of contributions.

Such a course of action is rare and has not occurred for this pension scheme.

1.5 **What would happen if the scheme started to wind up?**

Please be reassured that it is a legal requirement to provide this information and does not imply that the employer has any intention to wind up the scheme.

The valuation as at 5 April 2012 showed that the assets could not have paid for the full benefits of all members to be provided by an insurance company if the scheme had wound up at that date, with the funding level on this basis being 64%. The shortfall against the estimated insurance company premium at that date was £13,178,000.

If the scheme were to terminate, the law requires the employer to pay sufficient money to the trustees so that we can purchase the full benefits built up in the scheme with an insurance company.

Insurance companies only agree to take on responsibility for paying pension scheme liabilities in anticipation of generating a future profit. Insurers minimise the risk of future losses by reflecting a conservative investment strategy, and adding premium loadings against the risk of members living longer than pensioners have, on average, survived in the past. For this reason, it is very common for the insurance cost to exceed greatly the long-term funding value used where the benefits continue to be paid from the scheme.

If the employer were to become insolvent, it may be that the employer would not be able to pay this full premium shortfall. In these circumstances, the Pension Protection Fund might be able to take over the scheme and pay compensation to members. Further information and guidance is available on the PPF website at www.pensionprotectionfund.org.uk. Alternatively, you can write to the Pension Protection Fund at: Renaissance, 12 Dingwall Road, Surrey, CR0 2NA.

1.6 **The importance of the employer’s support**

Our objective is to have enough assets to pay pensions now and in the future. However, success of the funding plan relies on the employer continuing to support the scheme because:
• The employer will be paying the future expenses of running the scheme on an annual basis.
• The funding level can fluctuate and where there is a funding shortfall the employer will usually need to put in more money.
• The target funding level may turn out not to be enough so that the employer may need to put in more money.

1.7 Expression of wish form and changes of address

We take this opportunity to remind you of the need to ensure that your "expression of wish form", indicating who you would like lump sum benefits to be paid to in the event of your death, is kept up to date. Please contact Jardine Lloyd Thompson if you want to update this form or if you have changed address.

1.8 Where can I get more information?

Please contact Jardine Lloyd Thompson if you have any questions, or would like any more information including a copy of the scheme booklet, trust deed and rules, actuarial valuation, recovery plan, statement of funding principles, schedule of contributions, actuarial report, statement of investment principles or annual report & accounts at the address on page one. These can be viewed free of charge on the BenPal web site but, if you require a copy, this may involve a charge to cover copying and posting for some of the items.

Important: If you are thinking of leaving the scheme for any reason you should always consult a professional advisor, such as an independent financial adviser, before taking any action.

December 2014