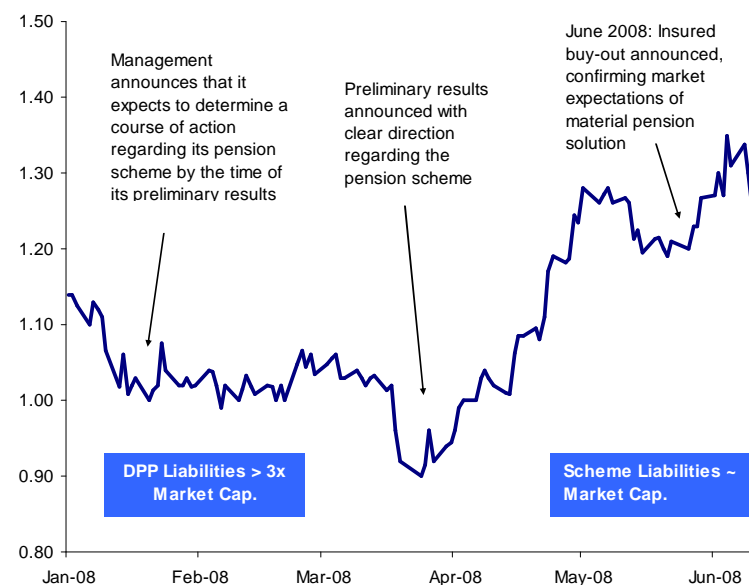


Case Study F : *Advice to Delta Pension Plan on Insured Buy-In, Buy-Out of Pensioner Liabilities*

- At the time of our appointment:
 - Delta plc's market capitalisation was c. £160m
 - The Scheme had (i) assets of c. £640m (ii) FRS 17 liabilities of c. £630m, and (iii) an investment policy materially invested return-seeking assets
 - Delta's share price was languishing owing to perceived pensions risk overshadowing positive company performance
- Having been retained by the Trustees of the Delta Pension Plan, we considered a range of pensions solutions proposed by the Company, ultimately advising on an innovative "buy-in / buy-out" transaction only involving the pensioners (c. two-thirds of the pension liabilities)
- The transaction involved:
 - A "buy-in" of a bulk annuity from Pension Insurance Corporation ("PIC") – as a Scheme investment
 - A mechanism whereby pensioners and the bulk annuity were transferred to a newly created scheme which was then placed into wind-up
 - Then, the pensioners received individual insurance policies with PIC (the "buy-out")
 - The residual Scheme would have c.£200m of liabilities, broadly in line with Delta's market capitalisation
- Our role involved:
 - **Employer Covenant:** assessing the absolute covenant strength of Delta "before and after" the transaction and the relative covenant of PIC compared to Delta
 - **Review of Proposals:** assisting the Trustees in evaluating a range of alternative proposals and complex, innovative structures
 - **Implementation:** delivering a recommended transaction and assisting with member and shareholder communication of a complex deal

Share price of Delta plc



The transaction achieved the following:

- **Pensioners** : provided insured benefits from an FSA-regulated insurer
- **Non-Pensioners** : yielded a stronger employer covenant
- **Shareholders** : reduced "pensions liability overhang" reflected in increased share price immediately following announcement of the transaction