PENSION CORPORATION

# PENSION CORPORATION ANNOUNCES RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2008

London, March 18, 2009 – Pension Corporation ("PC"), a leading provider of risk management solutions to defined benefit pension funds, is pleased to announce that 2008 was a year of considerable achievements, during which the company wrote £1.6 billion of new insurance business, providing security and stability to around 30,000 fund members.

PC is also pleased to announce that its corporate subsidiaries, telent and Quadriga, improved their operational profit performances over the year, making combined EBITDA of £46 million in the year to March 2008.

## 2008 Insurance Group Highlights

- New insurance business of £1.6 billion transacted
- Around 30,000 pension fund members insured
- Largest ever UK pension insurance buyout with Thorn Pension Fund
- Robust solvency – regulatory capital ratio 232% of required minimum
- Corporate Bond default assumption equal to 50% of spread over Libor
- Averaged over 70% of insurance company assets in cash or gilts during 2008

Edmund Truell, Group Chief Executive, commented: "Pension Corporation is today well placed to capitalise on the progress of the first three years and to be one of the market leaders in the UK pension insurance market, working with trustees and sponsors in the provision of risk transfer solutions that bring safety and security to pension fund members. The principles of pension risk transfer are now well understood. Trustees, their advisers and sponsors widely recognise that pension risks are not comfortable bedfellows with corporate balance sheets.

“Pension Corporation is unusual in its ability to provide combined corporate finance and insurance solutions that are designed to meet our customers’ needs in a safe and secure way. We look forward to building on this very substantial progress in 2009.”

## Group Risk Management

PC kept its investable assets highly liquid over most of the year: up until December Pension Insurance Corporation (“PIC”) held over 70% of its assets in either cash, gilts or other liquid instruments. In December, PIC invested a substantial amount in high-grade corporate bonds. PIC had negligible exposures to the Lehman and AIG failures.

PIC takes a conservative view of possible defaults and recovery rates on the corporate bonds it holds. It has only 1% of its assets in equities and real estate.

PC takes a ruthless approach to unrewarded risks and it is the Group’s policy to hedge as much inflation, duration, and longevity risk as possible. The Group’s hedging against duration risk has protected it against the fall in interest rates and, as importantly, against the volatility of interest rates. An example of this volatility was seen during the last six weeks of 2008, when the price of long-dated gilts rose over 14%.

The Group has been innovative in its approach to hedging inflation risk, for example investing in index linked bonds and transferring the duration risk to third parties. PIC and its Guernsey reinsurance affiliate, Pension Security Insurance Corporation, are pioneering the hedging of longevity risk.

As well as offering longevity insurance to pension fund clients, in the form of a full risk transfer to cover not only primary pension fund members but also spouses and dependents, the Group has been assiduous in removing longevity risk from its own balance sheet. Some 79% of the longevity risk attributable to pensioners in payment and deferred pensioners over 55 has so far been transferred to third parties and off the PIC balance sheet. These counterparties are highly reputable and well rated. PC enters 2009 without the legacy issues affecting some of its competitors.

Pension Insurance Corporation

On the new business front, five insurance transactions totalling £1.6 billion were written by PIC in 2008. In two of these five cases PIC has been able to increase the pension benefits paid to members. Of particular note is UK Can, where PIC has provided insurance to members whose former sponsor had gone into bankruptcy. This was repeated after the year end with Leyland DAF.

PIC anticipates troubled corporate sponsors to be a major source of opportunity in the coming months and years, with our insurance solutions able to provide a greater level of benefits to pension fund members than they might have otherwise received from the Pension Protection Fund.

PC is proud of its flexibility, being able to offer insurance and corporate solutions. This flexibility was the precursor of its successful closing of the £1.1 billion Thorn pension insurance transaction, the largest corporate buyout in the UK to date.

Following an open, competitive process held by the Thorn Trustee, who had implemented improved asset and liability management, PIC agreed to insure the fund in December 2008. A significant improvement to the pension benefits promised to members was provided, alongside increased security of members' benefits from a UK FSA authorised insurer.

Pension Corporation Investments

PC has the proven ability, through Pension Corporation Investments ("PCI"), to identify, evaluate and execute complex investment opportunities that include operating companies, supporting relatively large pension fund liabilities and risks.

PC's major operational asset is telent, the former GEC Marconi. We are pleased to report that the operational business has continued to flourish under PCI's ownership, with both revenues and profits increasing. The telent management are to be congratulated on the level of new contract wins, reflecting the strong infrastructure and solid technology base of the company. Funding negotiations with the Trustee continue.

Under PC's stewardship and support for its capable management, Quadriga, Europe's largest hotel entertainment supplier is improving profits and is cash-generative for the first time in many years. In addition, substantial investment is being made in new technology, to offer high-definition television services to hotel users.

<u>Capital</u>

The substantial achievements of PC were recognised by the admission of JP Morgan into the investor base. As the precursor to a second funding round, JP Morgan invested from its own balance sheet and has subsequently been appointed as placement agent for the forthcoming £400 million second funding round.

JP Morgan subscribed new cash at a premium to the price paid by original investors, reflecting the significant franchise value that has been created by the management team.

Our approach to capital management is very conservative. One area receiving much attention currently in the market is the extent to which insurance companies provide for potential defaults on their corporate bond holdings. We acquired the bulk of our corporate bond portfolio in December 2008 and have few holdings of subordinated financial bonds. Notwithstanding this high quality, we are currently assuming that 50% of any spread between our corporate bonds and Libor is in respect of expected defaults. We believe this approach, which mirrors that now used by the Bank of England, is one of the most conservative assumptions in our industry.

As well as a conservative approach to managing our capital, our solvency position is strong, with a year end solvency ratio of 232%.

Additionally, an embedded value loan programme was initiated with £50 million of capital, secured against the embedded value of PIC. The company expects to be able to tap this source of capital as it expands its business.

This financial strength positions PIC well to build on its 22% UK market share in pension insurance deals in 2008.

<u>Board and Management</u>

Since its establishment by the Truell Charitable Foundation three years ago, PC has expanded its board and management team considerably. The Boards, partners and employees are widely regarded as one of the finest teams in the industry. The Boards, led by Group Chairman Sir Mark Weinberg, ensure the highest standards of governance; whilst the management, led by group CEO Edmund Truell, have pursued a cautious and prudent policy which maximises pension security for fund members, at the same time as building the scale required in this field.

PIC was delighted that John Coomber, former CEO of Swiss Re, stepped up to the role of Executive Vice Chairman to assist in the running of the insurance business in mid-2008. The drive for continuous innovation provides solutions that are tailored to the needs of customers in a rapidly changing world, with increasing numbers of sponsors looking to remove risk from their balance sheets and Trustees looking to secure their members' benefits for the very long-term. At the same time, constant price discipline within a consistent risk reduction framework has combined to ensure that new business is written on appropriate terms and that the risks taken in assets and liabilities are closely managed.

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**Notes to Editors:**

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1) The Leyland DAF transaction was completed in January 2009 and therefore is not included in the 2008 figures
2) The year end solvency ratio is the amount of Available Capital Resources above the Required Capital
3) Thorn Pension Fund background
    a. In late 2006, Terra Firma Capital Partners, the then private equity owners of Thorn, requested quotes for the pension insurance buy-out of the Thorn Pension Fund.
    b. Pension Insurance Corporation was involved in several rounds of insurance bids, lasting almost a year, to the point where it was not economic to transact the insurance deal on its own merits.
    c. Drawing on its private equity expertise, a significant competitive advantage, Pension Corporation proposed a transaction encompassing both the Thorn businesses and the pension fund. This

was a solution tailored to the specific needs of the client and which also offered significant benefits to the pension fund members.

d. By acquiring Thorn, Pension Corporation assumed stewardship for the Thorn Pension Fund as well as agreeing to acquire Brighthouse, Quadriga and Threshers, other Terra Firma Capital Partners portfolio companies.
e. Within two weeks, Pension Corporation had contracted to sell the operating businesses of Brighthouse and Threshers on to Vision Capital. Quadriga, a market leader in its field, was retained.

**About Pension Corporation**

Pension Corporation removes pension risks from the trustees and sponsors of defined benefit pension funds. As a market leader it is the counterparty to risks ranging from full pension insurance buyout to longevity risk insurance, sponsor stewardship and asset-liability management. Established in 2006 by the Truell Charitable Foundation, the Group now provides increased levels of security and stability for fund members through Pension Insurance Corporation Ltd (“PIC”), an FSA authorised and regulated insurance company; and Pension Corporation Investments LP Inc. (“PCI”). For further information please visit www.pensioncorporation.com