

COMET PENSION SCHEME

Report and Financial Statements for the year ended 31 March 2016

Scheme Registration No: 10269876



Pensions Administration

Albion, Fishponds Road, Wokingham, Berkshire RG41 2QE

PSAL and PS Administration are both trading names of PS Administration Limited,
Registered in England and Wales No. 09428346. Registered Office: 11 Strand, London WC2N 5HR

A Punter Southall Group Company

COMET PENSION SCHEME

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TRUSTEE AND ADVISERS

Trustee : Comet Trustee Company Limited

Trustee Directors : Ian Edwards - Chairman
James Arnold
Helen Charlesworth *
Simon Enoch (Resigned 5 August 2016)
Frederic Jaillard (Appointed 23 September 2016)
Victoria Milford *
Jon Herzberg
* *Member Nominated*

Secretary to the Trustee : Wayne Phelan
PS Independent Trustees (PSIT)
Albion
Fishponds Road
Wokingham
Berkshire RG41 2QE
(Secretarial Services are provided by PS Secretarial Services, a division of PSIT)

Actuary : Steve Leake
Punter Southall
Tempus Court
Onslow Street
Guildford
Surrey GU1 4SS

Auditor : BDO LLP
31 Chertsey Street
Guildford
Surrey GU1 4HD

Legal Advisers : Eversheds LLP
Eversheds House
70 Great Bridgewater Street
Manchester M1 5ES

Bankers : Bank of Scotland
600 Gorgie Road
Edinburgh EH11 3XP

Investment Managers : Legal & General Investment Management Ltd
P-Solve Investments Limited
PIMCO Europe Ltd Global
GMO UK Limited
PineBridge Investments
River & Mercantile Asset Management

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TRUSTEE AND ITS ADVISERS (Continued)

<i>Custodians :</i>	Citibank HSBC Global Investor Services P-Solve Investments Limited KAS Bank Brown Brothers Harriman Trustee Services (Ireland) Ltd State Street Bank of New York Mellon SA / NV
<i>Consultants & Administrators :</i>	PS Administration Limited Albion Fishponds Road Wokingham Berkshire RG41 2QE
<i>Investment Adviser :</i>	P-Solve Investments Limited 11 Strand London WC2N 5HR
<i>Principal Employer :</i>	Darty plc 4th Floor Reading Bridge House George Street Reading Berkshire RG1 8LS
<i>AVC Providers :</i>	The Prudential Assurance Company Santander Corporate Banking The Standard Life Assurance Company

TRUSTEE'S REPORT FOR THE YEAR ENDED 31 MARCH 2016

The Trustee presents to the members its annual report and financial statements for the year ended 31 March 2016.

Scheme Information

The Comet Pension Scheme is governed by the Definitive Trust Deed, dated 3 April 2006, including subsequent amendments.

The Scheme provides defined benefit pensions. The Scheme has been closed to new members since 1 April 2004 and to future service accrual since 30 September 2007.

Trustee Directors, with the exception of Member-Nominated Trustee Directors, are appointed and removed from office by the Principal Employer in accordance with the Trust Deed. They have the responsibility for ensuring that the Scheme is properly run in accordance with its governing documents, and in the best interests of the members.

The Pensions Act 2004 introduced new requirements with regard to Member Nominated Trustees and requires that at least one-third of the Trustee Directors must be nominated by Scheme members.

During the year the Trustee met regularly to review the management of the Scheme and to monitor the performance of the investment managers, administrators and advisers.

Having received an acceptable anti-trust clearance from the French Competition Authority, Groupe Fnac SA declared its offer for Darty unconditional in all respects on 20 July 2016 and its acquisition of Darty plc is now complete. The shares in Darty have been de-listed from the London Stock Exchange as expected.

Darty remains the Comet Pension Scheme's principal employer. The ultimate parent company of both Darty and the Scheme trustee company, Comet Trustee Company Limited, is now Groupe Fnac SA.

The Scheme continues to receive the contributions due from Darty in accordance with the agreed Schedule of Contributions and work on the latest triennial valuation as at 31 March 2016 has commenced.

The Trustee will continue to keep members informed of developments following the acquisition of Darty via the Scheme website as and when there is anything new to add.

Membership

The number of members as at the year end was:	2016	2015
Deferred pensioners	3,408	3,531
Pensioners	1,728	1,655

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Pension increases

All pensions in payment were increased in accordance with the Rules of the Scheme. Statutory increases are applied to GMP earned after 5 April 1988. The remainder of a member's pension in payment increases in line with the cost of living, up to a maximum of 5% (if accrued before 6 April 2005) or 2.5% (if accrued on or after this date). On 1 April 2015 the increases applied were as follows:

	2015 %
GMP accrued before 6 April 1988	Nil
GMP accrued after 5 April 1988	1.2
Pension above GMP accrued before 6 April 2005	1.6
Pension accrued after 5 April 2005	1.6

Deferred pensions in excess of the GMP are increased annually in line with the cost of living, up to a maximum of 5%.

There were no discretionary increases made during the year.

Transfer Values

Cash equivalents (transfer values to other approved pension arrangements) payable are calculated and verified as prescribed by Section 97 of the Pension Schemes Act 1993. No discretionary benefits are included.

Benefit/Scheme Changes

There were no substantive changes to the Scheme or the benefits provided in the year to 31 March 2016.

Financial Development of the Scheme

Changes in the Scheme's net assets during the year were as follows:

	£'000s
Net assets at 31 March 2015	437,978
Net withdrawals from dealings with members	(2,256)
Net returns on investments	4,414
Net assets at 31 March 2016	<u>440,136</u>

The financial statements for the year have been prepared and audited in accordance with Sections 41(1) and (6) of the Pensions Act 1995.

Taxation Status

The Scheme is a registered pension scheme within the meaning of Section 153 of the Finance Act 2004.

Enquiries

All enquiries about the Scheme and individual benefit entitlements should be addressed to the Scheme Trustee c/o PS Administration Limited, Albion, Fishponds Road, Wokingham, Berkshire RG41 2QE, email: cometadmin@puntersouthall.com

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TPAS and Pensions Ombudsman

If a member has a complaint against the Scheme that has not been resolved to his or her satisfaction through the Scheme's Dispute Procedure, The Pensions Advisory Service (TPAS), an independent voluntary organisation, may be able to offer advice. TPAS are also able to help with general pensions queries. The name of the local TPAS adviser can be obtained from any local Citizens Advice Bureau. If the complaint is not satisfactorily resolved, the government appointed Pensions Ombudsman can investigate complaints of injustice caused by bad administration, either by the Trustee or Scheme administrators, or disputes of fact or law. Both TPAS and the Pensions Ombudsman can be contacted at:

11 Belgrave Road
London SW1V 1RB

The Pensions Regulator can intervene if he considers that a Scheme's Trustees, advisers, or the employer are not carrying out their duties correctly. The address for the Pensions Regulator is:

Napier House
Trafalgar Place
Brighton BN1 4DW

The Pension Scheme Registry

The Scheme is registered with the Pension Scheme Registry which is part of the Pensions Regulator's office. The registration number is 10269876. The data held by the Registry is used by the Pension Tracing Service to assist former members of schemes to trace their scheme benefits. The Pension Tracing Service can be contacted at:

Pension Tracing Service
The Pension Service 9
Mail Handling Site A
Wolverhampton WV98 1LU

Tel: 0345 6002 537

INVESTMENT REPORT

The Trustee has continued to manage the investments in accordance with the agreed investment strategy as set out in the Statement of Investment Principles. Each of the Scheme's investment managers (as detailed below) takes responsibility for the day to day decisions relating to each portfolio. The Trustee has taken steps to ensure the investment managers and advisers have the appropriate knowledge and experience.

Objectives

In assessing the success of the investment performance, the key measurement used is the performance of the assets relative to a proxy for the movement in liabilities - the Liability Related Objective (LRO).

Over this reporting year, the **qualitative** objectives for the Scheme were:

- i. To ensure that sufficient assets are available to pay out members' current and future benefits as and when they arise.
- ii. To maximise the funding level on an ongoing basis. In particular, to ensure that the Scheme reaches a 100% funding level within an appropriate period of time through the Recovery Plan as agreed with the Principal Employer following each triennial actuarial valuation.

In addition, the Trustee aims to minimise the risk of additional cash contribution requirements from the Principal Employer in meeting the balance of the costs in underwriting the Scheme benefits.

In terms of **monitoring** the investment arrangements, the above objectives were translated into the following **quantitative** measures, which are used as the main management tool:

- To achieve returns on the Scheme assets equal to the Liability Benchmark Objective over rolling 3 year periods. The Liability Benchmark Objective is defined as swaps + 2.1% as at 31 March 2016 (prior to March 2015 this target was swaps +2.2%).
- To aim to not breach a downside tolerance of the estimated change in liabilities less 4.4% p.a. on the Scheme assets in any 12 month period.

For this purpose, the estimated change in value in the liabilities is calculated based on the information provided by the Scheme Actuary over the period.

Investment Performance

During the year to 31 March 2016, the Scheme's investment strategy returned 0.7% underperforming the Liability Benchmark Objective by 6.2%. It was a particularly challenging period to keep pace with the liability target. Over the longer term periods (3 years and 5 years), the Scheme has broadly matched or outperformed its benchmark. Over the 3 year period the annualised return was 8.2% versus a target of 8.3% and over 5 years, the 11.6% annualised performance is ahead of the Scheme target of 10.1%. Positive steps taken to control asset and liability risk over a period of volatile markets has contributed greatly to the Scheme's performance.

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The following table illustrates the performance of the Scheme's investments over the 12 months and 3 years (or since inception if shorter) to 31 March 2016.

Asset Class	Manager	12 months to 31 March 2016		3 years p.a. to 31 March 2016	
		Fund	Benchmark	Fund	Benchmark
Off-Risk Assets					
UK Gilts	P-Solve ¹	3.2	3.2	3.7	3.7
On-Risk Assets					
US structured equity (EDOS6)	P-Solve ²	-3.2	7.2	1.6	7.2
UK structured equity (EDOS7)	P-Solve ³	7.1	2.0	7.1	2.0
Cash	LGIM	0.2	0.4	0.2	0.4
RAFI Equity	LGIM ⁴	-2.6	-2.6	3.9	4.2
Dynamic Asset Allocation	GMO ⁵	-5.6	5.6	-3.2	5.0
Dynamic Asset Allocation	Pinebridge ⁶	-7.7	5.6	-7.0	5.6
Dynamic Asset Allocation	R&M ⁷	-2.8	4.6	0.9	4.6
Active global bonds	PIMCO	-0.9	2.5	2.3	4.1
Insurance linked	Leadenhall	11.6	11.3	13.2	10.7
Stressed Credit	Phoenix Inv. Advisors ⁸	5.6	6.9	5.6	6.9
Total Fund Return (including swaps)	All ⁹	0.7	6.9	8.2	8.3

¹ Matching Fund returns include a small contribution from the LGIM Cash fund. Note: the performance numbers exclude the performance of the swaps. Instead the swap performance is included in the Total Fund Return.

² Return from 3 March 2015

³ Return from 11 January 2016

⁴ Return from 31 August 2014

⁵ Return from 8 August 2014

⁶ Return from 2 March 2015

⁷ Return from 23 February 2015

⁸ Return from 1 March 2016

⁹ The benchmark return is taken to be the return of the Liability Benchmark Objective

All performance numbers are net of fees except LGIM and P-Solve which are gross of fees.

The P-Solve mandate distributes income generated.

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Investment Strategy

As at 31 March 2016, the target allocation for the Scheme consists of 30% invested in “off-risk” assets (which include a liability hedge) and 70% invested in return seeking assets (“on-risk” assets). Prior to March 2015, the target split between ‘on-risk’ and ‘off-risk’ assets was 85% and 15% respectively.

The liability hedge is made up of a series of interest rate and inflation swap contracts together with a portfolio of inflation linked government bonds (used as collateral for the swap contracts), with a view to closely matching changes in value in the Scheme’s liabilities.

The remaining 70% of the Scheme’s assets are invested in a diversified portfolio of assets aimed at generating return whilst maintaining an acceptable level of risk in accordance with the Scheme objectives. Within this allocation the Trustee has invested into structured equity, which is the other hedging element of the investment strategy. The Equity Derivative Overlay Strategies (“EDOS”) are UK based and provide downside protection and diversified equity return profiles. The EDOS 6 & EDOS 7 provide protection against falls in the FTSE100 from the point of investment and perform best in upward trending equity markets. The collateral supporting all of these structures is also used in the liability hedging design.

The Trustee monitors the performance of the liability hedge on a regular basis and the Scheme’s manager independently checks the counterparty valuations daily.

As at 31 March 2016, the investment allocation strategy being followed by the Trustee was as follows:

Asset Class	%	Manager	Benchmark
On-risk assets	70.0		
UK structured equity including collateral (EDOS 4)	8.5	P-Solve	7.24% p.a. in excess of the compounded 6 month Sterling LIBOR return
UK structured equity including collateral (EDOS 6)	12.5	P-Solve	6.00% p.a. in excess of the compounded 6 month Sterling LIBOR return
Dynamic Asset Allocation	20.0	GMO	G7 CPI + 5.00% (over 7 year period)
Dynamic Asset Allocation	8.0	Pinebridge	3-month LIBOR + 5.00% p.a.
Dynamic Asset Allocation	2.0	R&M	3-month LIBOR + 4.00% p.a.
Active global investment grade bonds	10.0	PIMCO	Composite of three credit indices (GBP Hedged)
Insurance linked	4.0	Leadenhall	US 3-month T-bills +8.00-10.00% p.a.
FTSE RAFI Equity	2.0	LGIM	FTSE-RAFI Dev 1000 Composite
Stressed Credit	3.0	Phoenix Advisors	Merrill Lynch US High Yield, CCC Index
Off-risk assets	30.0		
Index-linked gilts	30.0	P-Solve	n/a
Total	100.0		

The Trustee recognises that with the movement of markets generally, and differing asset classes specifically, allowance must be given to permit the allocation to each part of the agreed strategy to operate around this core allocation. Investments are permitted to vary within a range of +/-5% of the core allocation. Should they fall outside their range at the end of the quarter then the Trustee will review the position and decide how to act.

The main changes made to the investment allocation strategy over the course of the year by the Trustee were:

Dynamic Asset Allocation mandate restructure

In February, the Trustee decided to appoint another manager to diversify manager risk in the Dynamic Asset Allocation mandate. The elected manager and fund was Aviva Investors. This mandate was funded shortly after year end.

Implementation of new EDOS structure

In January 2016, the Trustee agreed to unwind an existing EDOS structure and replace with another, as the primary method of accessing equity markets. This structure has a three year time horizon.

Introduction of an alternative portfolio

The Trustee has agreed that further diversification of the investment portfolio would help to improve the return profile, while helping to manage risk. The first step in funding this mandate was the introduction of the Stressed Credit mandate with Phoenix Advisors. Further mandates will be added post year end.

Custody Arrangements

Most of the assets are held in pooled funds by the Investment Managers and so the Trustee has effectively delegated the custody of the investments of the Scheme to the Managers. For the Liability Hedge, Equity Structured Solutions and the discretionary alternatives mandate the Trustee has appointed KAS Bank.

Statement of Investment Principles

In accordance with the Pensions Act 1995, the Trustee has prepared a Statement of Investment Principles, which describes the key elements of the investment arrangements of the Scheme. Copies of the statement are available on the pension website, www.comet-pensions.co.uk.

The Trustee is currently in the process of updating the SIP to reflect changes to the Scheme's investment arrangements, following a review at the strategy day earlier in the year and with the support of the Darty representatives attending the investment discussions. The new SIP will be signed shortly.

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Investment Manager Fees

The investment management fees incurred by the Scheme are summarised below. Please note that the figures quoted here are estimates since extracting the precise fee from daily unit prices would be a time-consuming exercise:

	Fees
Year ending 31 March 2013	£1,154,000
Year ending 31 March 2014	£1,316,000
Year ending 31 March 2015	£1,466,000
Year ending 31 March 2016	£1,868,000

Fees are exclusive of any VAT that may be payable.

Employer Related Investments

There were no employer related investments during the year.

For and on behalf of the Trustee

Ian Edwards

Trustee

23.9.2016
.....
Date

REPORT ON ACTUARIAL LIABILITIES

Under Section 222 of 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. The technical provisions represent the present value of the benefits members are entitled to, based on pensionable service to the valuation date. This is assessed using the assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles, which is available to Scheme members on request.

The most recent full actuarial valuation of the Scheme was carried out as at 31 March 2013. This showed that on that date:

The value of the technical provisions was £417.2 million

The value of the assets (excluding AVCs) at that date was £344.7 million

The value of the total assets at that date was £348.4 million

The method and significant actuarial assumptions used to determine the technical provisions are as follows (all assumptions adopted are set out in the Appendix to the Statement of Funding Principles):

Method

The actuarial method to be used in the calculation of the technical provisions is the Projected Unit Method.

Significant actuarial assumptions

Discount interest rate: term dependent rates set by reference to the market yields available on the LIBOR swaps curve at the valuation date plus an addition of 1.2% per annum at each duration.

Future Retail Price inflation: term dependent rates derived from the market yields available on the swaps inflation curve at the valuation date.

Pension increases: derived from the term dependent rates for future retail price inflation and consumer price inflation allowing for the caps and floors on pension increases according to the provisions in the Scheme's rules using the Black-Scholes stochastic model with inflation volatility of 1.5% at each term.

Mortality: for the period in retirement, standard tables S1PMA with a scaling factor of 97% for male members; and S1PFA with a scaling factor of 95% for female members. Future projections are in line with the CMI_2013 model applied from 2006 with a long term rate of improvement of 1.25% per annum.

Cash commutation: at retirement, members commute 85% of the maximum permitted tax free cash lump sum.

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ACTUARY'S CERTIFICATE OF SCHEDULE OF CONTRIBUTIONS

Name of scheme: Comet Pension Scheme

Adequacy of rates of contributions

1. I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected, at 31 March 2013, to be met by the end of the period specified in the recovery plan dated 20 March 2014.

Adherence to statement of funding principles

2. I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 20 March 2014.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

Signature: Steve Leake

Date: 20 March 2014

Name: Steve Leake

Qualification: Fellow of the Institute of Actuaries

Punter Southall Limited
Tempus Court
Onslow Street
Guildford
Surrey
GU1 4SS

20 March 2014

STATEMENT OF TRUSTEE'S RESPONSIBILITIES

The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of the Scheme year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year; and
- contain the information specified in Regulations 3 and 3A of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes'.

The Trustee has supervised the preparation of the financial statements and have agreed suitable accounting policies, to be applied consistently, making any estimates and judgements on a prudent and reasonable basis.

The Trustee is also responsible for making available certain other information about the Scheme in the form of an Annual Report.

The Trustee is responsible under pensions legislation for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme and the dates on or before which such contributions are to be paid.

The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions. Where breaches of the Schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF COMET PENSION SCHEME

We have audited the financial statements of the Comet Pension Scheme for the year ended 31 March 2016 which comprise the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Scheme's Trustee in accordance with the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an Auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Scheme's Trustee for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Trustee and the Auditor

As explained more fully in the Statement of Trustee's Responsibilities set out on page 14, the Scheme's Trustee is responsible for the preparation of financial statements which show a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 31 March 2016, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulations 3 and 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

BDO LLP

BDO LLP
Statutory Auditor
Guildford
United Kingdom

Date 23 September 2016

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

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FUND ACCOUNT

For the year ended 31 March 2016

	Note	2016 £'000s	2015 £'000s
CONTRIBUTIONS AND BENEFITS			
Employer contributions		10,209	10,247
Total contributions	3	<u>10,209</u>	<u>10,247</u>
Benefits payable	4	9,344	7,624
Payments to and on account of leavers	5	2,910	2,257
Administrative expenses	6	<u>211</u>	<u>258</u>
		<u>12,465</u>	<u>10,139</u>
NET (WITHDRAWALS) / ADDITIONS FROM DEALINGS WITH MEMBERS		<u>(2,256)</u>	<u>108</u>
RETURNS ON INVESTMENTS			
Investment income	7	3,346	2,562
Change in market value of investments	8	1,549	92,601
Investment management expenses		<u>(481)</u>	<u>(510)</u>
NET RETURNS ON INVESTMENTS		<u>4,414</u>	<u>94,653</u>
NET INCREASE IN THE FUND FOR THE YEAR		2,158	94,761
NET ASSETS AT 31 MARCH 2015		<u>437,978</u>	<u>343,217</u>
NET ASSETS AT 31 MARCH 2016		<u>440,136</u>	<u>437,978</u>

The notes on pages 18 to 28 form part of these financial statements.

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STATEMENT OF NET ASSETS

At 31 March 2016

	Note	2016 £'000s	2015 £'000s
INVESTMENT ASSETS	8		
Bonds		202,286	195,336
Pooled investment vehicles	9	198,591	209,310
Derivatives	10	85,721	69,213
AVC investments	11	4,505	3,549
Cash deposits		484	544
Other investment balances	12	624	604
		<u>492,211</u>	<u>478,556</u>
INVESTMENT LIABILITIES			
Derivatives	10	<u>(54,009)</u>	<u>(42,670)</u>
TOTAL NET INVESTMENTS		<u>438,202</u>	<u>435,886</u>
CURRENT ASSETS	16	2,306	2,301
CURRENT LIABILITIES	17	<u>(372)</u>	<u>(209)</u>
NET ASSETS AT 31 MARCH 2016		<u><u>440,136</u></u>	<u><u>437,978</u></u>

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which takes into account such obligations, is dealt with in the Report on Actuarial Liabilities on page 12 of the Annual Report and these financial statements should be read in conjunction with this report.

The notes on pages 18 to 28 form part of these financial statements.

These financial statements were approved by the Trustee on 23.9.2016 (date)

Signed on behalf of the Trustee

Ian Edwards

Victoria Milford

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March 2016

1. BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Occupational Pensions Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (2015) Financial Reports of Pension Schemes. The provisions in the March 2016 Amendments to FRS 102 relating to fair value hierarchy disclosures have been adopted early.

2. ACCOUNTING POLICIES

(a) *Accounting Convention*

The financial statements are prepared on an accruals basis.

(b) *Contributions*

Employer deficit funding contributions are recognised on the due dates in accordance with the Schedule of Contributions or in the absence of a formal agreement on a receipts basis.

Employer other contributions are accounted for in accordance with the agreement under which they are paid.

(c) *Payments to Members*

Pensions in payment are accounted for in the period to which they relate.

Benefits are accounted for in the period in which the member notifies the Trustee of his decision on the type or amount of benefit to be taken or, if there is no member choice, on the date of retirement or leaving.

Individual transfers in or out are accounted for when the member liability is accepted or discharged which is normally when the transfer is paid or received.

(d) *Expenses*

The administration expenses are met by the Principal Employer. Investment fees and expenses are accounted for on an accruals basis.

(e) *Investment Income*

Income from bonds and other interest receivable is taken into account on an accruals basis.

Income from pooled investment vehicles is accounted for when declared by the fund manager.

Income arising on the underlying investments of accumulation funds is reflected within the change in market value.

COMET PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2016

(f) Investments

Investments are included at fair value as follows.

Quoted securities in active markets are usually valued at the current bid prices at the reporting date.

Accrued interest is excluded from the market value of fixed income securities and is included in investment income receivable.

Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value (NAV), determined in accordance with fair value principles, provided by the pooled investment manager.

Swaps are valued based on the present value of future cash flows arising from the swap, determined using discounted cash flow models and market data at the reporting date.

Options are valued at fair value using pricing models and relevant market data at the year end date.

Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

(g) Foreign Currency Translation

Foreign currency transactions are recorded in sterling at the spot exchange rate at the date of the transaction. Monetary items denominated in foreign currencies are translated into sterling using the closing exchange rates at the year end.

3. CONTRIBUTIONS	2016 £'000s	2015 £'000s
Employer contributions		
Deficit funding	10,000	6,100
Additional	209	247
Mitigation payments	-	3,900
	<u>10,209</u>	<u>10,247</u>

Deficit funding contributions are payable at a rate of £6,100,000 per annum until 31 March 2015 and £10,000,000 per annum thereafter until 31 May 2019.

Mitigation payments were payable at a rate of £3,900,000 per annum until 31 March 2015.

4. BENEFITS PAYABLE	2016 £'000s	2015 £'000s
Pensions	6,766	6,541
Commutation of pensions and lump sum retirement benefits	2,570	1,076
Refunds of contributions on death	8	7
	<u>9,344</u>	<u>7,624</u>

COMET PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2016

5. PAYMENTS TO AND ON ACCOUNT OF LEAVERS	2016 £'000s	2015 £'000s
Individual transfers out to other schemes	<u>2,910</u>	<u>2,257</u>
6. ADMINISTRATIVE EXPENSES	2016 £'000s	2015 £'000s
Miscellaneous expenses	2	11
PPF levy	<u>209</u>	<u>247</u>
	<u>211</u>	<u>258</u>
7. INVESTMENT INCOME	2016 £'000s	2015 £'000s
Income from bonds	2,507	1,565
Income from pooled investment vehicles	708	909
Interest on cash deposits	<u>131</u>	<u>88</u>
	<u>3,346</u>	<u>2,562</u>

8. RECONCILIATION OF INVESTMENTS

	Value at 31.3.2015 £'000s	Purchases at cost & derivative payments £'000s	Sales proceeds & derivative receipts £'000s	Change in market value £'000s	Value at 31.3.2016 £'000s
Bonds	195,336	4,565	(655)	3,040	202,286
Pooled investment vehicles	209,310	16,921	(20,810)	(6,830)	198,591
Derivatives	26,543	3,895	(2,864)	4,138	31,712
AVC investments	<u>3,549</u>	<u>127</u>	<u>(426)</u>	<u>1,255</u>	<u>4,505</u>
	434,738	<u>25,508</u>	<u>(24,755)</u>	1,603	437,094
Cash deposits	541			(54)	484
Cash in transit	3				-
Other investment balances	<u>604</u>			-	<u>624</u>
	<u>435,886</u>			<u>1,549</u>	<u>438,202</u>

Transaction costs are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs include costs charged to the Scheme such as fees, commissions and stamp duty. There were no direct transaction costs incurred during the year.

In addition, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles.

COMET PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2016

9. POOLED INVESTMENT VEHICLES

The Scheme's investments in pooled investment vehicles at the year end comprised:

	2016 £'000s	2015 £'000s
Equity	5,075	16,912
Bonds	35,943	34,647
Hedge funds	34,909	26,410
Diversified	122,478	130,178
Cash	<u>186</u>	<u>1,163</u>
	<u>198,591</u>	<u>209,310</u>

10. DERIVATIVES

Objectives and policies

The Trustee has authorised the use of derivatives by its investment managers as part of its investment strategy for the Scheme as follows.

Options – the Trustee wants to benefit from the potentially greater returns available from investing in equities but wishes to minimise the risk of loss of value through adverse equity price movements. During the year the Scheme held a number of equity option contracts that protect it from falls in value in the FTSE 100.

Swaps – the Trustee's aim is to match as far as possible the fixed income portfolio and the Scheme's long term liabilities, in particular in relation to their sensitivities to interest rate movements. Due to the lack of available long dated bonds the Trustee has entered into OTC interest rate and inflation swaps during the year that extend the duration of the fixed income portfolio to better match the long term liabilities of the Scheme.

Forward foreign exchange – in order to maintain appropriate diversification of investments within the portfolio and take advantage of overseas investment returns, a proportion of the underlying investment portfolio is invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in Sterling, a currency hedging programme, using forward foreign exchange contracts, has been put in place to reduce the currency exposure of these overseas investments to the targeted level.

At the year end the Scheme held the following derivatives:

	2016 Asset £'000s	2016 Liability £'000s	2015 Asset £'000s	2015 Liability £'000s
Options	7,739	7,215	11,790	6,767
Swaps	77,577	46,576	57,337	35,903
Forward foreign exchange contracts	<u>405</u>	<u>218</u>	<u>86</u>	<u>-</u>
	<u>85,721</u>	<u>54,009</u>	<u>69,213</u>	<u>42,670</u>

COMET PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2016

10. DERIVATIVES (continued)

Options

Underlying Investment	Expiration	Asset £'000s	Liability £'000s
UK exchange traded FTSE	11 January 2019	4,951	2,966
UK exchange traded FTSE	2 March 2018	<u>2,788</u>	<u>4,249</u>
		<u>7,739</u>	<u>7,215</u>

Swaps

Nature	Expiration	Notional principal £'000s	Asset £'000s	Liability £'000s
Interest rate swaps (OTC)	5 to 45 years	204,600	70,477	7,738
Inflation swaps (OTC)	10 to 49 years	161,821	<u>7,100</u>	<u>38,838</u>
			<u>77,577</u>	<u>46,576</u>

At the year end the Scheme held £30,860,865 (2015: £28,618,598) of collateral belonging to the counterparty. This collateral is not reported within the Scheme's net assets.

Forward Foreign Exchange

Contract	Settlement Date	Currency bought	Currency sold	Asset £'000s	Liability £'000s
Forward OTC	13 April 2016	£48,018,750	\$69,120,124	<u>405</u>	<u>218</u>

11. AVC INVESTMENTS

The Trustee holds assets invested separately from the main fund securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement receive an annual statement made up to the year end confirming contributions paid and the value of their fund. The aggregate amounts of AVC investments are as follows:

	2016 £'000s	2015 £'000s
Standard Life	475	721
Santander	14	14
Prudential Assurance	<u>4,016</u>	<u>2,814</u>
	<u>4,505</u>	<u>3,549</u>

At 31 March 2016 the AVC balances for Prudential Assurance include the value of terminal bonuses (which are not guaranteed) of £1.27m, in accordance with SORP (2015). At 31 March 2015 the terminal bonuses which were not included in the financial statement amounted to £1.28m.

COMET PENSION SCHEME

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2016

12. OTHER INVESTMENT BALANCES

	2016 £'000s	2015 £'000s
Dividends and interest receivable	<u>624</u>	<u>604</u>

13. FAIR VALUE DETERMINATION

The fair value of financial instruments has been estimated using the following fair value hierarchy:

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (i.e. developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (i.e. for which market data is unavailable) for the asset or liability.

The Scheme's investment assets and liabilities have been fair valued using the above hierarchy categories as follows:

	At 31 March 2016			
	Level 1 £	Level 2 £	Level 3 £	Total £
Bonds	202,286	-	-	202,286
Pooled investment vehicles	-	198,591	-	198,591
Derivatives	-	31,712	-	31,712
AVC investments	-	-	4,505	4,505
Cash	484	-	-	484
Other investment balances	<u>624</u>	<u>-</u>	<u>-</u>	<u>624</u>
	<u>203,394</u>	<u>230,303</u>	<u>4,505</u>	<u>438,202</u>

	At 31 March 2015			
	Level 1 £	Level 2 £	Level 3 £	Total £
Bonds	195,336	-	-	195,336
Pooled investment vehicles	-	209,310	-	209,310
Derivatives	-	26,543	-	26,543
AVC investments	-	-	3,549	3,549
Cash	544	-	-	544
Other investment balances	<u>604</u>	<u>-</u>	<u>-</u>	<u>604</u>
	<u>196,484</u>	<u>235,853</u>	<u>3,549</u>	<u>435,886</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2016

14. INVESTMENT RISK DISCLOSURES

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Market risk: this comprises currency risk, interest rate risk and other price risk.

- Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Trustee determines their investment strategy after taking advice from a professional investment adviser. The Scheme has exposure to these risks because of the investments it makes in following the investment strategy set out below. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Scheme's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Scheme's investment managers and monitored by the Trustee by regular reviews of the investment portfolio.

Further information on the Trustee's approach to risk management, credit and market risk is set out below. This does not include the legacy insurance policies nor AVC investments as these are not considered significant in relation to the overall investments of the Scheme.

(i) Investment strategy

The Trustee's long-term investment objective for the Scheme is to target an investment return objective of approximately gilts +2.1% per annum (net of fees).

In addition to framing the investment objective, the Trustee sets the split of assets between return-seeking assets (known as the Investment Fund) and liability-matching assets (known as the Matching Fund).

Based on consideration of the Scheme's liabilities and the desired investment objective, the Trustee has adopted a 70% Investment Fund and 30% Matching Fund.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2016

14. INVESTMENT RISK DISCLOSURES

Investment Fund

The Investment Fund holds a diverse portfolio of assets that are expected, in the longer term, to exceed the growth in the value of the Scheme's liabilities. The objective for the Investment Fund is to achieve a return of at least 3.0% per annum in excess of the return of a portfolio of gilts, after the deduction of fees, over rolling three year periods. During the year, the Investment Fund has been invested in a diversified portfolio of global equities, global government and corporate bonds, insurance linked securities and structured equity.

Liability Hedging Mandate

The Scheme has implemented a Liability Hedge, which consists of a portfolio of index-linked and fixed interest gilts held in the Matching Fund and a portfolio of swaps which together manage the interest rate and inflation risk inherent in the liabilities. As at 31 March 2016, the target for the Liability Hedge was to mitigate 85% of the Scheme's exposure to interest rate and inflation risk on its Technical Provisions liabilities.

(ii) Credit risk

The Scheme is subject to credit risk because the Scheme directly invests in bonds, Over the Counter ("OTC") derivatives and has cash balances. The Scheme also invests in pooled investment vehicles and is therefore directly exposed to credit risk in relation to the instruments it holds in the pooled investment vehicles. The Scheme is indirectly exposed to credit risks arising on the financial instruments held by the pooled investment vehicles.

The following tables show a breakdown of the Scheme's credit exposure for the accounting year ended 31 March 2016 and 31 March 2015 respectively:

2016 £'000	Investment Grade	Non-Investment Grade	Unrated	Total
Bonds	202,286	-	-	202,286
OTC Derivatives	31,712	-	-	31,712
Cash	484	-	-	484
PIVs	-	-	198,591	198,591
Total	234,482	-	198,591	433,101

2015 £'000	Investment Grade	Non-Investment Grade	Unrated	Total
Bonds	195,336	-	-	195,336
OTC Derivatives	26,543	-	-	26,543
Cash	544	-	-	544
PIVs	-	-	209,310	209,310
Total	222,420	-	209,310	431,730

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2016

14. INVESTMENT RISK DISCLOSURES

Credit risk arising on bonds held directly is mitigated by investing in government bonds where the credit risk is minimal, or corporate bonds which are rated at least investment grade. The Scheme also invests in a diversified credit portfolio including high yield and emerging market bonds in their pooled mandate with PIMCO. The Trustee manages the associated credit risk by using an active investment manager that diversifies the portfolio to minimise the impact of default by any one issuer. Credit risk arising on other investments is mitigated by investment mandates requiring all counterparties to be at least investment grade credit rated. This is the position at the year-end.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter. OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Scheme is subject to risk of failure of the counterparty. The credit risk for OTC swaps is reduced by collateral arrangements.

Cash is held within financial institutions which are at least investment grade credit rated. This is the position at the year-end.

The Scheme's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee and their advisers carry out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitors any changes to the regulatory and operating environment of the pooled manager.

(iii) Currency risk

The Scheme is subject to currency risk because some of the Scheme's investments are held in overseas markets, either as segregated investments (direct exposure) or via pooled investment vehicles (indirect exposure). The Trustee has elected to hedge currency risk on the majority of its assets. This was the position at the year-end.

The below table outlines the Scheme's currency risk exposure for the accounting years ended 31 March 2015 and 31 March 2016:

Gross Exposure before Hedging	31 March 2016	31 March 2015
£'000		
Direct		
Non-Sterling	1,550	647
Indirect		
Non-Sterling PIVs	165,073	182,415

Please note, the PIV investments may include underlying exposure to sterling dominated investments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2016

14. INVESTMENT RISK DISCLOSURES

(iv) Interest rate risk

The Scheme is subject to interest rate risk because some of the Scheme's investments are held in bonds, interest rate and inflation swaps, either as segregated investments or through pooled vehicles, and cash. Under this strategy, if interest rates fall, the value of these investments will rise to help match the increase in actuarial liabilities arising from a fall in the discount rate. Similarly, if interest rates rise, these investments will fall in value, as will the actuarial liabilities because of an increase in the discount rate.

At year end the Scheme hedged 85% of the interest rate exposure.

The following table shows a breakdown of these exposures by asset class in monetary terms:

£'000	2016	2015
Direct		
Bonds	202,286	195,336
Swaps	31,000	21,434
Indirect		
Bond PIV	35,943	34,647
Cash PIV	186	1,163

(v) Other price risk

Other price risk arises principally in relation to the Scheme's return seeking portfolio which includes, equities held in pooled vehicles, equity futures, structured equity and some alternatives. The Scheme manages this exposure to overall price movements by constructing a diverse portfolio of investments across various markets.

The following table shows a breakdown of the return-seeking portfolio accounting years ended 31 March 2016 and 31 March 2016:

£'000	2016	2015
Direct		
Equity Options	525	5,022
Bonds	76,779	75,259
Indirect		
Bonds PIVs	35,943	34,647
Equity PIVs	5,075	16,912
Multi-Asset PIV's	122,478	130,178
Alternatives PIV's	34,909	26,410

NOTES TO THE FINANCIAL STATEMENTS (continued)

For the year ended 31 March 2016

15. CONCENTRATION OF INVESTMENTS

Except for Government securities, the following investments represented over 5% of the net assets of the Scheme:

	2016		2015	
	£'000s	%	£'000s	%
GMO Real Return Fund	80,187	18.3	84,926	19.4
PIMCO Diversified Income Fund	35,943	8.2	34,647	7.9
PineBridge Global Dynamic Asset Allocation Fund	32,408	7.4	35,095	8.0
Leadenhall Value Insurance Linked	n/a	n/a	26,410	6.0

16. CURRENT ASSETS

	2016 £'000s	2015 £'000s
Bank balance	1,473	1,468
Contributions receivable - employer	833	833
	<u>2,306</u>	<u>2,301</u>

All contributions receivable relate to the month of March 2016 and were paid in full to the Scheme within the timescale required by the Schedule of Contributions currently in force.

17. CURRENT LIABILITIES

	2016 £'000s	2015 £'000s
Accrued expenses	108	107
State Scheme Premiums	6	6
Tax payable	72	75
Unpaid benefits	186	21
	<u>372</u>	<u>209</u>

18. RELATED PARTIES

Benefit payments to Trustee Directors, I R M Edwards and J Herzberg, are included within pension payments. The amount of these benefits is calculated on the same basis as pensions to other members of the Scheme in accordance with the Trust Deed and Rules.

The Chairman receives a fee from the Principal Employer and since October 2014 the Company has also paid fees to the other Trustee Directors. A total of £39,000 p.a. is paid for their services.

COMET PENSION SCHEME

INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS TO THE TRUSTEE OF THE COMET PENSION SCHEME

We have examined the Summary of Contributions to Comet Pension Scheme for the Scheme year ended 31 March 2016 which is set out on page 30.

This statement is made solely to the Scheme's Trustee in accordance with the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Scheme's Trustee those matters we are required to state to it in an Auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee for our audit work, for this statement, or for the opinions we have formed.

Respective responsibilities of the Trustee and the Auditor

As explained more fully in the Statement of Trustee's Responsibilities on page 14, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of any active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedule of Contributions.

It is our responsibility to provide a statement about contributions paid under the Schedule of Contributions and to report our opinion to you.

Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions have in all material respects been paid at least in accordance with the Schedule of Contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedule of Contributions.

Statement about Contributions payable under the Schedule of Contributions

In our opinion, contributions for the Scheme year ended 31 March 2016 as reported in the summary of contributions and payable under the Schedule of Contributions have in all material respects been paid at least in accordance with the Schedule of Contributions certified by the Scheme Actuary on 20 March 2014.

BDO LLP

BDO LLP
Statutory Auditor
Guildford
United Kingdom

Date 23 September 2016

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

COMET PENSION SCHEME

SUMMARY OF CONTRIBUTIONS PAID IN THE YEAR

During the year, the contributions paid to the Scheme by the employer under the Schedule of Contributions were as follows:

	£'000s
Employer deficit funding contributions	10,000
PPF Levy contributions	<u>209</u>
	<u>10,209</u>

Reconciliation to the financial statements :

Contributions paid under the Schedule of Contributions	<u>10,209</u>
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This summary was approved by the Trustee on ... 23.9.2016 ... (date)

Signed on behalf of the Trustee

Ian Edwards