

The Rolls-Royce UK Pension Fund

Group Business Services, Rolls-Royce plc, PO Box 31, Derby DE24 8BJ

September 2021

Dear Member

The Rolls-Royce UK Pension Fund (the Fund): Summary Funding Statement

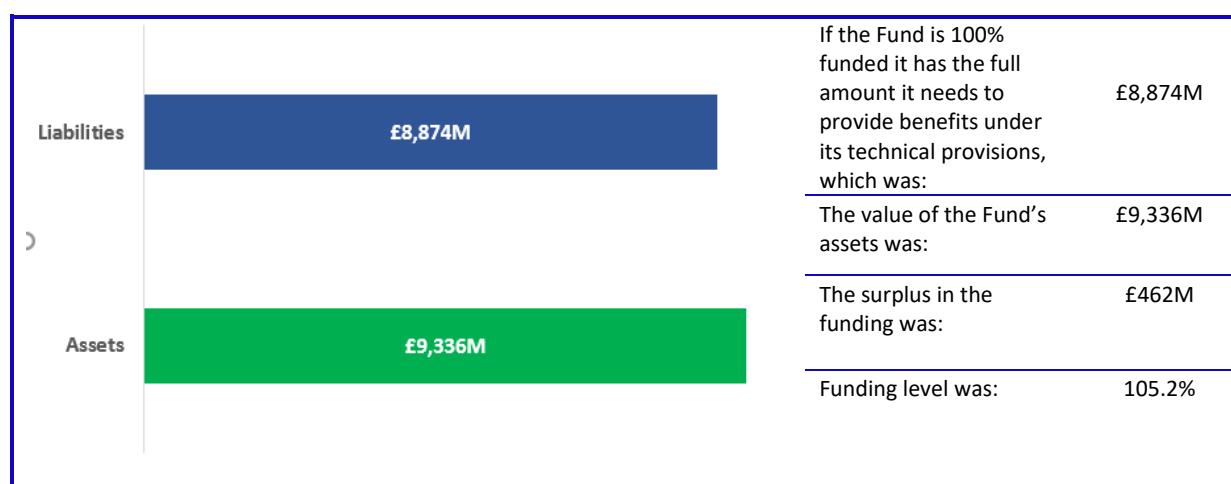
As a person entitled to benefits from the Fund, the Trustee who looks after the Fund, is writing to give you an update of the Fund's funding position following the completion of the Fund's actuarial valuation as at 31 March 2020 and an update of the Fund's estimated funding position at 31 March 2021.

The previous summary funding statement showed that the approximate funding level as at 31 March 2019 was 111.0%. The actuarial valuation as at 31 March 2020 was carried out at the height of the Covid-19 pandemic and showed that the funding level had fallen to 105.2%, primarily as a result of falls in the value of the Fund's assets being greater than the fall in the liability value.

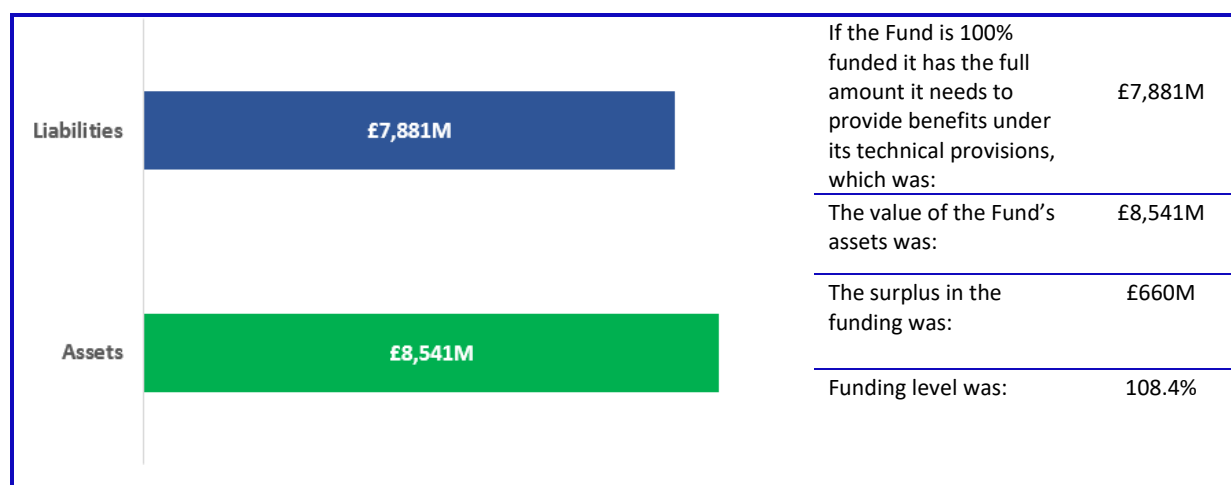
Since 31 March 2020 the funding level has improved as markets have recovered and the estimated funding level as at 31 March 2021 was 108.4%. It has continued to improve since 31 March 2021 and at 30 June 2021 the estimated funding level has returned to 2019 levels.

The next formal valuation is scheduled to take place as at 31 March 2023 following a further interim update at 31 March 2022. The statement the Trustee will send you next year will show you the funding position of the Fund as at 31 March 2022.

The ongoing funding position – actuarial valuation at 31 March 2020



Change in funding position – approximate update at 31 March 2021



Understanding the statement

The Trustee is responsible for developing a funding plan for the Fund. The Trustee sets out its aims, the funding target which the Trustee believes is suitable for the Fund, and how it plans to achieve this. To work out the funding target, the Trustee needs to make a number of assumptions (taking account of advice from the actuary) and look at how the outcome can change if any one of these turns out to be too low, or too high. The Trustee then uses its judgement to consider how confident or cautious it wants to be and decide on a suitable safety margin to build into its target.

The funding target the Trustee agrees for the Fund, with the support of the actuary, meets the requirements of the Pensions Act 2004 and is called the 'technical provisions'. This is the amount that the Trustee thinks the Fund will need to pay members' benefits for service up to the valuation date. No-one can predict this accurately, so the Trustee and the Company agree suitable assumptions which aim to produce a prudent reserve of money to hold against the Fund's future needs.

In the valuation, the actuary works out the amount the Fund needs to cover its funding target under the technical provisions. Then he takes the value of the Fund's assets from the audited accounts and compares the assets with the funding target. This gives the funding level.

The Company's support

Despite the challenges faced by the Covid-19 pandemic, the Fund remains in a very strong surplus position. The Fund closed to new entrants on 31 December 2020 and due to the surplus, the Company is no longer required to pay contributions to the Fund.

However, at the next formal valuation as at 31 March 2023, the position will be reviewed and should the funding position have fallen below 107% the Company will make additional contributions between 2024 and 2026 potentially up to a total of £145m to increase the funding level.

The Trustee must also tell you if there have been any payments to the Company out of the Fund in the last twelve months. The Fund reimburses the Company for expenses incurred in administering and managing the Fund. There have been no other payments to the Company.

In certain circumstances, the Pensions Regulator has the power to change the Fund, give directions about working out its technical provisions or impose a

schedule of contributions. The Trustee is pleased to say that it has not used its powers in this way for the Fund.

What if the Scheme started to wind up?

The Fund will continue to pay benefits in full as long as it continues. However, it is a regulatory requirement as part of the triennial valuation that the actuary must also look at the Fund's solvency position if it started to wind up (come to an end). This does not mean that the Company is thinking of ending the Fund.

The solvency (wind up) calculation differs from the technical provisions basis as it measures the funding position relative to the cost of buying insurance policies in the open market for all members of the Fund.

Insurance companies have to invest in 'low risk' assets, which are likely to give low returns and their policy prices will include administration charges and a profit margin. This means that even if a scheme is fully funded on the ongoing basis, the solvency figure is likely to be less than 100%.

If the Fund had started winding up at 31 March 2020, the actuary estimates the Fund's shortfall on this basis was £2,131M, equivalent to a funding level of 81%. If the Fund starts to wind up before you retire, the Company has to pay whatever the Fund needs to buy insurance policies for members.

The Pension Protection Fund

If the Company becomes insolvent, the Pension Protection Fund (the PPF) may step in and pay some compensation to members. There are more details on the PPF website at www.pensionprotectionfund.org.uk.

Any questions?

If you have any questions about the Fund or your benefits, please contact us. You can also ask to see the Fund's formal documents, including our Statements of Funding and Investment Principles. We may make a charge to cover the cost of photocopying, postage and packaging if we need to send you copies. The latest audited accounts and actuarial valuation report and update and Schedule of Contributions are also available. These documents are available on the Pensions website at www.rolls-roycepensions.com

By law, the Trustee cannot give you advice about your pension arrangements. If you are thinking about any changes, you may want to obtain independent financial advice.

Where can I get more information?

If you have any questions, or would like any more information, please contact pensions.web@rolls-royce.com. Please help us to keep in touch with you by telling us if you change address.

Yours sincerely

Liz Airey
Chairman