

8) Why has the transaction only included former RRPf pensioners who retired before 31 March 2018?

The cut off date of 31 March 2018 was agreed between the Trustee and Legal & General for practical purposes, to enable the transaction to be completed. This transaction has focussed on former members of the Rolls-Royce Pension Fund prior to the merger in 2016. Benefits earned before April 1997 for these pensioners do not currently attract permanently guaranteed increases in payment and achieving certainty over future pension increases for these members was a focus for both the Trustee and Rolls-Royce. Most of these pensioners were also covered by a “longevity swap” that was implemented between the RRPf Trustee and Deutsche Bank in 2011. This contract has been transferred to Legal & General as part of the transaction and has helped to simplify the remaining investments of the RRUkPF.

9) How does this transaction benefit the remaining members of the Rolls-Royce UK Pension Fund?

The reduction in size of the remaining Fund means that it will be much easier for the Trustee and Rolls-Royce to manage in the future, and therefore the security of the remaining members’ benefits has increased.

The transaction with Legal & General has also enabled the Trustee to radically simplify the investment strategy of the remaining Fund to make it more efficient with less risk. This includes the transfer of the Deutsche Bank Longevity swap and a number of other illiquid contracts with investment banks which had become increasingly challenging to manage.

For former Rolls-Royce Pension Fund members with pre1997 benefits who are remaining in the Fund, the Trustee has satisfied itself that the probability of annual increases being regularly awarded in the future will improve following the Legal & General transaction. Rolls-Royce has also committed that it will not propose any future pension risk transfers without fully guaranteeing increases to pre1997 benefits of all former RRPf members.

10) What if I have any questions on this issue?

If you have any questions about this communication please contact:

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Copies of all correspondence relating to this agreement will also be available to view on the pension website. This will include a copy of this document, which will be updated as additional questions arise. The website can be accessed at www.rolls-roycepensions.com



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Rolls-Royce UK Pension Fund – Agreement with Legal & General Frequently Asked Questions

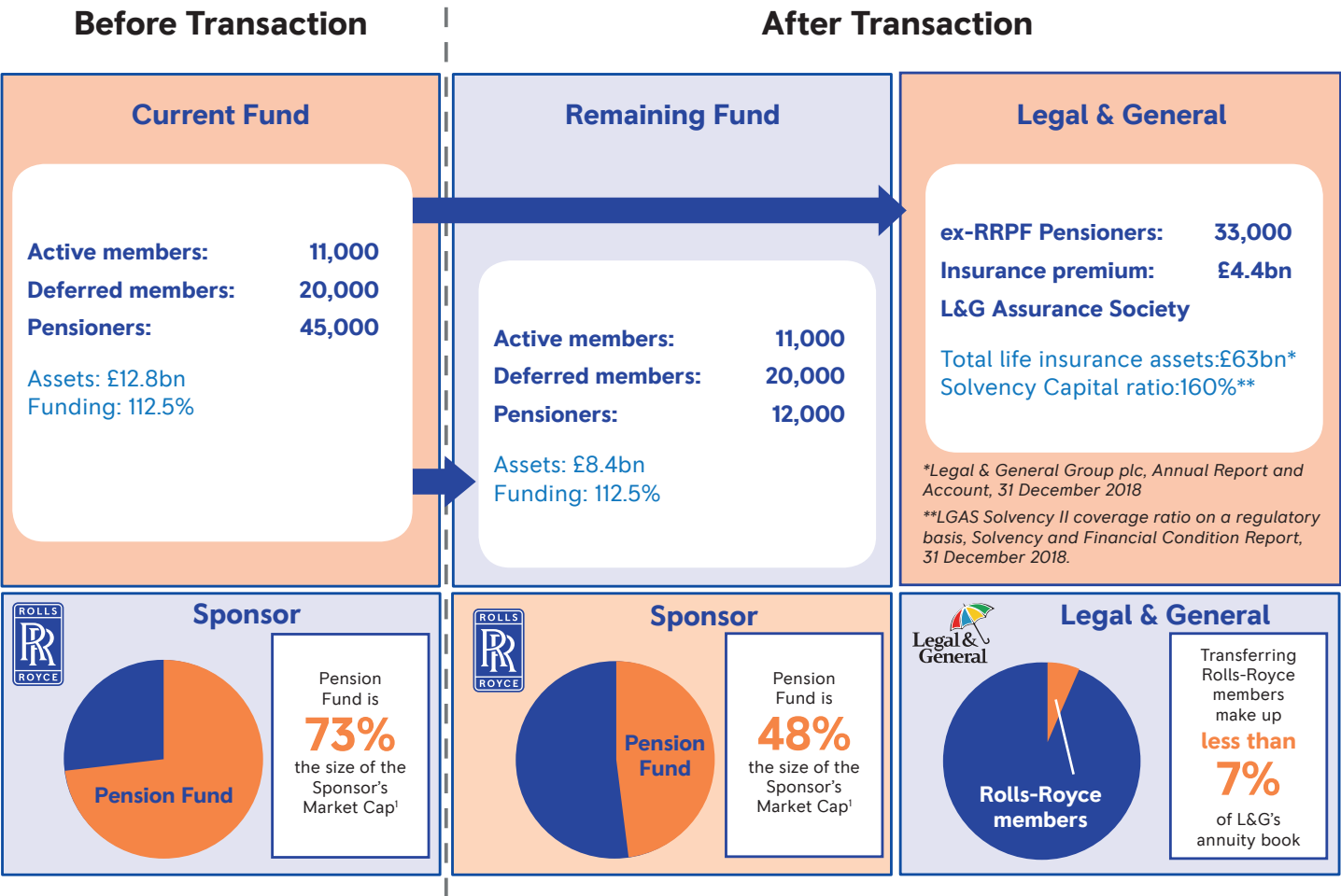
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Questions and Answers

1) Whose benefits are transferring to Legal & General?

The agreement with Legal & General only impacts the pensions of former members of the Rolls-Royce Pension Fund who started to receive their pensions and were in payment on or before 31 March 2018.



¹ As at May 2019, the value of Rolls-Royce's total global businesses, as represented by the value of all of its shares in circulation (its 'Market Cap') was approximately £17.5 billion.

2) Why has the Trustee taken the action to insure benefits?

The action has been taken to reduce risk and to permanently secure the pensions accrued.

The Rolls-Royce UK Pension Fund is a large and mature pension scheme (i.e. it has a larger number of pensioners than active members). As at 31 March 2019 the total value of the Fund was £12.8 billion and the value of all of the promises made to members was £11.4 billion. The Fund currently has a surplus, but this surplus does not include any allowance for the future pension increases for former members of the Rolls-Royce Pension Fund whose pensions earned before 1997 do not include permanent guaranteed increases in payment². These contingent benefits represent another £625m of benefits that are intended to be paid over the lifetime of the Fund, but are not guaranteed.

The Fund is very large compared to the size of the Rolls-Royce companies which support it and represents a big financial risk. If life expectancy for members increases by 1 year, it increases the value of future pension promises by around £500 million.

Early in 2018, Rolls-Royce approached the Trustee to discuss the future strategy for the Fund. Rolls-Royce and the Trustee have been keen to work together to secure permanent guaranteed increases on former Rolls-Royce Pension Fund benefits earned before 1997 and to see whether it would be possible to insure the benefits payable by the Scheme with a UK regulated insurer to permanently secure members' benefits and reduce risks for all parties.

Most UK pension schemes are currently struggling to deal with funding deficits and will not be able to insure benefits with an insurer for many years (if ever), however, it is widely regarded to be the natural journey for trustees to aspire to, especially for mature well-funded pension schemes.

The prudent steps taken by the Trustee and Rolls-Royce in managing the Fund carefully, with a cautious investment strategy, have ensured that we are in a great position to secure such a large proportion of benefits with an insurer, including guaranteed increases on benefits earned before 1997. The Trustee will continue to work with Rolls-Royce to ensure that all of the benefits remaining in the Fund are well managed and to seek to deliver regular increases on all members' pre1997 benefits in the future.

²This refers to former Rolls-Royce Pension Fund "Excess" benefits earned before 6 April 1997, which are in excess of Guaranteed Minimum Pensions. Annual increases for Guaranteed Minimum Pensions are paid in line with statutory provisions.

3) Have pre1997 increases been guaranteed for former RRPF members who are remaining in the Fund?

Not at this time, but securing these benefits remains a priority for the Trustee and Rolls-Royce.

The Trustee has satisfied itself that the probability of these benefits being regularly awarded in the future will improve for the remaining members following the Legal & General transaction. Rolls-Royce has also committed that it will not propose any future pension risk transfers without fully guaranteeing increases to pre1997 benefits of former RRPF members.

4) Why was Legal & General selected as the insurer?

The Legal & General Group, established in 1836, is one of the largest and most highly rated insurance companies in the world, with particular experience and expertise in insuring and administering pensions. They pay benefits to over 750,000 pensioners each month. As an insurance company, the provision of pension benefits is governed by stringent funding requirements, resulting in a very secure environment for individuals they pay.

The Trustee engaged independent advice from its actuaries (Aon) and investment adviser (Mercer) to review the insurance market and consider the best partner for the transaction.

Legal & General was identified as a preferred partner from an early stage in the process based upon a number of factors, including:

- Financial strength, reputation and administrative capabilities of the insurer;
- The very strong relationship with the Trustee, with its sister company, Legal & General Investment Management, having which has acted for the Trustee as its lead investment manager since 2006,
- Value for money; and
- Flexibility in receiving payment for the insurance (i.e. the ability to accept investments currently held by the Fund).

Legal & General's annuity business is fully regulated by both the Financial Conduct Authority and the Prudential Regulatory Authority, and is required to maintain a very strong level of solvency at all times.

5) Are all of the benefits payable from the Rolls-Royce UK Pension Fund being insured?

Not at this time. This transaction has focussed on pensioners who were former members of the Rolls-Royce Pension Fund prior to the merger in 2016. Benefits earned before April 1997 for these pensioners do not currently attract permanently guaranteed increases in payment and achieving certainty over future pension increases for these members was a focus for both the Trustee and Rolls-Royce.

Former pensioner members of the Rolls-Royce Group Pension Scheme, Rolls-Royce Engine Controls Systems Pension Scheme, and all deferred and active members will continue to have their benefits paid from the Fund. The remaining Fund will be just as well funded as before the transaction with Legal & General, but will be smaller with less risk for the Trustee and Rolls-Royce to manage in the future.

6) Do members have any choice in this matter?

No. The Trustee does not require consent to insure benefits. This is a step that the Trustee can undertake on members' behalf. Prior to taking this action, the Trustee has received independent legal and actuarial advice to satisfy itself that insuring benefits with Legal & General is an appropriate step for it to take, and that the interests of the members remaining in the Fund have been protected.

7) What is happening to the employees who are still active members of the Fund?

All of the current employees who are still contributing to the Fund will continue to do so. They are not impacted by this change.