Oracle UK Pension Plan - Statement of Funding Principles

Status

This Statement of Funding Principles has been prepared by the Trustee of the Oracle UK Pension Plan (the Plan) to satisfy the requirements of section 223 of the Pensions Act 2004, after obtaining the advice of the Scheme Actuary appointed by the Trustee.

This document has been agreed by the sponsoring employer, Oracle Corporation UK Limited (the Employer). This document is dated ______________________ and is to be taken into account in the actuarial valuation as at the effective date of 31 May 2022 and subsequent actuarial valuations.

Policy for ensuring that the Statutory Funding Objective is met

Under the Pensions Act 2004 the Trustee must set a funding policy after negotiating with the Employer which complies with the "Statutory Funding Objective" – to have "sufficient and appropriate assets" to cover the Plan's "Technical Provisions". The Trustee has interpreted this requirement to mean that the Plan should have a sufficient level of assets to have a reasonable chance that in the normal course of events, the assets would cover the continuing payment of benefits already in payment as well as the commitments to pay deferred pensioners' pension rights earned so far.

This will be achieved by agreeing with the Employer appropriate contributions to make good any shortfall in the Plan's assets compared to the amount required to cover the Technical Provisions over a suitable period.

In determining the level of contributions required for the Plan, assumptions about the future experience of the Plan will be made. Further details of the assumptions made are given below.

Funding objectives in addition to the Statutory Funding Objective

The Trustee currently has no other funding objectives.

General principles underpinning the funding agreement

UK property and UK covenant

The Employer will notify the Trustee if any steps to be taken with regard to UK property which, in the Employer's opinion, could have a material effect on the UK covenant.

The Employer will notify the Trustee of any plans that could, in the Employer's opinion, materially affect other aspects of the UK covenant.

Investment strategy

When reviewing the investment strategy of the Plan, the Trustee will fully consult with the Employer and will consider any representations that the Employer wishes to make whilst formulating the Plan's investment policy, taking due regard of their statutory duties, Rules of the Plan and the interest of Plan members.

Policy on discretionary increases and funding strategy

The Rules of the Plan allow for the Trustee to provide increased or additional benefits at the request of the Employer. Any such augmentation is conditional on the Employer paying any additional contribution that the Trustee, having regard to actuarial advice, requires.

The Trustee makes no allowance for discretionary increases in setting the contribution requirement, because any discretionary benefits that may be granted will be paid for separately at the time.

Frequency of valuations and circumstances for extra valuations

An actuarial valuation will, in normal circumstances, be carried out every three years or when the Trustee determines that significant events have occurred such that the existing Schedule of Contributions is no longer appropriate, having sought the advice of the Scheme Actuary and consulted the Employer.

An actuarial report on developments affecting the Plan's Technical Provisions and funding level will be obtained annually between actuarial valuations.

Commissioning an out of cycle valuation will not be necessary if agreement can be reached with the Employer to revise the Schedule of Contributions in a way satisfactory to the Trustee on the advice of the Scheme Actuary.

Method and assumptions used in calculating the "Technical Provisions"

The actuarial method to be used in the calculation of the Technical Provisions is the Defined Accrued Benefit Method.

The methodology used to determine the net liability in respect of the Pensions Underpin for non pensioner members is:

1. Project Core Contributions from the valuation date to Normal Retirement Date (NRD), allowing for the pre-retirement expected return on assets. The projection takes account of the incidence of assumed deaths from the Plan.

2. Project the value of the Pensions Underpin (determined using the assumptions below) to NRD using the assumptions below. The projection takes account of future salary and inflationary increases, the incidence of assumed deaths and withdrawals from the Plan.

3. Calculate the amount by which 2. exceeds 1., or set to zero if 2. does not exceed 1.

4. Discount 3. back to the valuation date, using the pre-retirement discount rate for calculating the liabilities.

The net liability (i.e. shortfall, if any, of assets compared with value of liabilities) in respect of that member is 4.

The principal assumptions to be used in the calculation of the Technical Provisions are as follows.

At the valuation date the assumptions were set using a term of approximately 20 years.

Inflation

The RPI inflation assumption is set having regard to the difference between the market yields on long-dated fixed-interest and index-linked gilts (of appropriate term) at the valuation date.

The CPI inflation assumption is set relative to RPI inflation less 1.0% pa prior to 2030 and equal to RPI inflation thereafter.

Salary increases

The salary increase assumption is set to RPI with an addition of 1.0% pa.

Pension increases

Assumptions for future pension increases which are linked to inflation will be set with reference to the relevant inflation assumption, adjusted to take account of any minimum and maximum increases that apply using an appropriate statistical model.

Discount rate

The discount rate will normally be determined by the Trustee based on professional advice, taking into account relevant market indicators at the valuation date, the long-term strategic asset allocation, the liability profile of the Plan, and the perceived strength of the Employer covenant.

The return on Government bonds, at an appropriate term, will be taken as a suitable market index yield.

As a proportion of the Plan's assets are invested in assets which would be expected to outperform UK government bonds over the long term, an allowance may be made for this in the discount rate, depending on the perceived strength of the Employer covenant. However, if the Trustee has material concerns over the strength of the Employer covenant, the discount rate may need to be determined looking solely at the yield available on gilts and other low risk asset classes.

At the valuation date an additional allowance of 0.7% pa was added to the expected return on gilts after retirement, and an additional allowance of 2.0% pa was added to the expected return on gilts before retirement. The pre-retirement discount rate was also used as the assumption for the pre-retirement asset returns, although the Trustee may use a different assumption for the pre-retirement asset returns for the purpose of the Recovery Plan.

Retirement

Members will be assumed to retire at their NRD.

Withdrawals

An allowance is made for in-service deferred members to withdraw from service at a rate of 10% pa.

Member options

No allowance will be made for members to exchange pension for a lump sum at retirement. The Trustee takes advice from the Scheme Actuary as to the terms available for members to exchange pension for a lump sum cash and would generally expect these terms to be slightly favourable to the Plan.

Mortality

The rates of mortality assumed will reflect information published by Continuous Mortality Investigation Limited, a subsidiary of the Institute and Faculty of Actuaries, deemed most relevant to the membership of the Plan, including an appropriate allowance for expected future improvements in longevity.

This assumption may be adjusted on the advice of the Scheme Actuary or in the light of evidence relating to the actual mortality experience of the Plan, the industry in which the members work, or the distribution of pension payment amounts.

Dependant details

Assumptions regarding the proportion of members with a dependant at death, and the age difference between the member and the dependant, will be set taking into account professional advice and the experience of the Plan. At the valuation date it was assumed that 80% of males and 70% of females are married at retirement or earlier death, and that husbands are three years older than wives.

Guaranteed Minimum Pension (GMP) equalisation

An allowance is made for the requirement on all pension schemes to equalise benefits between men and women to allow for the differences in GMPs. At the valuation date, a member specific allowance was made for the current membership of the Plan, plus a fixed reserve of £1.3m in respect of historic transfers out of the Plan.

Period within which and manner in which a failure to meet the Statutory Funding Objective is rectified

If the assets of the Plan are less than the Technical Provisions at the effective date of any actuarial valuation, a "Recovery Plan" will be put in place, which requires additional contributions from the Employer. These additional contributions will pay off the shortfall over an appropriate period, taking into account the following factors:

- the size of the funding shortfall;
- the business plans of the Employer or Oracle Corporation incorporated in Delaware;
- the Trustees' assessment of the Employer covenant; and
- any contingent security offered by the Employer or Oracle Corporation incorporated in Delaware.

The assumptions to be used in the shortfall elimination calculations will be as agreed between the Trustee and the Employer, with the aim that in normal circumstances any shortfall will be eliminated by expected additional asset returns above the discount rate without the need for deficit contributions from the Employer.

The 2022 actuarial valuation revealed a significant deficit which cannot be eliminated through additional asset returns alone. The Trustee and the Employer have agreed that the Employer will make payments into an escrow arrangement and into the Plan for a specified period. At the end of the Recovery Plan, a payment from the escrow arrangement to the Plan may be required to make good any deficit, subject to a maximum of the escrow assets at that time and provided that the Trustee has first entered into good faith discussions with the Employer about whether a lower amount can instead be transferred to the Plan to cover the shortfall in the TRA due to retirements, early retirements and transfers-out during the next three years. The Revised Funding Deed sets out the terms of this arrangement.

Arrangements for other parties to make payments to the Plan

An agreement has been put in place whereby the US parent company Oracle Corporation, incorporated in Delaware, underwrites certain contributions payable to the Plan (the Guarantee).

Should the PPF guidance in relation to contingent assets, of the PPF's standard form agreements, change in any year in such a manner than it would render the Guarantee not compliant for the purposes of levy reduction, the Trustee and the Employer will amend the Guarantee in order to ensure continuing compliance, provided that this is consistent with their legal obligations and is practicable.

Directions by The Pensions Regulator as to the funding of the Plan

No directions under section 231(2) of the Pensions Act 2004 have been made by The Pensions Regulator as to the funding of the Plan.

Basis of Cash Equivalent Transfer Values

Members of the Plan are entitled to transfer the value of their Plan benefits to another pension arrangement. If this option is chosen a "cash equivalent transfer value" (CETV) is payable.

The Trustee has agreed that CETVs will normally be calculated so as to represent their best estimate of the cost of providing the benefits in the Plan. As such the assumptions used will be similar to those used for the calculation of the Technical Provisions, but without any margins for prudence included. As the financial assumptions are market-related, they will normally be updated on a monthly basis for the purpose of calculating CETVs.

Every three years following completion of an actuarial valuation, the Trustee will consider whether to obtain advice from the Scheme Actuary on the financial position of the Plan and its ability to pay full CETVs. The Trustee may decide, depending on the outcome of such advice, to reduce transfer values to the full amount permitted under legislation.

The Trustees will notify the Employer of any changes to the CETV basis as agreed from time to time, enabling the Employer and its advisers to identify if this is likely to lead to materially larger CETVs than the technical provisions.

Surplus refund to the Employer

Under Rule 28 of the Trust Deed and Rules, the Trustees may make a payment to the Employer provided that:

- the Plan is wound up
- member's benefits have been secured in full with an insurance company or transferred to another scheme
- the Trustees have considered augmenting benefits under clause 13

Assumptions as at 31 May 2022

The assumptions used to calculate the technical provisions as at 31 May 2022 are as follows:

Pre-retirement discount rate	4.55% p.a.
Post-retirement discount rate	3.25% p.a.
Retail Prices Index (RPI) inflation	3.85% p.a.
Consumer Prices Index (CPI) inflation pre 2030	2.85% p.a.
Consumer Prices Index (CPI) inflation post 2030	3.85% p.a.
Salary increases	4.85% p.a.
Pension increases (CPI max 5% pre 2030)	2.75% p.a.
Pension increases (CPI max 5% post 2030)	3.65% p.a.
Retirement	Age 65
Cash commutation	None
Allowance for withdrawals up to age 65	10% p.a.
Mortality tables	100% of S3NA "light" tables
Mortality improvements	CMI 2021 with a long-term improvement rate of 1.5% p.a., an initial addition parameter of 1% p.a. and 2020/2021 weight parameters of 0%
Proportion of members with a dependant at retirement or earlier death	80% (males) / 70% (females)
Age difference between member and dependant	3 years
Allowance for GMP equalisation	Member specific allowance plus a fixed reserve of £1.3m in respect of historic transfers out of the Plan

These assumptions have been chosen by the Trustee in light of its long-term investment objectives and the Plan's liability profile based on advice from the Scheme Actuary, along with its views on the strength of the employer covenant.

Dates of review of this statement

This Statement of Funding Principles will be reviewed by the Trustee and the Employer no later than 15 months after the effective date of each actuarial valuation, due every three years.

This statement has been agreed by the Trustee and the Employer

.... Signed on behalf of the Trustee of the Oracle UK Pension Plan	.... Date
.... Signed on behalf of Oracle Corporation UK Limited	.... Date