Actuarial Valuation Report
30 September 2020 valuation

Smith & Nephew UK Pension Fund
18 June 2021

As instructed, I have carried out an actuarial valuation of the Smith & Nephew UK Pension Fund ("Fund") as at 30 September 2020. I now present my report which is addressed to the Trustee of the Fund.

The main purpose of the report, required by the Pensions Act 2004, is to set out the results of and outcomes from the valuation. Fund members will receive a Summary Funding Statement relating to the valuation in due course.

The Trustee is responsible for the choice of assumptions for the valuation, and for then setting an appropriate level of future contributions, both in consultation with the Principal Employer, Smith & Nephew UK Limited ("the Employer").

The main results are summarised here, with further detail in the following sections, appendices and the attached Statement of Funding Principles, Recovery Plan and Schedule of Contributions.

Clive Wellsteed FIA
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Appointed Scheme Actuary

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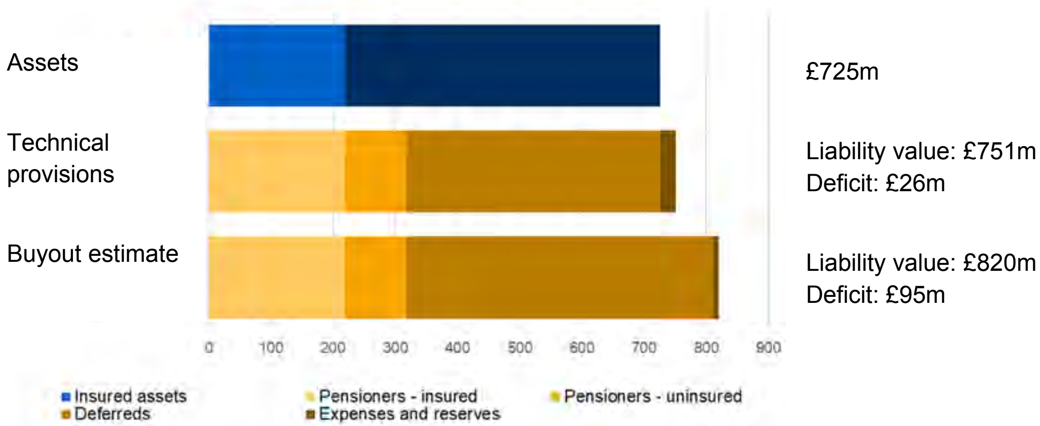

Summary of agreed contributions	
In respect of deficit of £26m at 30 September 2020	A contribution of £5m was paid to the fund in April 2021. Additional quarterly contributions of either £2.5m or £5m may be payable, depending on the assessment of the funding level shortly before each contribution would be due. Further detail is set out in the Dynamic Contribution Adjustment mechanism section of the Schedule of Contributions attached to this report.

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Appendix

Key documents

- Certification of the calculation of the technical provisions
- Statement of Funding Principles
- Schedule of Contributions and certificate
- Recovery Plan

Professional standards

This report is part of the work in connection with the valuation of the Fund. The report has been produced for the information of interested readers and not with the intention that it should support any decision that they may make. Our work in preparing this report complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work , together with Technical Actuarial Standard 300: Pensions.

The use of our work

This work has been produced by Lane Clark & Peacock LLP under the terms of our written agreement with the Trustee of the Smith & Nephew UK Pension Fund ("Our Client").

This work is only appropriate for the purposes described and should not be used for anything else. It is subject to any stated limitations (eg regarding accuracy or completeness). Unless otherwise stated, it is confidential and is for your sole use. You may not provide this work, in whole or in part, to anyone else without first obtaining our permission in writing, although we acknowledge that you are required to pass it to the employer sponsoring the Fund. We accept no liability to anyone who is not Our Client.

If the purpose of this work is to assist you in supplying information to someone else and you acknowledge our assistance in your communication to that person, please make it clear that we accept no liability towards them.

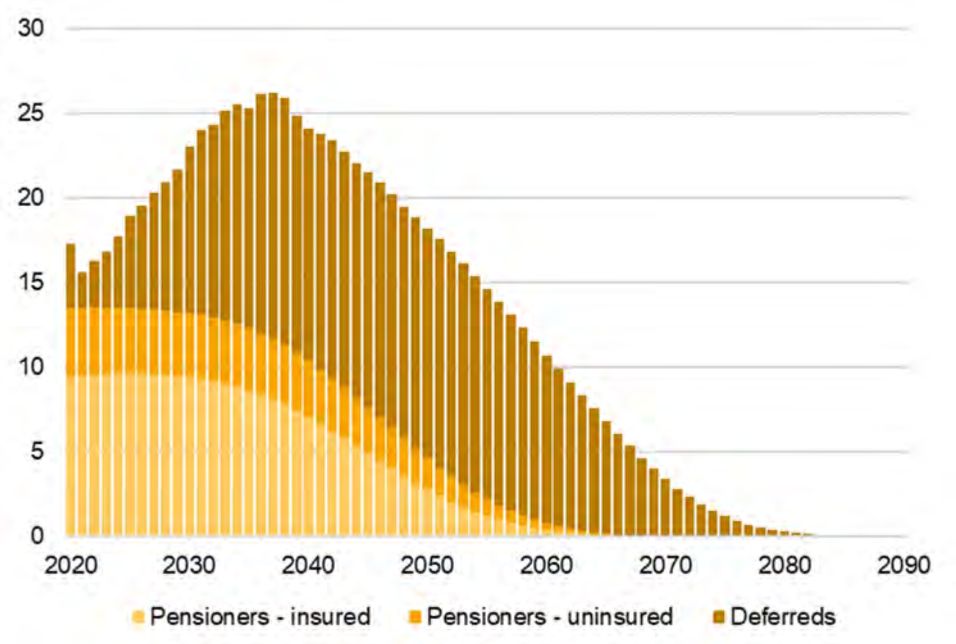
About Lane Clark & Peacock LLP

Funding objective and method

Principles in setting objective and method

- The Fund's statutory funding objective is to hold sufficient and appropriate assets to cover its technical provisions.
- The Trustee took advice from me to determine the method and assumptions to use for this valuation with the agreement of the Employer.
- The valuation adopted the "projected unit method", under which the technical provisions are calculated as the amount of assets required as at the valuation date to meet the projected benefit cash flows, based on benefits accrued to the valuation date and the various assumptions made.
- The technical provisions are not intended to be sufficient to enable the Fund to be wound up and its benefits secured in full with an insurance company at the current date, but instead the technical provisions strengthen over time to target being fully funded on an insurance basis by 2032.
- After considering the strength of the Employer's covenant, the Trustee has set assumptions as set out in its Statement of Funding Principles, which is attached. In particular the Trustee took account of the Employer's likely ability to pay additional contributions in the future if future experience proves to be less favourable than projected under the assumptions. A summary of the assumptions chosen is set out on the next page.

Projected benefit cash flows as at the valuation date



Note: The projected cash flows shown above exclude the allowance for future expenses and the reserve for market implied pension increases (described in the statement of funding principles).

- There is a risk that the assumptions are not borne out in practice and that the future progression of the funding position is materially different from that expected. Further details on the risks the Fund faces are set out in the Appendix.

Assumptions

Key financial assumptions

- The investment model is an important financial assumption. The Trustee has chosen an investment model that assumes that there is an allocation at the valuation date of 68% of the Fund assets (excluding buy-in policies) to matching assets, with the remainder in return seeking assets. This is in line with the actual asset allocation at the valuation date as summarised in the Appendix. The allocation to matching assets is assumed to increase on a linear basis to a 90% allocation in 2032, following which it is assumed that all remaining uninsured benefits will be secured with an insurance company.
- A summary of the key financial assumptions is shown in the table below.

	% pa
Price inflation	
RPI	3.1
CPI	2.6
Return from gilts	0.7
Return above gilts	
Matching assets	0.0
Return seeking assets	2.0
Pension increases in payment	
RPI subject to a minimum of 0% pa and a maximum of 5% pa	3.0

- The above rates are illustrative single-equivalent rates at 30 September 2020. In practice the full yield curves for gilts, inflation, and pension increases have been used in the calculations.

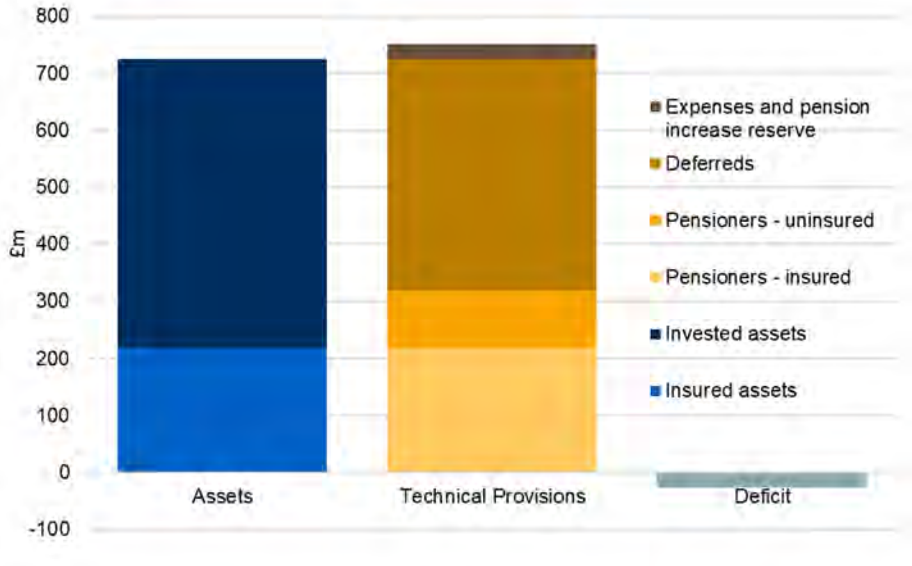
Key assumptions differences compared with the previous valuation

- The assumed return from gilts has reduced from 1.9% pa to 0.7% pa as a result of the fall in yields on fixed interest gilts, and the assumed rate of RPI inflation has reduced from 3.4% pa to 3.1% pa reflecting lower market expectations of RPI inflation.
- The investment model has been updated as described opposite to reflect the actual asset allocation at the valuation date. This has resulted in a significant increase in the allocation to matching assets, largely due to agreed de-risking that occurred over the two years since the previous valuation.
- The assumed return from the return seeking assets has reduced from 2.25% pa above gilts to 2.0% above gilts.
- The mortality assumption has been updated to the most recently available mortality tables (the “S3” base tables with a Fund specific adjustment of 95% (non-pensioners at 30 September 2015) / 105% (pensioners at 30 September 2015) and future projections the “CMI 2019” future projection tables with a smoothing factor of S=7, an initial improvements parameter of A=0.5% and a long-term rate of improvement of 1.5% pa). Overall, these updates result in slightly lower life expectancies than adopted at the previous valuation.
- The assume buy-out terms in 2032 have been updated to reflect the more favourable pricing seen in the market at the valuation date.
- The effect on the valuation results of changing some of the key assumptions is set out in the Appendix.

Technical provisions

Technical provisions as at 30 September 2020

- As at the valuation date, the technical provisions were £751m and there was a deficit of £26m.



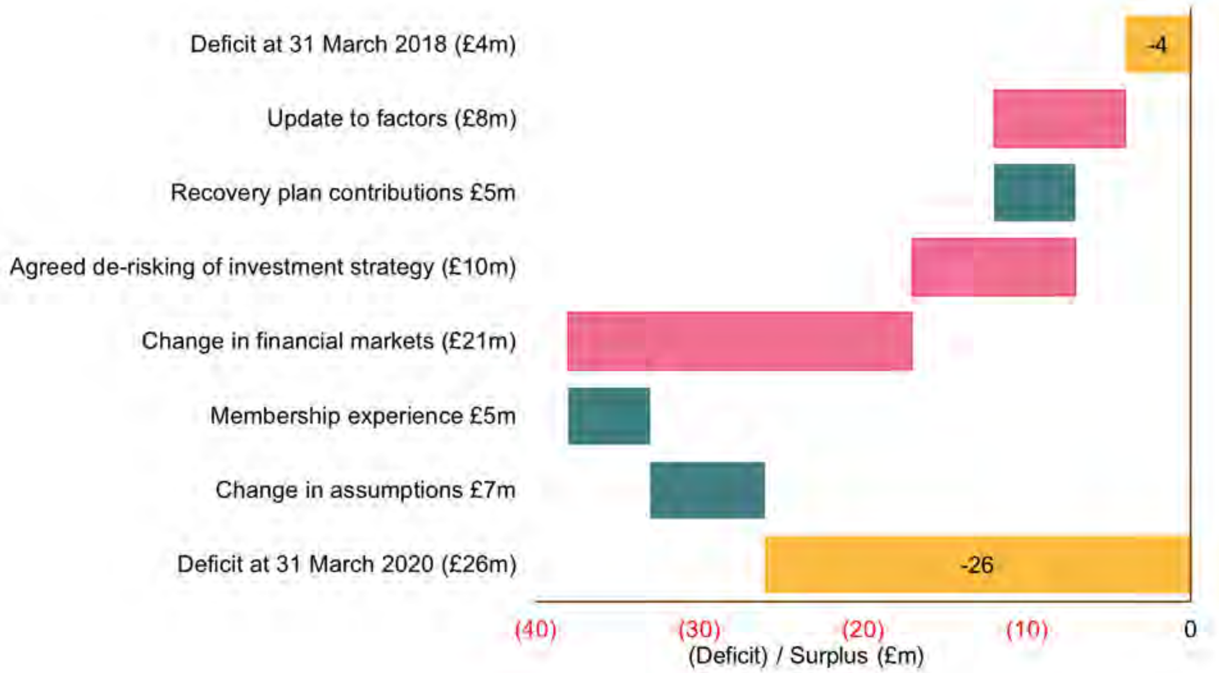
- Our calculations are based on the membership data, benefits and assets as summarised in the Appendix.

Certification of technical provisions

- Under the Pensions Act 2004, I am required to certify that the technical provisions have been calculated in accordance with the legislation, and my certificate is attached.

Reconciliation of experience to 30 September 2020

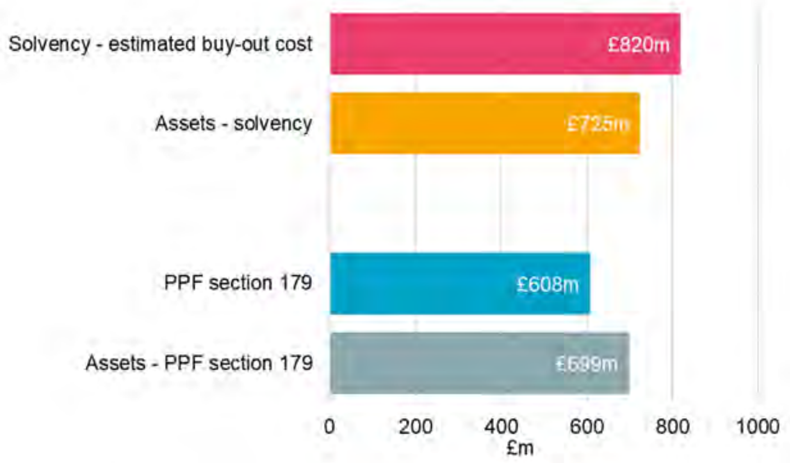
Explanation of movement from previous valuation



- As at the valuation date the deficit was £26m.
- Had experience since the previous valuation been in line with the assumptions adopted for that valuation, but allowing for contributions paid over the period, the update to the member option terms and the agreed de-risking of the investment strategy, then Fund would have had a deficit of £17m at this valuation date.
- The actual position is therefore £9m worse than expected and the reasons for this are shown in the chart.
- The contribution paid since the previous valuation is shown under the "Recovery plan contributions" item. This was £4.7m paid in January 2019.
- Updated commutation, early and late retirement factors came into effect in January 2020 as shown under "Update to factors".
- The Fund's Technical Provisions increased by £21m more than the assets in the two years to 30 September 2020, mainly due to the fall in gilt yields which was not fully hedged by changes in the value of the Fund's assets. This is reflected in the "Change in financial markets" item.
- The "Change in assumptions" item includes updates to the mortality assumptions, investment model and assumed buy-out terms in 2032.
- There was a £5m gain as a result of membership experience, which was mainly due to members transferring out of the Fund, as well as slightly more deaths and fewer new dependants than expected.

Discontinuance at the valuation date

The position were the Employer to have ceased sponsoring the Fund on the valuation date



Derivation of the solvency position

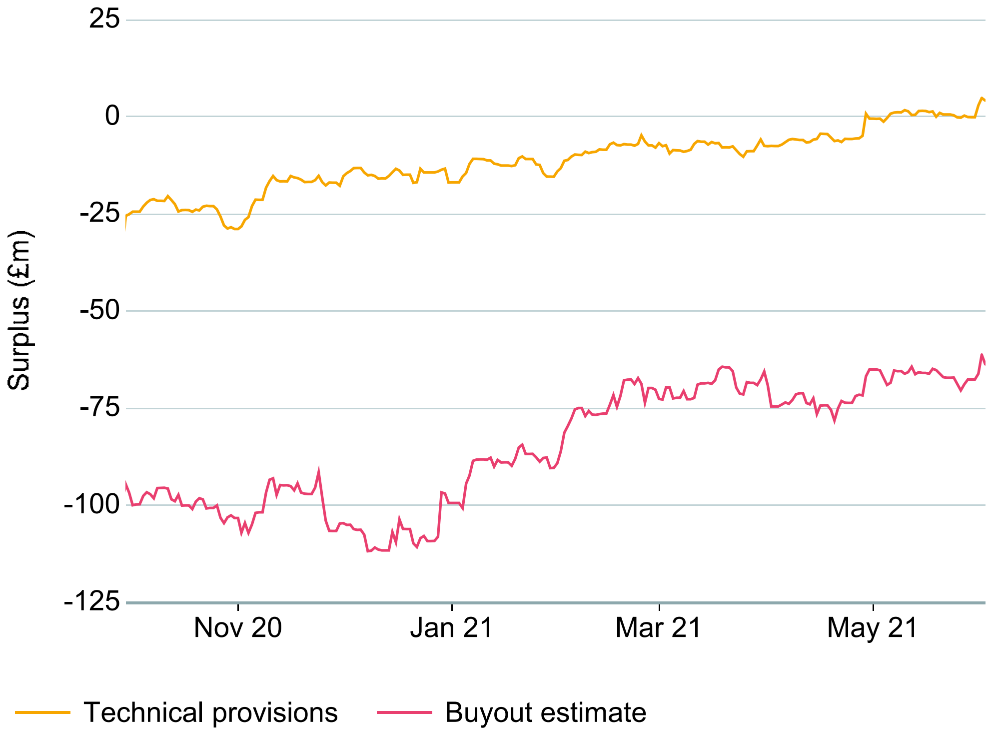
- The solvency position has been calculated by estimating the cost of securing all benefits by purchasing annuities with an insurance company and winding up the Fund. We have included an allowance for the expenses that would be incurred in winding up the Fund. This measure of solvency is referred to as the "buy-out cost".
- We have not obtained quotations, but have produced our estimate using the assumptions described in the Appendix. In practice, the actual cost can be determined only by completing a buy-out and will depend on factors including market conditions at the time of buy-out, competition in the insurance market, actual expenses of buy-out, the insurer's view of Fund members' life expectancy, and how much (if any) additional funding was available from the Employer, so could be very different from the estimate based on the position as at 30 September 2020 shown above.
- The estimated buy-out deficit at the valuation date was £95m. This corresponds to an estimated buy-out level of 88%, which compares with 90% as at the previous valuation. The reasons for the change are similar to those explaining the change in the technical provisions, together with changes in insurers' buy-out pricing.
- Buy-out pricing can be volatile over time and we recommend that schemes targeting full insurance prepare at an early stage and consider seeking insurer quotations in advance of the estimated numbers becoming affordable.

Interaction with the PPF

- Where a pension scheme is discontinued because of the insolvency of the employers, the Pension Protection Fund ("PPF") is required to assess whether the scheme is eligible to enter the PPF. This includes assessing whether the scheme is insufficiently funded.
- In broad terms, if the PPF is satisfied that the scheme's assets are insufficient to buy-out benefits equal to PPF compensation with an insurance company, then the assets would be transferred to the PPF to pay members PPF compensation in place of scheme benefits.
- If the assets are sufficient, the scheme can be wound up outside the PPF with the assets first used to secure benefits equal in value to PPF compensation, and the balance applied to secure benefits above that level in accordance with the scheme's rules.
- As a proxy for the financial assessment required by the PPF in these circumstances, we consider the statutory "Section 179" valuation. On this basis, there was a surplus in the Fund of £91m as at 30 September 2020.
- This indicates that, had the Employer become insolvent at the valuation date, with no other sponsor to succeed them and no additional funding, it is likely the Fund would not have entered the PPF.
- Further details relating to the Section 179 valuation, including the assumptions used, are set out in the appendix along with the full results set out in my formal Section 179 certificate.

Experience since the valuation date

Development of the position since 30 September 2020



- The valuation considers the financial position of the Fund as at the valuation date. Since the valuation date there have been fluctuations in investment markets which have affected the value of the assets and the technical provisions.
- The chart shows the projection of the technical provisions and buy-out deficits since the valuation date. As at 2 June 2021 we estimate that there was a technical provisions surplus of c £4m and a buy-out deficit of c £65m.
- Our projection of the technical provisions deficit allows for investment returns in line with market indices, contributions paid, the impact of actual inflation on member benefits and changes in gilt yields. All other experience is assumed to be in line with the Statement of Funding Principles.
- We have used a similar methodology to project the buy-out deficit and have also allowed for changes in insurers' buy-out terms.

Contributions and future projections

Contributions

- As the Fund had a deficit of £26m as at 30 September 2020, the Trustee has agreed with the sponsoring employers that contributions will be paid to clear this deficit, as set out in the Recovery Plan in the Appendix.
- Details of the contributions are set out in the Schedule of Contributions in the Appendix, including the Dynamic Contribution Adjustment mechanism which adjusts the contributions due each quarter according to the funding position of the Fund.

Projected funding levels at the next valuation

- The projected funding levels three years after the valuation date are shown below.
- These projections are made on the basis that:
  - experience from the valuation date is in line with the assumptions underlying the technical provisions, as set out in the Statement of Funding Principles;
  - contributions are paid as set out in the Schedule of Contributions; and,
  - there is no change in insurers' buy-out pricing.
- Experience from the valuation date is likely to be different from the assumptions made. Therefore, the position at the next valuation is likely to be different to that illustrated.

Measure	30 September 2020	30 September 2023
Technical provisions	97%	100%
Buy-out	88%	92%

Certification of contributions

- Under the Pensions Act 2004, I am required to certify that the Schedule of Contributions is consistent with the Statement of Funding Principles, and that payment of contributions at the agreed rates can be expected to lead to the Fund having sufficient assets to cover its technical provisions by the end of the Recovery Plan. My certificate forms part of the Schedule of Contributions.

Appendix

- Key risks faced by the Fund
- Membership data and benefits
- Assets and investment strategy
- Sensitivity to assumptions
- Assumptions used for assessing solvency
- Section 179 details and certificate

Appendix

Key risks faced by the Fund

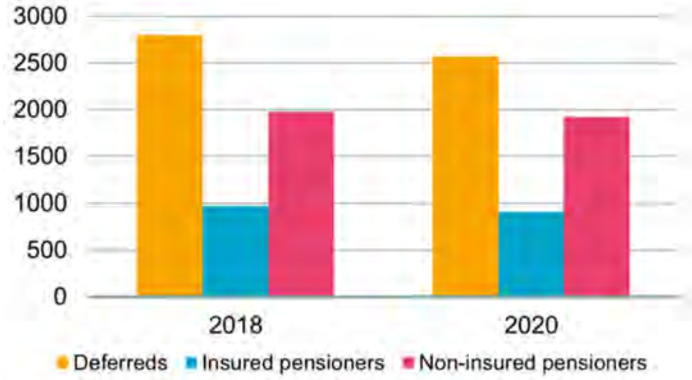
Risk	Comment
Employer's covenant	The participating employers (and ultimately Smith & Nephew plc as guarantor) are not able to make the required contributions, including any increase to contributions if experience is unfavourable. If this happened, then the Fund may not be able to pay the benefits in full.
Investment strategy	Changes in asset values are not matched by changes in the technical provisions. The technical provisions are linked to gilt yields, but the Fund assets include a holding in return-seeking assets, so the two may move out of line as investment conditions change. For example, if equity values fall with no changes in gilt yields, the deficit would increase.
Investment returns	Future investment returns are lower than anticipated. The greater the allowance made in the technical provisions for returns on assets other than gilts, the greater the risk that those returns are not achieved. No direct allowance is made for specific risks, such as climate change, which may impact investment returns (or indeed other factors affecting the cost of pensions such as mortality).
Gilt yields	Asset values and the technical provisions do not move in line as a result of changes in the yields available on fixed interest and index-linked gilts. This risk is largely mitigated due to the hedging provided by the Fund's LDI assets but this may still arise because of a mismatch between the Fund's holding in gilts and its technical provisions in terms of their nature (ie fixed or inflation-linked) and/or their duration.
Inflation	Actual inflation is higher, and so benefit payments are higher, than anticipated. In addition there is a potential mismatching risk if inflation linked liabilities behave differently to the inflation linked assets held to protect against inflation changes – for example where RPI linked assets are used to match CPI linked liabilities
Mortality	Fund members live longer, and so benefits are paid longer, than anticipated. In particular, no allowance is made for specific risks, such as climate change, so members may live for a different length of time than assumed.
Member options	The incidence of Fund members exercising benefit options which are potentially not "neutral" to the Fund's funding position (such as early retirement or commutation) is different from that anticipated.
Regulatory	In future the Fund may have backdated claims or liabilities arising from equalisation or discrimination issues or from future legislation or court judgments.

Appendix

Membership data and benefits

Summary as at 30 September 2020 (30 September 2018 in brackets)

	Number		Average age		Pensions (£'000 pa)	
Deferred members	2,567	*(2,799)*	55	*(54)*	7,586	*(8,477)*
Pensioners – uninsured	1,922	*(1,979)*	76	*(75)*	4,542	*(3,763)*
Pensioners - insured	914	*(972)*	77	*(75)*	9,534	*(9,682)*
Total	**5,403**	***(5,750)***				

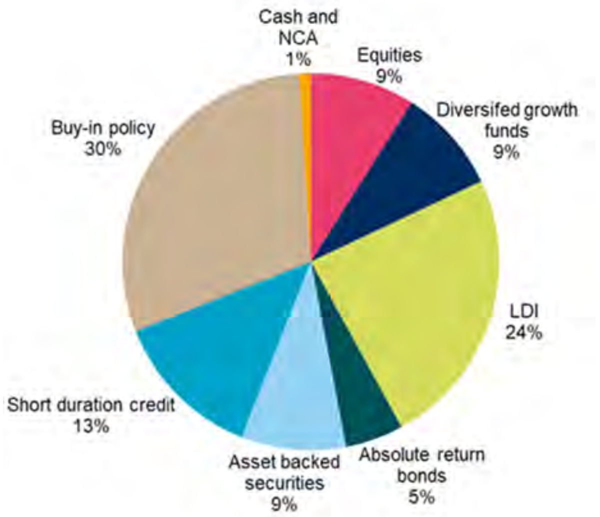


- We have been provided with a full membership data extract as at the valuation date by Mercer, the Fund's administration team. We have relied on this data and have no reason to doubt its overall accuracy for the purposes of the valuation.
- The pension figures for deferred members have been obtained by totalling members' deferred pensions as at the date of leaving service. The pension figures for pensioners and dependants have been obtained by totalling members' pensions in payment at the valuation date, including the increase granted on 1 October 2020.
- The uninsured pensioner figures include 125 pensioners where we understand the member has commuted their entire pension, however a spouse pension remains payable to a surviving spouse or dependant upon the member's death.
- The valuation and this report relate solely to defined benefits in the Fund, except where specified otherwise. The benefits valued are as set out in the Trust Deed and Rules dated 20 March 2007, as subsequently amended. In summary there are provisions for the revaluation and indexation of pensions and death benefits, and details of various benefit and contribution scales that have applied in the past.

Appendix

Assets and investment strategy: Summary as at 30 September 2020

Total assets: £725m



Asset class	30 September 2020 (actual allocation)
Equities	9%
Diversified growth funds	9%
Absolute return bonds	5%
Asset backed securities	9%
Short duration credit	13%
LDI	24%
Buy-in policy	30%
Net current assets/cash	1%
Total	**100%**

- We have used asset figures as at 30 September 2020 based on valuations received from the Fund's asset managers.
- The assets exclude money purchase assets such as AVCs.

Appendix

Sensitivity to assumptions

- The valuation results are sensitive to the assumptions chosen and we illustrate here the effects of changes to some of the key assumptions.
- The results are particularly sensitive to the advance credit for future investment returns. By way of illustration, the effect on the technical provisions of changing the investment return assumption for the Higher risk rate is shown in the table.
- The results are also sensitive to the mortality assumption in terms of both life expectancy at the valuation date and how life expectancy may change in the future. To the extent that the mortality assumption under-estimates life expectancies, the technical provisions will be too low, all other things being equal.
- As an illustration, if it were assumed that life expectancies were one year longer than implied by the mortality assumption adopted, the technical provisions would be broadly 3-4% higher.

	Advance credit for returns above gilts in the **Higher risk rate**	% pa	Surplus/ (Deficit) £m
	Technical provisions	**2.0**	**(26)**
A	0.5% pa higher investment return assumed	2.5	(20)
B	0.5% pa lower investment return assumed	1.5	(31)
C	In line with the Lower risk rate	0.0	(49)

Note that the sensitivities shown in this table only reflect changes in the higher risk rate prior to 2032. The buy-out terms that the uninsured liabilities are assumed to be secured on in 2032 remain unchanged in the figures above.

Appendix

Assumptions used for assessing solvency

- We have based our estimate of the solvency position on our in-house insurer buy-out pricing model. The model is based on similar but simplified principles to those used by insurance companies in setting their prices. It is calibrated against actual quotations and final transaction prices received for other schemes.
- We have not obtained an actual quotation for the Fund, and there is considerable volatility in prices. Therefore, were the benefits actually to be bought out, the position could be very different from that illustrated. The basis used has no relevance beyond this estimate of the buy-out cost and my statutory estimate of solvency.
- These assumptions differ from those set out in the Statement of Funding Principles and they result in an estimated buy-out cost that is higher than the technical provisions.
- All else being equal, non-pensioners are more expensive to insure than pensioners, due to the more limited appetite from the insurers and the additional uncertainty (for example, due to the longer duration of non-pensioners' benefit payments and uncertainty around the particular options that can be exercised by members before and at retirement).
- The demographic assumptions we have used are generally the same as those used for the technical provisions (where relevant) except as shown opposite.
- We have calculated our estimate of the solvency position assuming that the insurer's terms for members' options are adopted.
- Additionally, we have included a provision of £9m for the costs that would be incurred by the Trustee in winding up the Fund, and the cost of administration with an insurer. In practice, the actual expenses could be very different.
- This basis has no relevance beyond establishing an estimate of the hypothetical buy-out cost and my statutory estimate of solvency as at the valuation date.

Main financial assumptions

Assumption	
Illustrative single equivalent assumptions	
Discount rate	0.6% pa
Rate of RPI inflation	3.1% pa
Rate of CPI inflation	Set equal to the equivalent RPI assumption less:
- pre 2030	- 0.8%
- post 2030	- 0.4%
Pension increases in payment	Set consistently with market-based pricing for the relevant minimums and maximums

Main demographic assumptions

Assumption	
Commutation	None
Proportion with dependants	85%
Mortality assumption	105% (for non-pensioners at 30 September 2015) and 115% (for pensioners at 30 September 2015) of the S3NA base tables, projected with CMI 2019 mortality improvements from 2013 with a smoothing factor of 7, a long term improvement rate of 1.5% pa for males and females and an additional initial improvement parameter of 0.5% pa.

Appendix

PPF Section 179 valuation

- The sole purpose of a section 179 valuation is to fulfil the statutory duty to provide the required information to the Pensions Regulator.
- The Board of the PPF will use the results to calculate the Fund's Protection Levy from 2022/23 onwards, until a new section 179 valuation is provided.
- Additionally, were the Fund to enter a PPF assessment period, the results of a section 179 valuation might be used in assessing whether the Fund's funding position is such that it is eligible to enter the PPF or whether a full section 143 valuation is required.

Method and data

- I have valued the benefits prescribed by the PPF in version G8 of their section 179 guidance and with further prescribed adjustments. These are the Fund's benefits adjusted to reflect, broadly, the compensation that members would currently receive if the Fund were to enter the PPF.
- I have also made some prudent approximations where the relevant data to value compensation precisely was unavailable – these are set out below.
- The PPF shares its expectations on how to incorporate the verdicts of five court cases within Section 179 valuations in its Q&A – our treatment of the Hampshire, Hughes, Lloyds, Bauer and Beaton cases is detailed below.

Reconciliation to previous valuation

- The previous section 179 valuation of the Fund, which was carried out as at 30 September 2018, showed a surplus of £134m.
- The current valuation shows a deterioration. The main reasons for the change are similar to those explaining the changes in the Technical Provisions and Buy-out measures.

Certification

- In providing my section 179 valuation certificate, I am required to confirm that in my opinion the calculated value of the protected liabilities is unlikely to have been understated.
- I am satisfied that taken as a whole, the approximations made for the purposes of this valuation are prudent in that they will tend to overstate the value placed on the liabilities. Accordingly I am happy to provide the required certification.

Appendix

Assumptions for section 179 valuation

- The PPF Board prescribes the actuarial assumptions to be adopted for a section 179 valuation – I have used version A9 of the assumptions guidance. The financial assumptions are specified by reference to yields on certain gilt indices at the valuation date and are summarised in the table below.

Key financial assumptions	% pa	
	Non-pensioners	Pensioners
Net discount rates before retirement		
for revaluing benefits earned before 6 April 2009	-2.68	-
for revaluing benefits earned after 5 April 2009	-1.92	-
for non-revaluing benefits	0.07	-
Net discount rates after retirement		
non-increasing pensions	0.54	0.57
increasing pensions	-1.86	-1.23

Key demographic assumptions	
Post-retirement mortality	
Base mortality table	100% S2PA
Allowance for future improvements	Projection from 2007 in line with the Core CMI 2016 projections with a long term annual rate of improvement of 1.5% (males) and 1.25% (females)
Percentage married (at NPA or earlier death)	Males: 85% Females: 75%

- There is also a prescribed allowance for wind-up and benefit installation expenses according to the amount of the calculated section 179 liabilities and the membership profile of the Fund.

Section 179 assets

Key asset data	£
Date of audited accounts	30 September 2020
Assets (as reported in audited accounts)	727,000,000
Exclusions:	
Money purchase assets	(1,300,000)
Alternative valuations:	
Insurance contracts	(25,700,000)
Section 179 total assets	**700,000,000**

- The value of the insurance policies held with Rothesay Life have been calculated using assumptions consistent with those used to value the section 179 liabilities. This results in a lower value being placed on the insured assets than in the Fund accounts. Alternative methods of valuing these policies (which could result in a higher or lower value) might also be acceptable. However, in my view the approach taken is appropriate, and consistent with the relevant valuation guidance. This is a change in approach compared to that adopted at the previous valuation as the previous approach could be considered to result in an overstatement of the section 179 asset value at the current valuation date.

Appendix PPF Section 179 – benefits valued

Benefit type	Adjustments required for section 179 valuations
Revaluation in deferment	Benefits increased from the valuation date in line with the CPI capped at 5% pa for benefits accrued before 6 April 2009, and the CPI capped at 2.5% pa for benefits accrued after 5 April 2009 (the current prescribed assumptions continue to make reference to RPI rather than CPI, reflecting pricing in the insurance market at the time those assumptions were set.)
Normal Pension Age ("NPA")	Non-pensioners are assumed to retire at NPA (unless they die beforehand). This is the earliest age at which a pension or lump sum becomes payable without reduction for early payment (ignoring any special provisions on the grounds of ill health). Members can have different parts of their benefits payable from different NPAs. Most members of the Fund have a Normal Pension Age of 65, although some members employed prior to 7 November 1987 have part of their pension with an associated Normal Pension Age of 60.
Commutation of pension	No allowance is made for pension to be commuted for a lump sum
Pension amount	For members below NPA (including those in receipt of a pension, but excluding ill-health pensioners and dependants): • A 10% reduction is applied to all benefits • Pensions are restricted by a service-related cap. The cap at age 65 at the valuation date is 41,461.07 pa (before the 10% reduction), increasing by 3% for each complete year of service beyond 20 in line with the PPF's guidance. As directed by the PPF, no allowance has been made for the "Hampshire", Hughes, or "Bauer" judgments. • Fixed transferred-in pensions are tested against a separate compensation cap from other scheme pensions. The value of bridging pensions and temporary pensions are included in the value of the liabilities.
Pension increases in payment	• Pensions in respect of pre-6 April 1997 accrued benefits do not increase in payment • Pensions in respect of post-5 April 1997 accrued benefits are increased in line with the CPI capped at 2.5% pa (the current prescribed assumptions continue to make reference to RPI rather than CPI, reflecting pricing in the insurance market at the time those assumptions were set).
Benefits on death	• A spouse will receive 50% of the member's pension on the member's death (the actual Fund benefit is 50% of the members' pre-commutation pension on death after retirement and there is no spouse's entitlement on a member's death in deferment). • There is no pensions guarantee payable (in practice if a member dies within five years of retirement, the Fund will pay the balance of five years' pension instalments to the estate) and no allowance is made for any lump sum death benefits pre-retirement.
Discretionary practices	• No allowance is made for any future discretionary practices
Money purchase benefits	• Money purchase benefits (eg AVCs) not yet in payment are excluded from the valuation of both assets and liabilities. • Pensions in payment derived from money purchase funds are treated in the same way as other scheme benefits.

PPF Section 179 – prudent approximations

Benefit type	Prudent approximations made
Normal Pension Age ("NPA")	• I have assumed that the NPA for current pensioners pre 1997 pension is age 60 if the member joined the Fund before 7 November 1987. This is because part of these members benefits pre 1997 benefits may have an NPA of 60, however a split of the pre 1997 pension into NPA 60 and NPA 65 is not readily available. • I have assumed that none of the current pensioners under NPA, except for those either flagged in the data or those who retired under the age of 50, arise from ill-health retirements.
Pension amount	• I have excluded temporary pensions when comparing pension amounts against the compensation cap. • In September 2019 the PPF updated its guidance on section 179 valuations to confirm that schemes should make adjustment as a result of the Beaton case. We have therefore compared any transferred-in fixed pensions identified in the membership data against a separate compensation cap.
Pension increases in payment	• For pensioners, I have split bridging pension into pre-6 April 1997 and post-5 April 1997 tranches on an approximate pro-rata basis by reference to periods of pensionable service.
Children's pensions	• Children's pensions currently in payment are assumed to cease at age 23, irrespective of current age
Money purchase benefits	• For pensioners, I have allocated pension derived from money purchase funds into pre-6 April 1997 tranche if the member left prior to 6 April 1997 and post-5 April 1997 tranche otherwise.

Section 179 Valuation Certificate

Full name of scheme: **Smith & Nephew UK Pension Fund**

Pension Scheme Registration Number: 10146658

Address of scheme: Inside Pensions Ltd, Trident House, 42-48 Victoria Steed, St Albans, Hertfordshrie, AL1 3HZ

Section 179 valuation

Effective date of this valuation (dd/mm/yyyy)	30/09/2020
Guidance and assumptions	
s179 guidance used for this valuation	G8
s179 assumptions used for this valuation	A9

Assets

Total assets (this figure should not be reduced by the amount of any external liabilities and should include the insurance policies referred to below)	£700,000,000
Date of relevant accounts (dd/mm/yyyy)	30/09/2020
Percentage of the assets shown above held in the form of a contract of insurance where this is not included in the asset value recorded in the relevant scheme accounts	-3.6%

Liabilities

Active members (excluding expenses)	nil
Deferred members (excluding expenses)	£374,390,000
Pensioner members (excluding expenses)	£222,362,000
Estimated expenses of winding up	£7,467,000
Estimated expenses of benefit installation/payment	£4,350,000
External liabilities	nil
Total protected liabilities	**£608,569,000**

Please provide the percentage of the liabilities shown above that are fully matched by insured annuity contracts for:

Active members	0%
Deferred member	0%
Pensioner members	67%

I certify that this valuation has been carried out in accordance with the Pension Protection Fund (Valuation) Regulations 2005 and with the appropriate section 179 guidance and assumptions issued by the Board of the Pension Protection Fund. I also certify that the calculated value of the protected liabilities is, in my opinion, unlikely to have been understated.

Signature Date 8 June 2021

Name: **Clive Wellsteed**

Qualification: **Fellow of the Institute and Faculty of Actuaries**

Employer: **Lane Clark & Peacock LLP**

Proportion of liabilities

Please show the percentage of liabilities which relate to each period of service for:

	Before 6 April 1997	6 April 1997 to 5 April 2009 (inclusive)	After 5 April 2009
Active members	0.0%	0.0%	0.0%
Deferred members	22%	61%	17%
	Before 6 April 1997	**After 5 April 1997**	
Pensioner members	67%	33%	

Number of members and average ages

For each member type, please show the number of members and the average age (weighted by protected liabilities) as at the effective date of this valuation. Average ages should be rounded to the nearest whole year.

	Number	Average age
Active members	0	0
Deferred members	2,567	53
Pensioner members	2,836	71

As required, under Part 9 of the Guidance on undertaking a s179 valuation, the s179 certificate should form part of the scheme actuary's s179 valuation report. The details contained in this certificate should be separately submitted to the PPF as part of the annual scheme return via the Pension Regulator's system "Exchange".

This certificate should not be sent directly to the Pension Protection Fund.

Key documents

- Certification of the calculation of the technical provisions
- Statement of Funding Principles
- Schedule of Contributions and certificates
- Recovery Plan

Actuary's certification of the calculation of technical provisions

This certificate is provided for the purpose of Section 225(1) of the Pensions Act 2004 and Regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: Smith & Nephew UK Pension Fund (the “Fund”)

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Fund’s technical provisions as at 30 September 2020 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee the Fund and set out in the Statement of Funding Principles dated 6 May 2021.

Signature: **Date:** 18 May 2021

Name: Clive Wellsteed **Qualification:** FIA

Address: Lane Clark & Peacock LLP
95 Wigmore Street
London W1U 1DQ

Smith & Nephew UK Pension Fund
Statement of Funding Principles

This statement has been produced by the Trustee of the Smith & Nephew UK Pension Fund ("the Fund"), and describes its policy for securing that the Statutory Funding Objective under Section 223 of the Pensions Act 2004 is met.

It sets out:

- the policy for assessing the "technical provisions" - that is the amount of money the Fund should aim to hold, from time to time; and
- how the Trustee intends to manage any difference between the actual amount of money in the Fund and the technical provisions.

This statement has been prepared as part of the Fund's actuarial valuation as at 30 September 2020. The Trustee has taken advice from the Scheme Actuary when drawing up this statement and agreed it with the Principal Employer, Smith & Nephew UK Limited ("the Company").[1]

Technical provisions

The method and assumptions to calculate the technical provisions are set out at the end of this document. The Trustee agreed the method and assumptions with the Company, as required by law.

The Trustee took account of a range of relevant factors when agreeing the method and assumptions, including:

- the ability of the Company and Smith & Nephew plc[2] to support the Fund; and
- the membership and investment profile of the Fund and how this is expected to change over time.

Recovery Plan

If the value of the Fund's assets is less than the technical provisions, the Trustee is required to set a recovery plan that is designed to eliminate the difference by the payment of additional "deficit" contributions.

At the date of this valuation there was a deficit of £26m. To eliminate this deficit it has been agreed that a deficit contribution of £5m will be paid in April 2021. Following this,

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[1] Contributions to the Fund are made, in varying proportions, by the various sponsoring employers of the Fund. Under Rule 9.2 the Trustee and Smith & Nephew UK Limited jointly determine how these contributions are split between the various sponsoring employers.

[2] Smith & Nephew plc has provided a guarantee to the Company in respect of its obligations to support the Fund.

eight contingent contributions of £2.5m per quarter plus one contingent contribution of £1m are payable with these nine contributions being subject to adjustment on the basis of the "Dynamic Adjustment of Contributions" mechanism described in the Schedule of Contributions.

Should the Fund's assets fall below the technical provisions at a future valuation, a recovery plan would be set after considering:

- the experience since the previous valuation;
- the financial strength of the Company, the participating employers and Smith & Nephew plc in its capacity of guarantor; and
- the ability of these companies to pay the resulting contributions.

Change of control

Accelerated funding will be payable to the Fund in certain circumstances following a change of control of Smith & Nephew plc. These circumstances are set out in the Schedule of Contributions.

Discretionary benefits

The Technical Provisions do not allow for the payment of any discretionary benefits. Under Rule 24, it may be possible for benefits in payment to be increased at the discretion of the Trustee and with the agreement of the Company. The Rules provide for guaranteed pension increases at RPI capped at 5% for most benefits.

In the event that any discretionary pension increase is granted, arrangements will need to be put in place to ensure that the Fund has sufficient assets to cover the cost of granting the increase.

Payments to the Company

The Trustee does not currently anticipate making any payments back to the Company.

Contributions other than from the Company, the participating employers or Smith & Nephew plc

There are no arrangements in place for any contributions to be paid to the Fund other than from the Company, the participating employers or Smith & Nephew plc. The Trustee has considered the nature of the "covenant" provided by these companies and is comfortable that additional support could be made available if needed.

Cash equivalent transfer values

Cash equivalent transfer values are calculated on the basis of advice received from the Scheme Actuary. The Trustee does not expect to reduce transfer values. However, the position will be kept under review by the Scheme Actuary if the need arises.

Buy-ins

The Trustee has purchased two buy-in polices to insure the benefit obligations of certain pensioners. Where liabilities have been insured the value of the liabilities has been taken to be equal to the value of the policy that covers them. Non-insured liabilities are valued under the principles set out in the appendix.

Interim calculations of the technical provisions

This section sets out the calculation approach for interim calculations of the technical provisions, including quarterly reports issued by the Scheme Actuary under the "Dynamic Adjustment of Contributions" mechanism set out in the Schedule of Contributions and the "Change of Control and other events" provisions set out in the Schedule of Contributions.

Any interim calculation of the funding position ahead of the next actuarial valuation will project the technical provisions as at 30 September 2020 in a manner intended to be consistent with the movement in the asset value, taking account of interest on the liability value, benefit payments and actual pension increases.

The calculation will reflect the time-based de-risking already assumed in the technical provisions and any de-risking from investment gains locked in through the Fund's investment triggers. No further de-risking will be allowed for in the interim calculation unless this additional de-risking has been agreed with the Company.

For annual updates as at 30 September this will include the impact of the latest available membership experience, including the impact of transfers out of the Fund, since the last valuation. The annual updates will reflect any other inter-valuation events that, in the reasonable opinion of the Scheme Actuary, are material to the calculation.

The annual updates will also reflect the latest CMI mortality projections, with the parameter values adopted in line with this Statement of Funding Principles. Any new parameters introduced into the CMI mortality projections, or the impact of any change in the default parameters, in any given year will be determined by the Scheme Actuary, acting reasonably and having regard to any views expressed by the Trustee and Company.

The capitalised expense reserve will reduce by £1m on each 30 September at the valuation date. The reduction in expense reserve will be reflected in each annual update.

Other than for annual updates at 30 September, or for interim calculations under the "Change of Control and other events" provisions set out in the Schedule of Contributions, no increases to benefits or the value of member option terms will be allowed for in the interim calculation unless those changes have been agreed by the Company.

Reviewing the valuation position and this statement

The Trustee will normally commission a full actuarial valuation every two or three years.

Under Clause 18.2 of the Fund the Trustee can request full valuations at other times and, depending on circumstances, may do so from time to time.

This is the seventh statement of funding principles that has been produced and replaces the previous statement which was signed on 26 April 2019.

Agreed by the Trustee

Name: Bob Newcomb

Position: Trustee Director

Date: 06 May 2021 | 12:22 BST

Agreed by Smith & Nephew UK Limited

Name: JOSEPH BRAUNHOFER

Position: Director

Date: 04/05/2021

Agreed by T.J. Smith and Nephew Limited

Name: ....

Position: ....

Date: ....

Other than for annual updates at 30 September, or for interim calculations under the "Change of Control and other events" provisions set out in the Schedule of Contributions, no increases to benefits or the value of member option terms will be allowed for in the interim calculation unless those changes have been agreed by the Company.

The Trustee will normally commission a full actuarial valuation every two or three years.

Under Clause 18.2 of the Fund the Trustee can request full valuations at other times and, depending on circumstances, may do so from time to time.

This is the seventh statement of funding principles that has been produced and replaces the previous statement which was signed on 26 April 2019.

Agreed by the Trustee

Name: Bob Newcomb

Position: Trustee Director

Date: 06 May 2021 | 12:22 BST

Agreed by Smith & Nephew UK Limited

Name: ....

Position: ....

Date: ....

Agreed by T.J. Smith and Nephew Limited

Name: SUSAN MARGARET SWABEY

Position: DIRECTOR

Date: 4 MAY 2021

Appendix 1

Actuarial assumptions and method to value the Fund's non-insured liabilities

This appendix covers the method and assumptions used for valuing the Fund's non-insured liabilities.

Actuarial method

The technical provisions will be calculated using the projected unit method.

Assumptions

The technical provisions will be calculated on the following key assumptions.

The discount rates to assess the present value of future benefit payments will be set to reflect the following assumed investment strategy:

- an allocation between matching assets and return seeking assets at the valuation date equal to the Fund's actual allocation (excluding buy-in policies) at that date;
- linear increases in the allocation to matching assets so that there is a 90% allocation to matching assets in 2032;
- the return on matching assets is assumed to be in line with the return on index-linked and fixed-interest gilts (henceforth referred to as "gilts");
- the return on gilts over each future year is taken at the nominal gilt yield for that year using the full yield curve as at the valuation date;
- advance credit will be taken for an additional return from return seeking assets (an "anticipated risk premium") of 2% pa (net of investment management expenses); and
- all remaining benefits are assumed to be bought out with an insurance company in 2032. The buy-out terms are assumed to be in line with the assumptions set out in this appendix, apart from the discount rate which is assumed to reflects gilt yields at the valuation date:
  - plus 0.35% pa for members expected to be pensioner in 2032; and
  - minus 0.05% pa for members expected to be non-pensioners in 2032.

The actual discount rate used for each future year will be a combination of the anticipated rate of return on gilts and the anticipated rate of return on return seeking assets, consistent with the above strategy.

It is noted that a lower anticipated risk premium is expected to be used at future valuations, all else equal, to reflect the reducing time period for expected investment in return seeking assets.

Future benefit payments are projected using the assumptions set out below.

- Retail Price inflation ("RPI") over each future year as implied for that year by the yields on fixed interest and index-linked gilts using the full yield curves as at the valuation date.
- Consumer Price Inflation ("CPI") over each future year at the RPI assumption for that year less 0.5% pa.
- Pension increases which are capped at 5% per annum are set using the Black-Scholes model to reflect the RPI assumption for each year and an assumed volatility of RPI of 1.8% pa. A reserve of £13m is added to the technical provisions to reflect the higher level of market implied pension increases. It is noted that this reserve is expected to increase at future valuations, all else equal, to reflect the reducing time period until the Fund is expected to buy-out.
- 95% (non-pensioners at 30 September 2015) / 105% (pensioners at 30 September 2015 whose benefit have not been insured) of S3NA tables for pre and post-retirement mortality, allowing for improvements from 2013 in line with the CMI 2019 core projections with a smoothing factor of 7, a long term improvement rate of 1.5% pa for males and females and an additional initial improvement parameter of 0.5% pa.
- 90% of members assumed to be married (or have civil partnership) at retirement or earlier death.
- Non-pensioners choose to commute 25% of their pension on retirement, using the commutation factors currently in force.
- No allowance for early retirements.
- No allowance for members to take transfer values.
- Spouses assumed to be three years younger (male members) or three years older (female members) than the member.

An allowance for future administration expenses of £13m has been included within the technical provisions. The allowance for expenses is subject to review at future actuarial valuations and is expected to decrease over time as the period to buy-out reduces.

Appendix 2

Financial assumptions for 2020 valuation

At 30 September 2020 the initial allocation in the assumed investment strategy was 68% matching assets and 32% return seeking assets, excluding buy-in policies.

For illustration, as at 30 September 2020, the single equivalent average financial assumptions were as follows:

- The average gilt yield as at the valuation date was 0.7% pa.
- The average RPI assumption was 3.1% pa.
- The average assumption for pension increases at RPI capped at 5% was 3.0% pa.

Smith & Nephew UK Pension Fund
Schedule of Contributions

Name of Employers: Smith & Nephew UK Limited
T.J. Smith and Nephew Limited

This Schedule of Contributions has been prepared in accordance with Part 3 of the Pensions Act 2004 and the Occupational Pension Schemes (Scheme Funding) Regulations 2005 (SI 2005/3377).

It sets out the contributions, payable to the Smith & Nephew UK Pension Fund ("the Fund") over the period starting from the effective date of the last valuation and ending 5 years from the date this schedule is certified.

The following contributions are payable to the Fund to meet the technical provisions deficit of £26m as at 30 September 2020. Some contributions shown in the table below may be adjusted on the basis of the "Dynamic Adjustment of Contributions" mechanism outlined below.

Contributions from	Amount	Subject to Dynamic Adjustment of Contributions?	Period	Due date (19 working days after relevant quarter-end)
Members	Nil			
Employers	Nil		1 October to 31 December 2020	N/A
	£5m	No	1 January to 31 March 2021	29 April 2021
	£2.5m	Yes	1 April to 30 June 2021	27 July 2021
	£2.5m	Yes	1 July to 30 September 2021	27 October 2021
	£2.5m	Yes	1 October to 31 December 2021	28 January 2022
	£2.5m	Yes	1 January to 31 March 2022	29 April 2022
	£2.5m	Yes	1 April to 30 June 2022	27 July 2022
	£2.5m	Yes	1 July to 30 September 2022	27 October 2022
	£2.5m	Yes	1 October to 31 December 2022	27 January 2023
	£2.5m	Yes	1 January to 31 March 2023	2 May 2023
	£1m	Yes	1 April to 30 June 2023	27 July 2023
	As per Dynamic Contribution Adjustment mechanism	Yes	Subsequent quarters until a new Schedule of Contributions is signed	19 working days after relevant quarter-end

Dynamic Adjustment of Contributions

The Trustee and Company have agreed a mechanism to dynamically adjust contribution levels in light of changes in the Fund's funding position between formal actuarial valuations. This mechanism allows contribution levels to be reduced or ceased if the funding position improves and for contributions levels to be maintained or increased, or to be paid over a longer period, if the funding position deteriorates.

For each quarter end starting with 31 March 2021, the Scheme Actuary will issue a quarterly report within 10 working days of the quarter end (or for the 31 March 2021 quarter end within 10 working days of the date of signing this document). This report will estimate the Fund's funding level at the quarter end calculated on the assumptions set out in the Statement of Funding Principles in the section headed "Interim calculations of the technical provisions".

If the Fund is in deficit in each of two consecutive quarterly reports from 31st March 2021, the contribution due within 19 working days of the quarter end date corresponding to the effective date and deficit of the latest quarterly report will be as shown in the table below.

Deficit from latest quarterly report from Scheme Actuary	Quarterly contribution
No deficit or deficit up to and including £5m	Nil
Above £5m, up to and including £30m	£2.5m
Above £30m	£5m

If the Fund is in deficit in each of two consecutive quarterly reports from 30th June 2022, the contribution due within 19 working days of the quarter end date corresponding to the effective date and deficit of the latest quarterly report will be as shown in the table below.

Deficit from latest quarterly report from Scheme Actuary	Quarterly contribution
No deficit or deficit up to and including £5m	The lower of the deficit or £2.5m
Above £5m, up to and including £30m	£2.5m
Above £30m	£5m

Contributions determined in accordance with the Dynamic Adjustment of Contributions mechanism will supersede those set out in the table on the first page of this Schedule of Contributions.

At 31 March 2021, the deficit as calculated in accordance with the Dynamic Adjustment of Contributions mechanism is estimated to be £5m. For the avoidance of doubt, this has been calculated before taking into account the £5m contribution payable by 29 April 2021.

Additional contributions

The Employers will pay any additional contributions as decided by the Trustee, on the advice of the Actuary, and in accordance with the Fund Rules, to meet any funding strain arising as a result of early retirements which are granted on enhanced terms, and any benefit augmentations. Such contributions will be paid by the due date notified by the Trustee.

Change of control and subsequent events

Following a change of control of Smith & Nephew plc, a payment to rectify the calculated funding shortfall in the Fund (the "Accelerated Payment") shall be made within 20 working days of the Trustee, having considered the conditions below, notifying the Employers that it is required. This shortfall shall be calculated as at the quarter end immediately preceding the date of notification.

The Trustee may provide such notification if the Trustee, acting reasonably, in good faith and properly advised, is reasonably satisfied that:

(a) the covenant strength of the post-change of control guarantor(s), including Smith & Nephew plc if it remains a guarantor and any replacement or additional guarantor provided from the acquirer group, is or is reasonably likely to be materially worse as a result of the change of control, or as a result of any form of corporate restructuring, financing arrangement or grant of security which occurs following the change of control, than (i.e. as compared to);

(b) the covenant strength of Smith & Nephew plc immediately before the change of control.

The amount of any funding shortfall and therefore any Accelerated Payment shall be calculated by the Scheme Actuary in accordance with the section headed "Interim calculations of the technical provisions" in the Statement of Funding Principles prepared as part of the Fund's actuarial valuation as at 30 September 2020. For the avoidance of doubt, any investment de-risking actions that the Trustee undertakes prior to a change of control (over and above the level of de-risking already assumed in the technical provisions assumptions and any de-risking from investment gains being locked in through the Fund's investment triggers) that are agreed by the Company will be taken into account when the funding shortfall and the Accelerated Payment are calculated.

The Accelerated Payment shall not become due if the change of control is due to an internal restructuring or reorganisation of the Smith & Nephew Group and shall only apply, subject to notification from the Trustee in accordance with the provisions above, if an arms-length unrelated third party or arms-length unrelated third parties acting in concert (or management in a buyout or by any transaction funded in whole or part by one or more third parties) acquires control of Smith & Nephew plc; and for these purposes a shareholder or shareholders of Smith & Nephew plc shall not be treated as related, or no longer arm's length, solely as a result of their shareholding(s).

This Schedule of Contributions replaces the Schedule of Contributions certified on 26 April 2019 with effect from the date of certification.

Agreed by the Trustee	Agreed by Smith & Nephew UK Limited
Name: Bob Newcomb	Name: JOSEPH BRAUNHOFER
Position: Trustee Director	Position: Director
Date: 06 May 2021 | 12:22 BST	Date: 04/05/2021

Agreed by T.J. Smith and Nephew Limited

Name: ....

Position: ....

Date: ....

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conditions below, notifying the Employers that it is required. This shortfall shall be calculated as at the quarter end immediately preceding the date of notification.

The Trustee may provide such notification if the Trustee, acting reasonably, in good faith and properly advised, is reasonably satisfied that:

(a) the covenant strength of the post-change of control guarantor(s), including Smith & Nephew plc if it remains a guarantor and any replacement or additional guarantor provided from the acquirer group, is or is reasonably likely to be materially worse as a result of the change of control, or as a result of any form of corporate restructuring, financing arrangement or grant of security which occurs following the change of control, than (i.e. as compared to);

(b) the covenant strength of Smith & Nephew plc immediately before the change of control.

The amount of any funding shortfall and therefore any Accelerated Payment shall be calculated by the Scheme Actuary in accordance with the section headed "Interim calculations of the technical provisions" in the Statement of Funding Principles prepared as part of the Fund's actuarial valuation as at 30 September 2020. For the avoidance of doubt, any investment de-risking actions that the Trustee undertakes prior to a change of control (over and above the level of de-risking already assumed in the technical provisions assumptions and any de-risking from investment gains being locked in through the Fund's investment triggers) that are agreed by the Company will be taken into account when the funding shortfall and the Accelerated Payment are calculated.

The Accelerated Payment shall not become due if the change of control is due to an internal restructuring or reorganisation of the Smith & Nephew Group and shall only apply, subject to notification from the Trustee in accordance with the provisions above, if an arms-length unrelated third party or arms-length unrelated third parties acting in concert (or management in a buyout or by any transaction funded in whole or part by one or more third parties) acquires control of Smith & Nephew plc; and for these purposes a shareholder or shareholders of Smith & Nephew plc shall not be treated as related, or no longer arm's length, solely as a result of their shareholding(s).

This Schedule of Contributions replaces the Schedule of Contributions certified on 26 April 2019 with effect from the date of certification.

Agreed by the Trustee	Agreed by Smith & Nephew UK Limited
Name: Bob Newcomb	Name: [illegible]
Position: Trustee Director	Position: [illegible]
Date: 06 May 2021 | 12:22 BST	Date: [illegible]

Agreed by T.J. Smith and Nephew Limited

Name: SUSAN MARGARET SWABEY

Position: DIRECTOR

Date: 4 MAY 2021

Actuary's certification of schedule of contributions

This certificate is provided for the purpose of Section 227(5) of the Pensions Act 2004 and Regulation 10(6) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme Smith & Nephew UK Pension Fund

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 can be expected to be met by the end of the period specified in the recovery plan dated 6 May 2021.

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 6 May 2021.

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 Fund's liabilities by the purchase of annuities, if the Fund were to be wound up.

Signature: **Date:** 18 May 2021

Name: Clive Wellsteed **Qualification:** FIA

Address: Lane Clark & Peacock LLP
95 Wigmore Street
London
W1U 1DQ

Notes not forming part of the certification

In giving the above opinion I have interpreted the phrase “can be expected to be met” as being satisfied by consideration of the proposed contributions under the economic and demographic scenario implied by the trustee’s funding assumptions as set out in its statement of funding principles dated 6 May 2021 and its Recovery Plan dated 6 May 2021 and without any further allowance for adverse contingencies. My opinion does not necessarily hold in any other scenarios.

Smith & Nephew UK Pension Fund Recovery Plan

This Recovery Plan has been prepared by the Trustee of the Smith & Nephew UK Pension Fund ("the Fund") after obtaining the advice of the Scheme Actuary.

The actuarial valuation of the Fund as at 30 September 2020 revealed a funding shortfall (technical provisions minus value of assets) of £26m.

1. Steps to be taken to ensure that the statutory funding objective is met

The Trustee, Smith & Nephew UK Limited and T.J. Smith and Nephew Limited have agreed to eliminate the funding shortfall by the payment of the following contributions. Some of these contributions are subject to the dynamic adjustment mechanism set out in the Schedule of Contributions signed on the same date as this Recovery Plan.

Amount	Subject to Dynamic Adjustment of Contributions?	Due date
£5m	No	29 April 2021
£2.5m	Yes	27 July 2021
£2.5m	Yes	27 October 2021
£2.5m	Yes	28 January 2022
£2.5m	Yes	29 April 2022
£2.5m	Yes	27 July 2022
£2.5m	Yes	27 October 2022
£2.5m	Yes	27 January 2023
£2.5m	Yes	2 May 2023
£1m	Yes	27 July 2023

2. Period in which the statutory funding objective should be met

Based on the position at the valuation date the funding shortfall is expected to be eliminated by the end of July 2023 ie within 2 years and 10 months of the valuation date.

This assumes that the technical provisions are calculated according to the method and assumptions set out in the Fund's Statement of Funding Principles.

3. Agreement by the Trustee, Smith & Nephew UK Limited and T.J. Smith and Nephew Limited

Agreed by the Trustee

Name: Bob Newcomb

Position: Trustee Director

Date: 06 May 2021 | 12:22 BST

Agreed by Smith & Nephew UK Limited

Name: JOSEPH BRAUNHOFER

Position: Director

Date: 04/05/2021

Agreed by T.J. Smith and Nephew Limited

Name: ....

Position: ....

Date: ....

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Agreed by the Trustee

Name: Bob Newcomb

Position: Trustee Director

Date: 06 May 2021 | 12:22 BST

Agreed by Smith & Nephew UK Limited

Name:

Position:

Date:

Agreed by T.J. Smith and Nephew Limited

Name: SUSAN MARGARET SWABEY

Position: DIRECTOR

Date: 4 MAY 2021