The Thorntons Pension Scheme

Introduction

As required under the Pensions Act 2004, this Summary Funding Statement is being issued to give you, as a person entitled to benefits from the Thorntons Pension Scheme (the "Scheme"), an update about the financial security of the Scheme. You may remember that earlier in the year we sent you a similar statement. We recommend you take some time to read it, since the Scheme's financial security could affect the benefits you will ultimately receive. We will send you a similar statement each year to keep you up to date.

Independent Trustee Services Limited, who are the Professional Corporate Sole Trustee ("Trustee"), appoint professional advisers to assist with the running of the Scheme – this includes but is not limited to; administrators, legal advisers, investment advisers, and a Scheme Actuary. However, it is the Trustee of the Scheme that is responsible for its overall management.

Summary Funding Statement

We carry out an in-depth look at the Scheme's finances at least every three years. This is called an "**actuarial valuation"**. We ask a qualified, independent professional, known as an Actuary, to do this. The latest actuarial valuation of the Scheme took place as at 31 May 2020.

We also ask the Actuary to check the financial security of the Scheme more regularly. When this is done we receive an '**actuarial report**' summarising the Actuary's conclusions. The latest actuarial report is at 31 May 2021.

The purpose of an Actuarial Valuation

The aim of a valuation is to assess how much money the Scheme requires to cover the benefits which members have already earned, and what level of contributions the Scheme needs to receive to pay both for any shortfall in current funding and for benefits building up in the future.

The estimated cost of providing the benefits that you and other members have earned is known as the Scheme's "**liabilities**".

We collect money from Thorntons Limited (the "Company") and invest this alongside the existing assets to help provide your benefits. The monies are held in a communal fund, not in separate funds for each individual. The total amount of money we have invested is known as the Scheme's "**assets**".

To check the Scheme's financial security we compare the value of the Scheme's liabilities to its assets. If the Scheme has less assets than liabilities, it is said to have a "**shortfall**". If the Scheme has more assets than liabilities there is said to be a "**surplus**".

The Scheme's actuary undertakes the valuation using suitable assumptions about economic conditions and life expectancy. As it is impossible to guarantee the future or predict exact figures, the position is reviewed regularly to take account of any changes in the funding position. Using the information provided by the valuation, the Trustee reaches an agreement with the Employer on the amount of future contributions the Employer will pay to the Scheme.

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31 May 2020 Actuarial Valuation

The most recent full actuarial valuation of the Scheme was carried out as at 31 May 2020. An actuarial report was carried out as at 31 May 2019 and 31 May 2021. These showed:

	31 May 2019	31 May 2020	31 May 2021
The value of assets was	£113.2 million	£125.1 million	£128.5 million
The value of liabilities was	£150.7 million	£160.9 million	£148.5 million
Shortfall	£37.5 million	£35.8 million	£20.0 million
Funding level	75%	78%	87%

The improvement in the Scheme's funding position from 2019 to 2020 is due to the positive investment return on the Scheme's growth assets during the period. This has been offset by the effect of decreasing gilt yields, which increased the liabilities of the Scheme. In addition, the Company has paid deficit reduction contributions, which improved the funding position.

The improvement in the Scheme's funding position from 2020 to 2021 is due to the positive investment return on the Scheme's growth assets and the effect of increasing gilt yields, which decreased the liabilities of the Scheme. In addition, the Company has paid deficit reduction contributions, which improved the funding position. However, you should bear in mind that these updates only show a snapshot of the situation at a particular moment in time; investment markets do fluctuate, particularly when faced by short-term economic uncertainty.

You should remember that pensions are long term in nature and the Trustee sets an investment strategy based on long term expectations.

How is the Shortfall going to be paid off?

Following each actuarial valuation, the Scheme Actuary advises us what contributions should be paid into the Scheme. We then agree a level of contribution with the Company and record this in a document called the Schedule of Contributions. We review and update the Schedule of Contributions at least each time the Scheme has an actuarial valuation.

Following the Actuarial Valuation at 31 May 2020 the Company and the Trustees agreed a new Schedule of Contributions to pay off the shortfall of £35.8 million. The Company have agreed to increase the contributions it is paying from £4.25 million per year to £4.75 million per year (in both cases the contributions are paid in regular monthly installments) On the basis of the increased level of contributions the shortfall is expected to be paid off by 30 June 2028.

To determine the level of contributions, assumptions have to be made about what will happen in the future, for example, the rate at which the Scheme's assets will grow. If the assumptions do not all turn out to be correct, it may be necessary to increase the level of contributions to the Scheme or for contributions to be paid for longer.

We are required to tell you whether the Pensions Regulator has used its legal powers to make any directions as to any of:

- The level of benefits available from the Scheme
- The method or assumptions used to calculate the liabilities or the length and structure of the recovery plan
- The contributions that should be paid under the schedule of contributions

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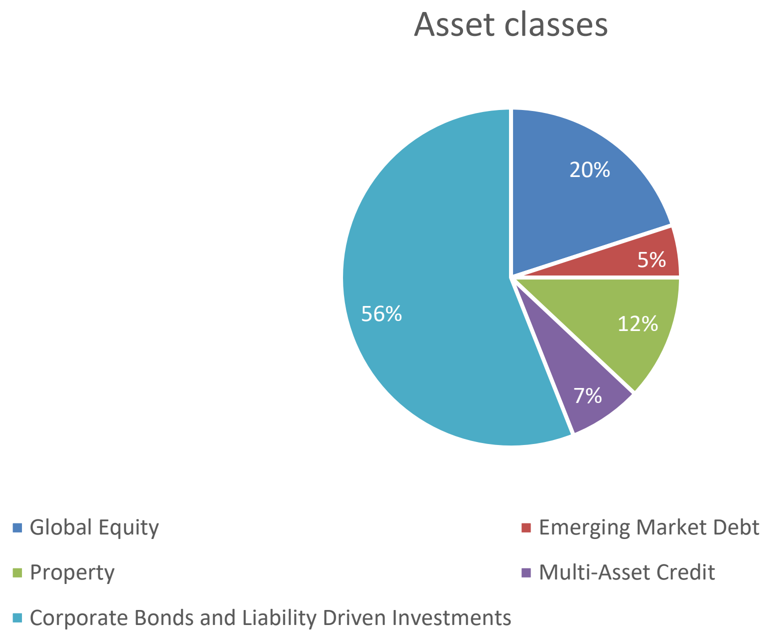
The Regulator has not used its powers in relation to the Scheme and therefore the Scheme is not subject to any directions.

What types of assets does the Scheme invest in?

We invest contributions in a broad range of assets, limiting the amount invested in a particular class of assets as follows:



Is my pension guaranteed?

The aim is for there to be enough money in the Scheme to pay pensions now and in the future, but this depends on the Company, Thorntons Limited, carrying on in business and continuing to pay contributions to the Scheme. To help secure the financial position of the Scheme, Ferrero Trading Lux S.A (Thorntons Limited's parent company) had previously agreed that if Thorntons Limited becomes insolvent or is unable to pay the contributions due, it will step in and pay those amounts instead, depending on the circumstances, up to a value of £40 million. As part of the 2020 valuation agreement, the Trustee is working with Ferrero Trading Lux S.A to agree:

- an extension of the term of the guarantee to 30 June 2031;
- to fix the value of the guarantee at £40m.

The Trustee will confirm the finally agreed position on the guarantee from Ferrero Trading Lux S.A when it next communicates with the Scheme members.

If Thorntons Limited goes out of business or is no longer able to continue to pay contributions to the Scheme (taking into account the above mentioned parent company Guarantee), the Scheme would be wound up. In this case, Thorntons Limited is liable to pay the Scheme enough money to buy all the benefits built up by members from an insurance company or the guarantee described above kicks in. However, even with the amount guaranteed by Ferrero there still may not be enough to secure members' benefits in full with an insurance company.

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The comparison of the Scheme's assets to the cost of buying the benefits from an insurance company is known as the "Solvency Position".

What happens if the Scheme is wound-up and there is not enough money to pay for all of my benefits?

If the Scheme winds up without enough money to buy all the benefits with an insurer then, unless the Company (including amounts that may be paid under the guarantee) can afford to pay the difference, you are unlikely to receive the full benefits you were expecting. To help members in this situation, the Government set up the Pension Protection Fund (PPF).

If the Scheme were to be wound up and go into the PPF, the pension you would receive from the PPF may be less than the full benefit you have earned in the Scheme.

> The PPF pays a legally defined level of compensation to members of eligible UK pension schemes which are wound-up when the scheme does not have enough money to cover the cost of buying this level of benefits for members with an insurer and the scheme sponsor is insolvent and so cannot provide extra finance. The level of compensation depends on a member's age and when the benefits were earned. Further information and guidance is available on the PPF website at:
> www.pensionprotectionfund.org.uk

Solvency Position

When calculating the solvency position, (comparing the value of the Scheme assets against the cost of winding up the Scheme) we place a different value on the liabilities. This is partly because of the prudent assumptions that an insurer would have to make when valuing the benefits, but also because we have to take account of an insurer's profit margin.

The actuarial valuation at 31 May 2020 showed that the Scheme's assets alone could not have paid for the full benefits of all members to be provided by an insurance company if the Scheme had wound-up at that date.

The value of the liabilities if the Scheme were to be wound-up was £222.4 million

The Scheme's assets were £125.1 million

This means that there was a shortfall of £97.3 million

The fact that we have shown the solvency position does not mean that the Company is thinking of winding up the Scheme. The Trustee is required to disclose the solvency position under UK legislation and it is just one of a number of pieces of information that we hope will help you understand the financial security of your benefits.

Further information - Additional documents available on request:

- **Statement of Funding Principles** This explains how the Trustee plans to manage the Scheme with the aim of being able to continue to provide the benefits that members have built up.
- **Statement of Investment Principles** This explains how the Trustee invests the money paid into the Scheme.
- **Schedule of Contributions** This shows how much money is being paid into the Scheme by the Company and includes a certificate from the actuary showing that it is sufficient to meet the requirements set out by law.
- **Annual Report and Accounts** This shows the Scheme's income and expenditure in the year ended 31 May 2020 and 31 May 2021.
- **Actuarial Valuation Report** This contains the details of the Actuary's formal assessment of the Scheme's financial position as at 31 May 2020.
- **Actuarial Report** This contains the details of the Actuary's check of the Scheme's financial position as at 31 May 2021.

If you have any questions about the Scheme, your benefits or anything we have covered in this newsletter, or if you wish to inform is of any changes to your details and/or update your Expression of Wish form, please don't hesitate to get in touch with Mercer, your Scheme administrator, at the following address:

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