

ANNUAL REPORT AND FINANCIAL  
STATEMENTS – SUMMARY

SUMMARY FUNDING STATEMENT

TRUSTEE UPDATE



THE  
THREE  
PENSION  
SCHEME  
UNFOLDED

Defined Benefit Section news  
June 2015

# WELCOME

This newsletter provides a summary of the EE Pension Scheme ('the Scheme') Annual Report and Financial Statements for the year ended 31 December 2014 relating to the Defined Benefit (DB) Section. We also update members on changes during the Scheme year.

In this section of your newsletter, we give you a brief summary of the Annual Report and Financial Statements for the period ended 31 December 2014.

	2014 £'000	2013 £'000
<b>Contributions and benefits</b>		
Contributions	23,057	19,523
Transfers in	–	–
Other income	–	–
<b>Total</b>	<b>23,057</b>	<b>19,523</b>
Benefits	(4,369)	(3,836)
Payments to and on account of leavers	(2,487)	(1,245)
<b>Total</b>	<b>(6,856)</b>	<b>(5,081)</b>
Net additions for dealings with members	16,201	14,442
<b>Return on investments</b>		
Investment income	345	9,240
Change in market value of investments	85,063	26,302
Investment management expenses	(743)	(197)
Investment management fee rebates	238	224
<b>Net returns on investments</b>	<b>84,903</b>	<b>35,569</b>
<b>Net increase in Scheme during during the year</b>	<b>101,104</b>	<b>50,011</b>
<b>Net assets of the Scheme at December 2013</b>	<b>450,301</b>	<b>400,290</b>
<b>Net assets of the Scheme at December 2014</b>	<b>551,405</b>	<b>450,301</b>

## Membership.

If you look at the chart below you can see how the Scheme's membership has changed.

	31 Dec 2014	31 Dec 2013
Active members	–	1,998
Deferred members	8,175	6,260
Pensioners	647	598
<b>Total</b>	<b>8,822</b>	<b>8,856</b>

- Active members
- Deferred members
- Pensioners

Current employees can see a full copy of the Annual Report and Financial Statements which can be found on the EE intranet > HR Rewards > Pensions. Deferred members can request a copy by contacting the EE Reward Team.

## Investments and Scheme changes.

EE Pension Trustee Ltd (The Trustee) measures the performance of the Scheme's investment funds by comparing them to a target or 'benchmark'. The performance of the funds compared with the benchmark returns to 31 December 2014 are shown in the table below:

	2010 %	2011 %	2012 %	2013 %	2014 %	3 year %	5 year %
<b>Scheme return</b>	11.2	5.0	6.3	8.1	19.7	11.2	9.9
<b>Benchmark return</b>	11.5	6.4	6.5	9.7	20.1	12.0	10.7
<b>Liability benchmark</b>	7.5	36.7	6.2	5.3	35.4	14.8	17.3

### Investment managers

The Trustee invests funds with investment managers employed to manage the assets for its defined benefits section.

**The Managers appointed to manage the assets which are intended to produce long-term returns in excess of liabilities:**

- Prisma Capital Partners
- UBS Asset Management
- Standard Life Investments Inc
- Pacific Investment Management Company
- Natixis Global Asset Management on behalf of Harris Associates LP
- Epoch Investment Partners Inc
- Sands Capital Management

**The Managers appointed to manage assets intended to broadly match liabilities are:**

- Insight Investment Management (Global) Ltd

### DB section closure

Following a period of consultation with members, the DB section of the EE Pension Scheme closed to future accrual on 30th June 2014 and all active members on that date were automatically entered into the DC section of the Scheme from 1st July 2014. As advised in the letter to Active members dated 26th March 2014, enhanced terms apply in the DC section to impacted members subject to conditions.

Those members who were automatically entered into the DC section of the Scheme from 1st July 2014, now have a deferred pension under the DB section for service up to 30th June 2014.

# Summary Funding Statement

Each year the Trustee is required by law to provide you with a Summary Funding Statement, which describes the level of funding that supports your pension.

The Trustee works closely with EE (the Company) to ensure your benefits are adequately funded, secured and governed. A formal actuarial valuation is usually carried out every three years by the Scheme Actuary.

## Scheme Funding Update – 31st December 2014 interim Valuation

The most recent interim valuation, at 31st December 2014, has recently been completed and showed a funding position of 73%, meaning that the Scheme’s assets covered 73% of its liabilities. This is compared to the funding position as at 31st December 2013 (the date of the previous formal valuation) shown in the following table.

	2013	2014
Funding Level	80%	73%
Shortfall	£109.2m	£201.0m
Liabilities	£550.4m	£742.5m
Assets	£441.2m	£541.5m

It can be seen that the funding position of the Scheme has worsened over the year to 31st December 2014. This is mainly due to a significant increase in liabilities due to a decrease in the yields available on long-term government bonds, although this has been offset to some extent by a decrease in the expected future rate of inflation and an increase in assets. The assets have increased due to positive investment returns and the Company paying contributions.

## Recovery Plan.

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### What is being done to address the shortfall?

As part of the process to completing the 2012 valuation, the Trustee agreed with the Company certain revisions to the existing recovery plan. The key features of the revised plan are deficit contributions from the Company as follows:

- £8.9 million per annum, starting on 1st January 2013 for a period of 1 year and 3 months; plus
- £20 million per annum, starting on 1st April 2014 for a period of 4 years and 7 months.

The Trustee expects these additional contributions, together with the expected investment returns, to be sufficient to clear the shortfall by 31st December 2018.

The Company has also agreed to pay additional contributions if the shortfall at the next formal valuation (due as at 31st December 2015) is greater than expected.

The law requires us to confirm that there have been no payments to the Company out of the Scheme since the date of the last Summary Funding Statement. There have been no such payments.

In certain circumstances, the Pensions Regulator has powers to intervene in a scheme's funding plan, by changing the future accrual of benefits, setting the level of the funding target, setting the terms of the recovery plan and/or imposing a schedule of contributions. The Pensions Regulator has not used any of these powers in relation to the Scheme.

### What protection is there for members?

The Trustee is required to provide you with an indication of what the funding position would be if the Scheme had terminated and was wound up as at the date of the last valuation. The information is purely for legislative purposes – the Company has no plans to wind up the Scheme.

If the Scheme had wound up on 31st December 2012 (the date of the last formal valuation), its assets of £392.5 million would have covered around 38% of the estimated cost of securing the Scheme's benefits. In the unlikely event of the Scheme winding up, the Company would be legally required to finance the shortfall and pay enough into the Scheme to enable benefits to be completely secured by an insurance company.

In the even more unlikely event that the Company becomes insolvent, the Pensions Protection Fund (PPF) may be able to take over responsibility for payments if the benefits that could be provided by the Scheme fall below PPF levels of compensation (**which are lower than the standard benefits payable from the Scheme**). Visit the PPF website for further details at [www.pensionprotectionfund.org.uk](http://www.pensionprotectionfund.org.uk).

Alternatively, you can write to:

#### The Pension Protection Fund

Renaissance  
12 Dingwall Road  
Croydon, CR0 2NA

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## Who runs the scheme?

## Contacts.

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The EE Pension Scheme assets are held in trust and are completely separate from the assets of EE. The trust is operated by EE Pension Trustee Ltd.

### Your current Trustee directors are:

Company appointed Directors:  
**Jonathan Clarke** (independent chairman)  
**Roger Waymouth**  
**Stephen Harris**  
**Louise Manzano**  
**Gavin Moore**

Member Nominated Directors:

**Tom Bennett**  
**Peter Garratt**  
**Mark Larcombe**

### Changes during the year:

Colin Caldwell Company Appointed Director – resigned 31st December 2014.

Roger Waymouth – resigned as Member Nominated Director on 31st December 2014 and was re-appointed as a Company Appointed Director from 1st January 2015.

### The EE Pensions team:

Capricorn  
2620 The Quadrant  
Aztec West  
Almondsbury  
Bristol BS32 4AQ

Telephone:  
01707 318810

Email:  
hr.reward@ee.co.uk

### The Pension Scheme administrator:

Capita Employee Benefits Ltd  
Erskine House  
68–73 Queen Street  
Edinburgh EH2 4NR  
0800 169 2085