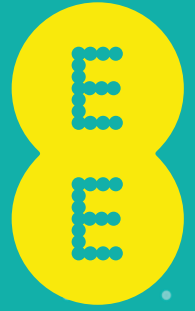


ANNUAL REPORT AND FINANCIAL  
STATEMENTS – SUMMARY.

SUMMARY FUNDING STATEMENT

TRUSTEE UPDATE.



THE THREE  
PENSION  
SCHEME  
UNFOLDED

Defined Benefit Section news  
June 2014

# WELCOME

This newsletter provides a summary of the EE Pension Scheme ('the Scheme') Annual Report and Financial Statements for the year ended 31st December 2013 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 31st December 2013.

	2013 £'000	2012 £'000
<b>Contributions and benefits</b>		
Contributions	19,523	21,006
Transfers in	-	-
Other income	-	-
<b>Total</b>	<b>19,523</b>	<b>21,006</b>
Benefits	(3,836)	(4,881)
Payments to and on account of leavers	(1,245)	(1,151)
<b>Total</b>	<b>(5,081)</b>	<b>(6,032)</b>
Net additions for dealings with members	14,442	14,974
<b>Return on investments</b>		
Investment income	9,240	582
Change in market value of investments	26,302	21,802
Investment management expenses	(197)	(47)
Investment management fee rebates	224	150
<b>Net returns on investments</b>	<b>35,569</b>	<b>22,487</b>
<b>Net increase in Scheme during during the year</b>	<b>50,011</b>	<b>37,461</b>
<b>Net assets of the Scheme at December 2012</b>	<b>400,290</b>	<b>362,829</b>
<b>Net assets of the Scheme at December 2013</b>	<b>450,301</b>	<b>400,290</b>

**Membership.**

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

	31st Dec 2013	31st Dec 2012
Active members	1,998	2,301
Deferred members	6,260	6,013
Pensioners	598	542
<b>Total</b>	<b>8,856</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.

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 31st December 2013 are shown in the table below:

	2009 %	2010 %	2011 %	2012 %	2013 %	3 year %	5 year %
<b>Scheme return</b>	-15.2	11.2	5.0	6.3	8.1	6.5	2.6
<b>Benchmark return</b>	-	11.5	6.4	6.5	9.7	7.5	-
<b>Liability benchmark</b>	5.2	7.5	36.7	6.2	5.3	15.1	5.5

### 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:

- Lazard Asset Management LLC
- Skagen Fondene
- Prisma Capital Partners
- UBS Asset Management
- Standard Life Investments Inc
- Pacific Investment Management Company

#### 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 will close to future accrual on 30th June 2014 and all active members on that date will automatically be 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 are automatically entered into the DC section of the Scheme from 1st July 2014, will have a deferred pension under the DB section for service up to 30th June 2014.

As a result of these changes, the DB section will also cease to be contracted out of the State second pension (S2P) from 1st July 2014.

Impacted members have been kept updated regarding the changes throughout the consultation process, and subsequently.

# 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 2012 Valuation

The most recent valuation, at 31st December 2012, has recently been completed and showed a funding position of 75%, meaning that the Scheme's assets covered 75% of its liabilities. This is compared to the funding position as at 31st December 2009 (the date of the previous formal valuation) shown in the following table.

	2009	2012
Funding Level	84%	75%
Shortfall	£58.8m	£130.0m
Liabilities	£363.8m	£522.5m
Assets	£305.0m	£392.5m

The funding position of the Scheme has decreased since the previous formal valuation as at 31st December 2009. This is mainly due to the assumptions used for the most recent valuation, which are based on the current low levels of interest rates, placing a higher value on the liabilities than those used for the 2009 valuation. This increase in the liabilities has been partially offset by the contributions paid into the Scheme by the Company, investment returns obtained on the assets and the announced closure of the Defined Benefit Section of the Scheme from 30th June 2014 to future accrual, which have improved the position.

## Scheme Funding Update – 31st December 2013 Interim Valuation

The most recent interim valuation, at 31st December 2013, has recently been completed and showed a funding position of 80%, meaning that the Scheme's assets covered 80% of its liabilities. This is compared to the funding position as at 31st December 2012 (the date of the most recent formal valuation) shown in the following table.

	2012	2013
Funding Level	75%	80%
Shortfall	£130.0m	£109.2m
Liabilities	£522.5m	£550.4m
Assets	£392.5m	£441.2m

It can be seen that the funding position of the Scheme has improved over the year to 31st December 2013. The main reason for the improvement was an increase in the asset value due to positive investment returns and the Company paying contributions, although the impact of this has been partially offset by the increase in liabilities. The liabilities have increased due to benefits accruing and an increase in the expected future rate of inflation. However, this has been partially offset by an increase in the yields available on long term government bonds. Scheme funding continues to be volatile and is particularly sensitive to changes in long term interest rates. Scheme funding continues to be volatile and is particularly sensitive to changes in long term interest rates.

# 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)

**Colin Caldwell**

**Stephen Harris**

**Louise Manzano**

**Gavin Moore**

Member Nominated Directors:

**Tom Bennett**

**Peter Garratt**

**Mark Larcombe**

**Roger Waymouth**

### The EE Pensions team:

Capricorn

2620 The Quadrant

Aztec West

Almondsbury

Bristol BS32 4AQ

Telephone:

0870 376 1069

Email:

[hr.reward@ee.co.uk](mailto: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