

ANNUAL REPORT AND FINANCIAL
STATEMENTS – SUMMARY

FINANCIAL POSITION

TRUSTEE UPDATE



THE EE PENSION SCHEME UNFOLDED

Defined Benefit Section news
July 2016

WELCOME

This newsletter provides a summary of the EE Pension Scheme ('the Scheme') Annual Report and Financial Statements for the year ended 31 December 2015 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 2015.

Membership.

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

	2015 £'000	2014 £'000
Contributions and benefits		
Contributions	20,000	23,057
Transfers in	–	–
Other income	–	–
Total	20,000	23,057
Benefits	(5,367)	(4,369)
Payments to and on account of leavers	(2,689)	(2,487)
Total	(8,056)	(6,856)

Net additions for dealings with members	11,981	16,201
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Return on investments		
Investment income	60,328	345
Change in market value of investments	41,261	85,063
Investment management expenses	(1,145)	(743)
Investment management fee rebates	34	238

Net returns on investments	17,596	84,903
Net increase in Scheme during during the year	29,577	101,104
Net assets of the Scheme at December 2014	551,405	450,301
Net assets of the Scheme at December 2015	580,982	551,405

	31 Dec 2015	31 Dec 2014
	8077	8,175
	718	647
Total	8795	8,822

■ 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 for each of the last five years compared with the benchmark returns to 31 December 2015 are shown in the table below:

	2011 %	2012 %	2013 %	2014 %	2015 %	3 year %	5 year %
Scheme return	5.0	6.3	8.1	19.7	4.8	10.7	8.6
Benchmark return	6.4	6.5	9.7	20.1	6.2	11.9	9.7
Liability benchmark	36.7	6.2	5.3	35.4	2.6	13.4	12.6

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

Financial position of the Scheme

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The Scheme Actuary carries out a formal actuarial valuation of the Scheme at least once every three years. The Actuary uses the results to advise the Trustee about the level of contributions he thinks will be needed in the future in order to pay members' pensions when they are due. The level of contributions is then agreed with EE and recorded in a formal document, the 'Schedule of Contributions'.

The value of all members' benefits built up under the Scheme (liabilities) is compared to the value of the funds (assets). If the Scheme has fewer assets than liabilities, it is said to have a 'shortfall' or 'deficit'. If the assets are more than the liabilities, there is said to be a 'surplus'.

The results of the current actuarial valuation as at December 2015 is still being worked on and the results will be finalised and communicated before the end of this year.

As you'll be aware, the UK has experienced some extremely challenging economic conditions over the period since the last valuation, which does have significant impacts on pension schemes, including ours.

Recent Trends.

The Trustee continues to regularly monitor the financial position of the Scheme. Despite funding volatility, they believe that the Company remains able and committed to meet its obligations to fund the Scheme over the longer term and therefore do not believe that any immediate action is required before the results of the formal actuarial valuation of the Scheme as at 31 December 2015 are known.

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Recovery Plan.

What is being done to address the shortfall

The valuation is being finalised and will be communicated before the end of the year (at 31 December 2015).

As part of the process to completing the last 2012 valuation, the Trustee agreed with the Company certain revisions to the existing recovery plan. The key features of the existing 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 (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.

Alternatively, you can write to:

The Pension Protection Fund

Renaissance
12 Dingwall Road
Croydon, CR0 2NA

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

* Resigned 4 July 2016. Replacement to be confirmed.

The EE Pensions team:

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The Pension Scheme administrator:

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