



Looking after **your** pension

## 2010/11 Report and Financial Statements

The assets of the Plan are held in trust for members by the Trustee and are managed independently from the finances of the Employer.

Plan registration number 100981732

# CONTENTS

---



<b>3</b>	<b>TRUSTEE DIRECTORS &amp; ADVISERS</b>
<b>8</b>	<b>TRUSTEE REPORT</b>
9	Plan Governance
11	Key Events During 2010-11
13	Investment and Funding
<b>18</b>	<b>STATEMENT OF THE TRUSTEE'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS</b>
<b>19</b>	<b>FINANCIAL STATEMENTS</b>
20	Consolidated Fund Account
21	Consolidated Net Assets Statement
23	Accounting Policies
25	Notes to the Financial Statements
<b>36</b>	<b>INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE</b>
<b>37</b>	<b>INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS UNDER THE PLAN</b>
<b>39</b>	<b>TRUSTEE'S SUMMARY OF CONTRIBUTIONS</b>
<b>40</b>	<b>ACTUARIAL CERTIFICATE</b>
<b>41</b>	<b>APPENDICES</b>
42	Appendix 1: Membership Analysis
44	Appendix 2: Five Year History of the Fund
45	Appendix 3: Statement of Investment Principles
54	Appendix 4: UK Stewardship Code Principles
55	Appendix 5: The Principles for Responsible Investment
58	Appendix 6: Statement on Risk Management and Internal Control
60	Appendix 7: Governance Policy
<b>65</b>	<b>GLOSSARY OF TERMS</b>
<b>68</b>	<b>CONTACT DETAILS</b>



**TRUSTEE  
DIRECTORS  
AND ADVISERS**

## TRUSTEE DIRECTORS & ADVISERS

---



**Jane Newell**  
OBE JP BA FRSA – Chair

Jane Newell joined the Board as Chair in January 2005. She is currently a Trustee of Age UK, Vice-President of the Pensions Archive Trust, a Governor of the Pensions Policy Institute, Vice-President of the Liverpool School of Tropical Medicine and a Justice of the Peace. She previously chaired a number of major pension schemes and is also Chair of the Royal Mail Defined Contribution Plan.



**Mark Ashworth**  
MA FCIS

Mark Ashworth represents, and is a director of Law Debenture, which is a professional independent trustee of pension schemes. He is a Barrister and Chartered Secretary and joined Law Debenture in 2001. He serves on the trustee boards of a number of major pension schemes. He is a member of the Council of the Society of Pensions Consultants, and served as its President from 2006 to 2008. Law Debenture was appointed to the Trustee Board in March 2006.



**Phil Browne**

Phil Browne joined Royal Mail in 1980 and is a member of the National and Postal Executive for the Communication Workers Union (CWU) a position he has held since 1995, prior to which he has held various CWU posts since 1985. He was elected to the Trustee Board in October 2008 as a Member Nominated Trustee.



**Graeme Cunningham**

Graeme Cunningham is a member of the Executive Council of the Communication Managers Association sector of UNITE. He joined Royal Mail in 1969 and is the CMA's principal representative for all pension matters.



**Jonathan Evans**  
OBE BSc

Jonathan Evans was Company Secretary of Royal Mail Group until May 2010. He joined the Company directly from university in 1974, and held a wide range of senior management positions across the Group. He rejoined the Trustee Board in January 2005 following an earlier spell from 1997-2002. He is also the Chairman of the Royal Mail Senior Executives Pension Plan.



**Martin Gafsen**  
BA Solicitor MBA

Martin Gafsen is the Group Property Director at Royal Mail reporting to the Group Finance Director. He was previously a Trustee of the Royal Mail Senior Executives Pension Plan. He joined the Royal Mail Group in 2002 and joined the Trustee Board in March 2006.

## TRUSTEE DIRECTORS & ADVISERS

---



### **Paul Kennedy**

Paul Kennedy is the Midlands Divisional Representative for the Communication Workers Union, a post he has held since its creation in 1992. He joined Royal Mail in

1974 and has held a variety of CWU posts since 1982. He is also a member of the Employment Tribunals. He joined the Trustee Board in August 2006.



### **Geoff Lindey**

BSc FFA

Geoff Lindey is an Actuary and was for many years a portfolio manager for pension funds and other institutional clients. He joined the Trustee Board in June 2003.



### **Alwen Lyons**

BA (Hons) ACMA

Alwen Lyons is Company Secretary for Post Office Limited. She joined the Post Office as a graduate entrant in 1984 and has worked at a senior level in

both the Mails and Counters businesses. She is a qualified accountant and joined the Trustee Board in January 2005.



### **Lionel Sampson**

Lionel Sampson is the Senior Policy Advisor to the Deputy General Secretary, Postal Department, of the CWU. He was previously the Policy Advisor dealing with pensions. Prior to this, he

was Divisional Representative for the South East Division of the CWU, and a member of both the Union of Communication Workers and National Executive Councils. He joined the Trustee Board in October 1996. He is also a Trustee of the Royal Mail Retirement Savings Plan.



### **Bob Wilde**

FCMA

Bob Wilde is currently a committee member of the National Association of Pension Funds' Yorkshire Group, having previously been its Chairman from

2003 to 2007. He joined The Post Office in 1971, and retired in 2004 as Head of Pensions Finance. He is a Fellow of the Chartered Institute of Management Accountants, and joined the Trustee Board in April 2006 as the Pensioner Nominated Trustee Director.

## TRUSTEE DIRECTORS & ADVISERS

---

Trustee Directors	No. of Board meetings attended	No. of Board meetings could have attended
Mrs J Newell OBE Chair	7	7
Mr P Browne	7	7
Mr G Cunningham	7	7
Mr J Evans OBE	7	7
Mr M Gafsen	7	7
Mr P Kennedy	7	7
Law Debenture Pension Trust Corporation plc (represented by Mr M Ashworth)	7	7
Mr G M Lindey	6	7
Mrs A Lyons	7	7
Mr L S Sampson	7	7
Mr R Wilde	7	7

### Trustee

Royal Mail Pensions Trustees Limited  
2nd Floor  
1 Coleman Street  
London  
EC2R 5AA

### Sponsoring Employer

Royal Mail Group  
100 Victoria Embankment  
London  
EC4Y 0HQ

### Administration

Pensions Service Centre  
PO Box 500  
Chesterfield  
S49 1WX

## TRUSTEE DIRECTORS & ADVISERS

---



**H Mottram FIA**

Head of Investment  
and Actuarial

**G P Degaute ACII FPMI**

Chief Executive

**P Metcalfe FCCA MCIPD**

Head of Finance  
and Membership

### Actuary

Colin Singer FIA  
Towers Watson Ltd

### Auditors

KPMG LLP

### Bankers

The Royal Bank of Scotland  
The Bank of New York Mellon

### Custodian and Performance Measurer

JP Morgan Chase Bank

### Financial Advisers

PricewaterhouseCoopers LLP

### Investment Consultant

Mercer Investment Consulting

### Investment Managers

Beach Point Capital Management  
BlackRock  
Dimensional

Hamilton Lane

Hermes Pensions Management

LaSalle Investment Management

Legal and General Investment Management

Loomis Sayles (appointed April 2011)

Pantheon Ventures

Pathway Capital Management

Standard Life

Walter Scott & Partners

Wellington Management International

### Property Valuers

CB Richard Ellis Ltd

Jones Lang LaSalle Ltd

### Solicitors

Burness LLP

CMS Cameron McKenna LLP

Maxwell Winward LLP

Sacker & Partners LLP

The particulars stated on this page are as  
at 31 March 2011 unless otherwise stated.



# TRUSTEE REPORT

# TRUSTEE REPORT

---

**This is the Annual Report of the Royal Mail Pension Plan ('RMPP' or the 'Plan') for the year ended 31 March 2011.**

## Plan Governance

### Trustee Arrangements

Royal Mail Pensions Trustees Limited (RMPTL) acts as Trustee for RMPP. The Board of RMPTL is supported by an executive team of pension management professionals who advise the Board on its responsibilities and ensure that Board decisions are fully implemented.

The Trustee Board has an equal number of member and employer nominated Trustee Directors, together with an independent Chair. All Board members are appointed by Royal Mail Group, with the agreement of the Royal Mail Unions and the eligible pensioner membership where appropriate. Five of the Board members are nominated by Royal Mail Group, four by the Royal Mail Unions, by ballot where appropriate, and one is selected by a pensioner ballot. The independent Chair is appointed by Royal Mail Group after agreement with the Unions. No matter who they are nominated by, each Trustee Director is responsible for protecting the benefits of all members. Each Trustee Director contributes his or her own blend of business knowledge and experience when making Trustee decisions.

**Unite/CMA position** – An election was held following which Graeme Cunningham has been reappointed as a Trustee Director for a further three years, with effect from 1 April 2011.

**CWU position** – Lionel Sampson had been re-nominated by the CWU Executive ahead of the expiry of his current term of office on 31 March 2011. The Board reappointed Mr Sampson as a CWU-nominated Trustee Director for a further three years, with effect from 1 April 2011.

### Trustee Meetings

During the year the Board met formally on seven occasions and the business matters addressed included:

- Postal Services Bill (including the progress of workstreams)
- Employer covenant monitoring and reporting by Royal Mail on their financial results
- Business Plan for 2011-12
- Statement of Investment Principles
- Investment strategy and monitoring
- Board evaluation (self-assessment) – Trustee Effectiveness
- Risk management and business continuity
- Launch of replacement AVC arrangements
- Revision of Plan Booklets
- Evaluating the success of the communications strategy
- Administration, governance and compliance reports
- Member-Nominated Trustee elections
- The adoption of The FRC UK Stewardship Code (see Appendix 4 on page 54)
- The adoption by Government of CPI (rather than RPI) as the index for revaluing certain pension benefits

The chart on page 6 shows individual Trustee Directors' meeting attendance.

# TRUSTEE REPORT

---

## Sub-Committees

The Board has established the following standing Sub-Committees (the number of meetings held during the year is shown in brackets):

- Administration (3 meetings)
- Audit and Accounts (3 meetings)
- Funding (8 meetings)
- Investment (10 meetings)

Additionally, the following Sub-Committees conduct business by correspondence and by meeting as and when required:

- Internal Disputes Resolution
- Discretions

## Trustee Training

The Board follows the Code of Practice known as Trustee Knowledge and Understanding, which was introduced by the Pensions Act 2004. During the year, training has been undertaken by the Board on the law related to pensions, liability management and alternative investment strategies. All Trustee Directors have completed the Pensions Regulator's training course, the "Trustee Toolkit".

## Plan Structure

RMPP is divided into five Sections: A, B, C, D and E. Sections A, B and E contain the benefit rules and schedules for former members of the Post Office Staff Superannuation Scheme (POSSS) and Section C contains those for former members of the Post Office Pension Scheme (POPS). Section D contains the matching AVC arrangement for Section C members. With effect from 1 April 2008, Sections A, B, C and E of the Plan are closed to new entrants.

Royal Mail Group Ltd is the principal employer participating in the Plan. The following associated employers also participate; Quadrant Catering Ltd, NDC 2000 Ltd, Romec Ltd and The Postal Heritage Trust. Romec Services Ltd ceased participation on 1 March 2011.

RMPP has been approved by the National Insurance Office of HM Revenue & Customs (HMRC) for contracting out under the Pension Schemes Act 1993 as a contracted-out salary related scheme.

RMPP is a registered scheme under part IV of the Finance Act 2004 and as such certain of its income and chargeable gains are free from taxation. The Plan's Pension Scheme Taxation Reference (PSTR) number is 00328877RE. The Plan is also registered with the Pension Schemes Registry with a reference number of 100981732.

## Membership Administration

The Board has delegated benefit administration to Royal Mail Pensions Service Centre in Chesterfield under contractual arrangements. These arrangements specify service levels against which the Board monitors performance.

The contact details and address for all enquiries is shown on page 68.

## Contributions

Contributions to the Plan, which in total amounted to £914 million during the year, were received, in all material respects, in accordance with the schedule of contributions as shown in the Trustee's Summary of Contributions (page 39).

## Pension Increases

The Government announced in July 2010 its proposal to alter the way it measures changes in the cost of living for the purpose of setting future pension increases, moving from RPI to CPI. This change, which was implemented in time for the April 2011 increases, affected the way in which the Plan calculates increases to deferred pensions and to some pensions in payment.

Section A/B members – In accordance with the Trust Deed, eligible pensions in payment and deferred benefits were increased by 3.1% in April 2011 reflecting the change in CPI for the year ended September 2010. No discretionary increases were awarded.

# TRUSTEE REPORT

---

Section C members – In accordance with the Trust Deed, eligible pensions in payment were increased by 4.6% in April 2011 reflecting the change in RPI for the year ended September 2010. Deferred pensions were increased by 3.1% in April 2011 reflecting the change in CPI for the year ended September 2010. No discretionary increases were awarded.

The change to CPI has affected many pension schemes, in both the public and private sectors. It is unrelated to the Postal Services Act and the pensions solution.

For members in receipt of a Guaranteed Minimum Pension, the Trustee and the State share responsibility for payment of the increase. Full details can be found in the Plan booklet, 'Guide to pension payments and increases', available from the Pensions Service Centre.

## Transfer Values

During the year, transfer values in respect of withdrawing members were calculated and verified in the manner prescribed by legislation. No allowance has been made for discretionary pension increases in respect of those sections of the Plan which do not guarantee pension increases fully in line with inflation.

Since 2008, the Plan no longer accepts transfers from other schemes.

## Risk Management and Internal Controls

The Board has established a risk management framework which enables it to review on a regular basis the risks faced by the Plan. Internal control systems are also reviewed regularly by the Board through its Audit and Accounts Sub-Committee. The Board's Statement on Risk Management and Internal Control (Appendix 6 on Page 58) includes a summary of the main risks faced by the Plan.

## Key Events during 2010-11

### Postal Services Review

As mentioned in last year's report, the Chair

of the Trustee Board wrote to Plan members in May 2010 informing them that the Queen's speech on 25 May 2010 included an announcement that the Government would bring forward legislation which would include "measures to resolve the problems surrounding Royal Mail's pensions deficit". A summary of the Trustee's views on the proposals was included in the November 2010 edition of Pensions News. The Chair of the Trustee Board provided Plan members with a further update – advising that the Bill had passed through the House of Commons and would be debated in the House of Lords – in January 2011.

In June 2011, the Chair of the Trustee Board advised Plan members that the Postal Services Act has now been passed and the Government has stated its intention, subject to European Union state aid approval, to relieve Royal Mail of its legacy pension deficit with effect from March 2012.

Implementing the pension changes under the Postal Services Act is a major project for the Trustee, Royal Mail and the Government with seven workstreams; Benefits, Administration, Member Communications, Assets, Governance, Statutory Instruments and Post Office Ltd.

## AVCs

New Additional Voluntary Contributions (AVCs) arrangements, utilising a single provider whereby Zurich Assurance provides access to a range of funds, commenced in October 2010 as planned. Bulk transfers of nearly £60 million, from legacy arrangements (other than with-profits arrangements) to funds managed by Zurich, took place in November 2010. A leaflet providing an overview of AVCs and of the investment options available under the new arrangements was sent to all employee members in January 2011.

## Monitoring the Employer Covenant

The Trustee monitored the Employer covenant throughout the year. This monitoring included analysis of cash headroom and other key

# TRUSTEE REPORT

---

performance indicators of a financial and operational nature.

## Investment Strategy

As reported last year, following a comprehensive review of its property mandate, the Trustee appointed LaSalle Investment Management with effect from 1 June 2010.

The Trustee undertook a full review of investment strategy during the year. Within the Plan's Bond allocation, an additional manager – Loomis Sayles – was appointed with effect from 4 April 2011.

## Accounting

Most equity markets finished the year at a higher level than at the start. The Plan's assets increased in value from £25,984 million at 1 April 2010 to £27,657 million at 31 March 2011. There were receipts from contributions of £914 million and benefit payments were £1,231 million. The increase in the market value of investments during the year was £1,521 million. Investment income totalled £554 million and there were other costs of £85 million.

## Membership Summary

Total membership decreased during the year from 436,991 to 431,622. Employee members have decreased from 138,827 to 129,678 as at 31 March 2011 reflecting the Plan's closure to new members. Deferred members have increased to 118,432 and pensioners have increased to 183,512. A full analysis of membership appears in Appendix 1 (pages 42 to 43).

## Actuarial Valuation and Funding Update

The latest formal actuarial valuation of the Plan was carried out as at 31 March 2009. The report valued the assets of the Plan at £20.2 billion and the liabilities at £30.5 billion giving rise to a deficit of £10.3 billion and a funding level of 66%. The Trustee and Royal Mail Group have agreed a Recovery Plan. The key points are:

- Deficit payments of £282 million a year (rising in line with inflation), plus contributions of 4% of contributory pay with effect from 1 April 2013 until 31 March 2023. These contributions, together with returns on the Plan's assets, are expected to eliminate the deficit over an estimated period of 38 years,
- The £1 billion that Royal Mail set aside in an escrow account for the Plan in 2006 (value £1.2 billion as at 31 March 2011) remains available for the Plan to call on if necessary. On 24 March 2011 an agreement was implemented by Royal Mail to substitute £102 million pension escrow financial investments with mortgages against certain property assets.

The annual funding update, as at 31 March 2010, showed an improvement in the funding level to 76%, primarily due to strong investment returns. A full analysis is shown in the table on page 16.

In the next year or so the Plan's structure and membership is expected to change significantly. The Trustee is focussed on working with the Government on the 'pensions solution' and at this stage has not asked the Actuary to carry out a funding check as at 31 March 2011. The return on the Plan's assets, and the Plan's benchmark return, are shown on page 16. Given that the return on assets was slightly higher than the benchmark return (and the Employer continued to pay deficit contributions), all other things being equal the Trustee would not expect a deterioration in funding levels during the year.

Following the 2009 actuarial valuation, the Trustee and Royal Mail Group agreed that Royal Mail Group should pay 17.1% of contributory pay towards the pension that most employee members are building up. Employee members pay 6% of contributory pay towards their benefits. The actuarial certificate on page 40 confirms that the agreed Schedule of Contributions is in accordance with the Trustee's Statement of Funding Principles and the Recovery Plan.

Last year's Report stated that the Pension Regulator had substantial concerns about the deficit and other aspects of the funding agreement that the Trustee had reached with Royal Mail Group. We can report that discussions continue with the Pensions Regulator in relation to these concerns and the potential impact of the Postal Services Act.

It is a legal requirement to disclose the funding level if the Plan were wound up and the assets and responsibility for paying benefits transferred to an insurance company (although in reality this is unlikely to happen). Using this scenario, at 31 March 2009, the Plan would have been able to fund 49% of the benefits earned by members.

### Communication Survey

The Trustee is committed to helping members to understand the Plan. Pensions can be a complicated topic, and so we have taken steps to ensure our communications are clear and give members the information that they need. In 2008 the Trustee asked members for their views on the information that they receive from the Trustee. This feedback was used to review the Trustee's strategy. The Trustee made a conscious effort to improve its communication. Last year, the Trustee sent out another survey to check its progress against this aim.

The Trustee's communication strategy aims to raise the level of personal awareness and understanding of the Plan and its benefits. The 2010 feedback saw an improvement in members' views about Plan communications between 2008 and 2010. More members said that they have an understanding of the Trustee's role, and that they have a greater understanding of the Trustee's responsibility to protect members' pensions. The Trustee was glad to receive the positive feedback on the Helpline service available to members.

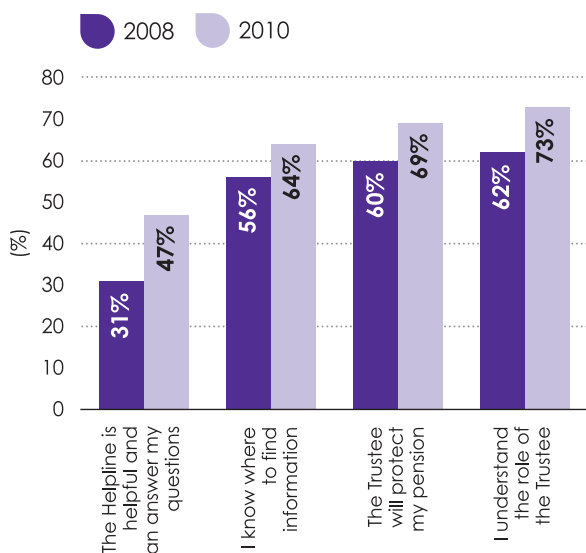
For all nine questions which were asked in both the 2008 survey and the 2010 survey, the percentage of respondents who agreed or strongly agreed with the statement has increased. Therefore, the Trustee's communication strategy appears to be working.

The Trustee is grateful to those members who completed the survey. The Trustee will use those responses as it continues to review its communication strategy, helping to improve further its communications to members.

### The adoption by the Government of CPI for pension increases

The Government adopted CPI rather than RPI as the index for revaluing certain pension benefits, with effect from 2011. The Trustee took legal advice on this matter and held discussions with the Employer and with the unions. The Trustee concluded that this change affected occupational pensions including the Plan where the pension increase rule required the Trustee to apply statutory increases. Members of the Plan have been sent an announcement detailing the effect that this Government imposed change has on the basis on which their pensions will be increased with effect from April 2011.

#### The Headline Results



# TRUSTEE REPORT

## Investment and Funding

### Investment Policy

The Trustee's Statement of Investment Principles ("SIP") covers the following areas:

- Fund governance
- Meeting the Plan's liabilities
- Risk and return
- Diversification of risks
- Strategic management
- Investment managers
- Cashflow management
- AVCs
- Responsible investment
- Corporate governance
- Compliance with, and review of, the SIP

The SIP appears in full in Appendix 3 (pages 45 to 53).

The Trustee confirms that it complies with the updated Myners' Principles which provide guidance on best practice in investment decision-making.

### Investment Strategy

The investment strategy of RMPP aims to safeguard the assets and to provide, together with contributions, the financial resource from

which benefits are paid. Investment is inevitably exposed to risks. These risks can be broadly classified as those inherent in the safe custody and record-keeping of assets and those inherent in the investment markets. The assets of the Plan are kept totally separate from the finances of the Employer. In order to control their title and security, the Trustee holds the assets in designated custodian accounts and uses the safekeeping services of the custodian shown on page 7. The risks inherent in the investment markets are partially mitigated by pursuing a widely diversified approach across asset classes and investment managers.

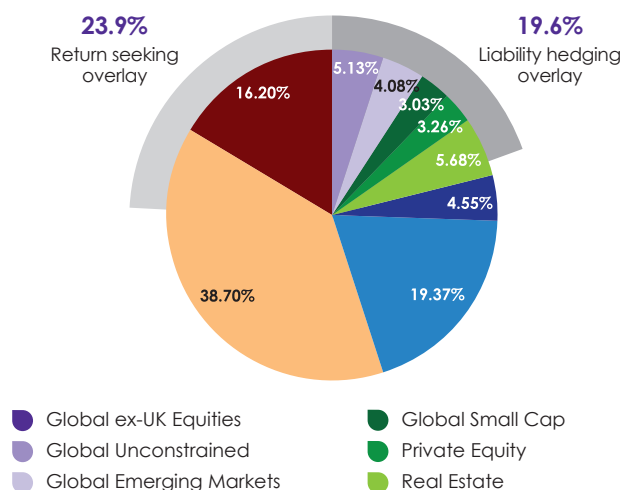
The Plan uses derivatives (such as swaps and futures) to reduce risk whilst maintaining expected investment returns. Derivatives are included in the charts below as liability-hedging overlay (interest rate and inflation swaps) and return-seeking overlay (equity futures).

The charts below show assets on an economic exposure basis and include pooled investments which have been redistributed in the charts to reflect the underlying values by asset type (i.e. equities, property, bonds). Therefore the charts on page 14 differ from the analysis of investment values included in the financial statements.

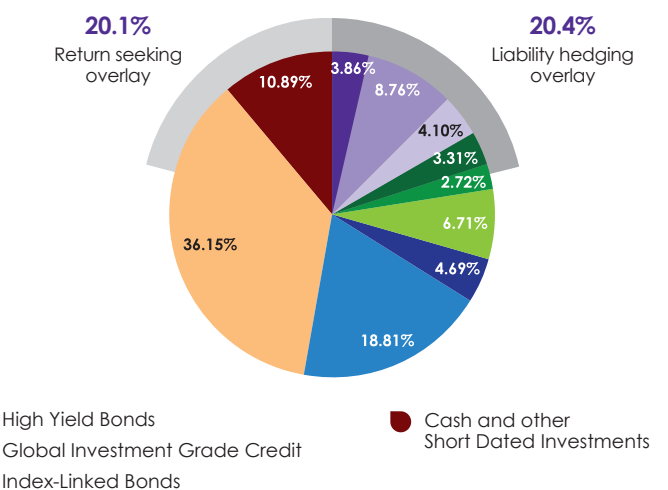
A reduction in cash and in physical exposure to equities enabled the Plan to gain exposure to short-dated gilts (government bonds).

## Weightings

As at 31 March 2011



As at 31 March 2010



# TRUSTEE REPORT

---

## Investment Managers

The Plan's assets as at 31 March 2011 are managed by several external investment managers with specialist portfolios as detailed below:

Manager	Mandate	Value (£ million)
Beach Point Capital	High Yield Debt	1,254
BlackRock	Liability Driven Investment	11,429
Dimensional	Global Small Cap Equities	836
Hamilton Lane	USA Private Equities	327
Hermes	Emerging Market Equities	606
Hermes	Index-Linked Bonds	591
Hermes	Private Equity	61
Hermes	Cash	225
Hermes	Short Dated Gilts	2,846
LaSalle	UK Property	1,596
Legal & General	Global (ex UK) Equities	517
Pantheon Ventures	Global Private Equity	289
Pathway Capital	USA Private Equity	249
Standard Life	UK Investment Grade Credit	1,993
State Street	Global Investment Grade Credit (Transition)	1,396
Walter Scott	Global Unconstrained Equities	1,413
Wellington	Global Investment Grade Credit	1,948
AVC Investments		81
<b>Net Assets</b>		<b>27,657</b>

The figures shown above are based on the investment values as at 31 March 2011 included in the financial statements.

The expenses of investment management are paid by the Trustee and recharged to the Plan. The investment managers receive a fixed fee plus, where relevant, a performance fee which is only payable if a return higher than the specific benchmark return set for that portfolio is achieved (see Note 5 to the financial statements on page 26).

## Liquidity of Investments

The Trustee regards the majority of the investments assets as readily realisable. Exceptions include certain pooled investments, private equity, property and some corporate bonds, which due either to the nature of the investments or current market conditions means they are less liquid than the rest of the investment portfolio.

# TRUSTEE REPORT

## Funding Level Analysis

The table below charts changes in the Plan's funding level from the formal actuarial valuation as at 31 March 2009 to the annual funding update as at 31 March 2010.

	2009 %	2010 %
Funding level as at 31 March	66	76
Overall change in funding level		10
<b>Individual elements of funding level change:</b>		
Deficiency contributions		1
<b>Liabilities:</b>		
Experience in year different from expected		0
Change in discount rate (due to market conditions)		(4)
<b>Assets:</b>		
Experience in year different from expected strategy		8
Implementation		5

## Investment Returns

The chart to the right shows the Plan's return compared with the liability benchmark for the year ended 31 March 2011, together with rates for the previous 4 years.

The liability benchmark uses the returns on index-linked bonds as an indication of the change in value of the Plan's liabilities.

During the year the Plan's assets provided a return of 8.0%. The Plan's liability benchmark rose by 6.7%, primarily due to a decrease in bond yields.



# TRUSTEE REPORT

---

## Responsible Investment

The Trustee's policy on responsible investment is included in its Statement of Investment Principles. The Principles are shown in Appendix 3 (pages 45 to 53).

During the year, the Trustee adopted the Financial Reporting Council's UK Stewardship Code.

Through its Investment Sub-Committee, the Trustee:

- Has received reports from its managers on how they have exercised their voting rights and how they have engaged with investee companies.
- Is working on ensuring that those of its investment managers who hold UK listed shares comply with the UK Stewardship Code.
- Is considering how best to apply its responsible investment policy to its private equity and bond portfolios.

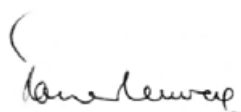
## Conclusion

The most significant event of the year has been the passing of the Postal Services Act and the statement by the Government that, subject to European Union state aid clearance, it intends to relieve Royal Mail of its legacy pension deficit with effect from 31 March 2012.

The Trustee has been working with Royal Mail and the Government towards implementation of the pensions solution throughout the year. In doing so the Trustee has continued to undertake its primary objective of safeguarding the benefits built up by all members of the Plan.

The Trustee Board would like to thank the RMPTL Executive, the Royal Mail Pensions Service Centre, the Royal Mail Pensions Strategy Team and our team of external advisers for their assistance throughout the year.

For the Trustee



**Jane Newell OBE**  
Chair

14 July 2011

# STATEMENT OF TRUSTEE'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

---

The audited financial statements, which are to be prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP), are the responsibility of the Trustee. Pension scheme regulations require the Trustee to make available to plan members, beneficiaries and certain other parties, audited financial statements for each Plan year which:

- Show a true and fair view of the financial transactions of the Plan during the Plan year and of the amount and disposition at the end of that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan year, and
- Contain the information specified in the Schedule to the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including a statement as to whether the financial statements have been prepared in accordance with the Statement of Recommended Practice, "Financial Reports of Pension Schemes (Revised May 2007)".

The Trustee has supervised the preparation of the financial statements and has agreed suitable accounting policies, to be applied consistently, making estimates and judgements on a reasonable and prudent basis. It is also responsible for making available each year, commonly in the form of a Trustee's annual report, information about the Plan prescribed by pensions legislation, which it should ensure is consistent with the financial statements it accompanies.

The Trustee also has certain responsibilities in respect of contributions which are set out in the Statement of Trustee's Responsibilities accompanying the Trustee's Summary of Contributions.

The Trustee has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to it to safeguard the assets of the plan and to prevent and detect fraud and other irregularities, including the maintenance of appropriate internal controls.

## Statement of Trustee's Responsibilities in respect of Contributions

The Plan's Trustee is responsible under pensions legislation for ensuring that there is prepared and from time to time revised a schedule of contributions showing the rates of contributions payable towards the Plan by or on behalf of the employer and the active members of the Plan and the dates on or before which such contributions are to be paid. The Plan's Trustee is also responsible for keeping records of contributions received in respect of any active member of the Plan and for procuring that contributions are made to the Plan in accordance with the schedule.



**FINANCIAL  
STATEMENTS**

# FINANCIAL STATEMENTS

<b>Consolidated Fund Account</b> for the year ended 31 March 2011	Notes	<b>2011</b> £ million	2010 £ million
<b>Contributions and benefits</b>			
Contributions	1	<b>914</b>	1,023
Individual transfers-in		–	17
		<b>914</b>	1,040
Benefits	2	<b>(1,211)</b>	(1,098)
Payments to and on account of leavers	3	<b>(20)</b>	(17)
		<b>(1,231)</b>	(1,115)
Administrative expenses	4,19	<b>(18)</b>	(19)
<b>Net withdrawals from dealing with members</b>		<b>(335)</b>	(94)
<b>Return on investments</b>			
Investment income	6	<b>554</b>	499
Change in market value of investments	7	<b>1,521</b>	5,408
Interest on borrowings		<b>(2)</b>	(3)
Investment expenses	5,19	<b>(65)</b>	(76)
Minority interests	15	–	–
<b>Net return on investments</b>		<b>2,008</b>	5,828
<b>Net increase in the fund during the year</b>		<b>1,673</b>	5,734
<b>Net Assets of the Plan</b>			
At start of year		<b>25,984</b>	20,250
At end of year		<b>27,657</b>	25,984

# FINANCIAL STATEMENTS

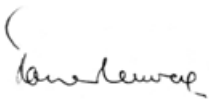
<b>Consolidated Net Assets Statement</b> as at 31 March 2011		2011 £ million	2010 £ million
	Notes		
<b>Investment assets</b>			
UK equities	8	212	316
Overseas equities	8	2,638	3,316
Property	9	1,299	1,467
Fixed interest	8	8,603	5,484
Index-linked	8	691	474
Pooled investment vehicles	8	11,854	11,348
Derivative contracts	10	228	133
AVC investments and supplementary plan	12	81	83
Deposits and short-term investments	11	1,910	2,935
Loans		250	476
Other investment assets	18	500	429
		<b>28,266</b>	<b>26,461</b>
<b>Investment liabilities</b>			
Derivative contracts	10	(110)	(108)
Investment borrowings	13	(59)	(86)
Other investment liabilities	18	(413)	(225)
		<b>(582)</b>	<b>(419)</b>
<b>Net investment assets</b>		<b>27,684</b>	<b>26,042</b>
<b>Minority interests</b>	15	<b>(10)</b>	<b>(11)</b>
		<b>27,674</b>	<b>26,031</b>
<b>Current assets</b>			
Other debtors		12	3
Bank balances		39	11
		<b>51</b>	<b>14</b>
<b>Current liabilities</b>			
Creditors	14	(68)	(61)
<b>Net current liabilities</b>		<b>(17)</b>	<b>(47)</b>
<b>Net assets of the Plan at 31 March 2011</b>		<b>27,657</b>	<b>25,984</b>

# FINANCIAL STATEMENTS

---

The financial statements summarise the transactions of the Plan and deal with the net assets at the disposal of the Trustee. They do not take into account obligations to pay pensions and benefits which fall due after the end of the Plan year. The actuarial position of the Plan, which does take into account such obligations, is dealt with in the Trustee Report and actuarial certificate included in the Annual Report and these financial statements should be read in conjunction with them.

Approved by the Trustee and signed on behalf of the Directors by:



**J Newell OBE**

Chair



**P Kennedy**

Director



**G P Degaute**

Chief Executive

14 July 2011

# FINANCIAL STATEMENTS

---

## Accounting Policies

The financial statements have been prepared in accordance with the regulations made under section 41(1) and (6) of the Pensions Act 1995 and the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 and the guidelines set out in the Statement of Recommended Practice (Revised May 2007), 'Financial Reports of Pension Schemes' (Revised SORP).

### Basis of Accounting

The financial statements state the assets at market value. The long-term financial position of the Plan including liabilities for pensions and other benefits which are expected to arise in the future and which are not reflected in the financial statements, is dealt with in the Actuarial Valuation Report as at 31 March 2009.

### Basis of Consolidation

The results of subsidiary undertakings are included from the date of acquisition and up to date of disposal using the acquisition method of accounting.

The Plan holds a number of property investments through significant interests in partnerships. Such investments are consolidated by including the Plan's share of the assets, liabilities, income and expenditure.

Consolidation is based on the latest available financial statements augmented where necessary by unaudited management information made up to dates not earlier than three months before the Plan's year end. Adjustments have been made on consolidation to bring the accounting policies of the consolidated undertakings into line with those adopted by the Plan.

## Contributions

Normal contributions from employers and employees are made in accordance with the rates set out in the schedules of contributions in force for the Plan year. Normal contributions relating to wages and salaries earned in the Plan year have been recognised in these financial statements. Additional Voluntary Contributions are accounted for on an accruals basis when deducted from payroll.

Deficit funding and augmentation contributions are recognised in the financial statements in accordance with the due dates set out in the schedules of contributions.

## Benefits

Benefits are accounted for on an accruals basis according to when they fall due for payment.

## Transfers

Individual transfers in and out of the Plan are accounted for on a cash basis of amounts paid or received. Group transfers are accounted for when liability is accepted by the receiving scheme, which is usually on the basis of amounts paid or received.

## Investment Income

Income from property, fixed interest and index-linked securities and other interest receivable is taken into account on an accruals basis. Income from all other marketable securities is taken into account on the date when stocks are quoted ex-dividend. Investment income is recognised in the financial statements net of associated tax credits which are not recoverable by the Plan. Any overseas withholding tax is recognised as income, but where this is not recoverable by the Plan it is shown separately as a tax charge.

# FINANCIAL STATEMENTS

---

## Foreign Currencies

Foreign currency investments and related assets and liabilities are translated into sterling at the rates ruling at the year end. Foreign currency income and expenditure is translated at exchange rates prevailing on the appropriate dates, which are usually the transaction dates. Exchange differences arising from translation are dealt with in the Consolidated Fund Account within the change in market value of investments.

## Market Value of Securities

The majority of listed securities are valued at the bid price or the last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the Consolidated Net Asset Statement. For fixed interest and index-linked securities this valuation is reduced by the accrued interest therein; such interest is included in other investment assets.

Stock index and bond futures are included in the Consolidated Net Assets Statement under derivative contracts at fair value. For exchange traded derivatives that are assets, fair value will be based on bid prices. For exchange traded derivatives that are liabilities, fair value will be based on offer prices. All gains and losses on open contracts are included within the change in market value of investments.

Open forward foreign currency contracts at the balance sheet date are over the counter contracts and are valued using forward currency rates at that point. The unrealised appreciation or depreciation of open foreign currency contracts is calculated by the difference between the contracted rate and the rate to close out the contract.

Interest rate and credit default swaps are over the counter contracts and fair value is the current value of the future expected net cash flows, taking into account the time value of money and market data at year end.

Insurance policies are included at the closing single price at the year end as determined by the insurance company.

Unlisted securities and other pooled investment vehicles are valued at the Trustee's valuation using published prices, the latest information from investment managers, or at cost less any necessary provisions for impairment.

## Securities on Loan and Sale and Repurchase Agreements

Securities on loan or sold subject to repurchase agreements are included in the financial statements within the respective investment classes at the year end market value of the securities on loan, or of the securities to be repurchased. Collateral received on stock loans is excluded from the financial statements.

## Market Value of Properties

Properties are valued on a market value basis for financial statements purposes as at the audit year end date in accordance with RICS Valuations Standards.

The valuers CB Richard Ellis and Knight Frank are recognized firms of Chartered Surveyors which have the appropriate expertise within their practices to value these properties.

## Commitments

Commitments represent funds to be allocated for future investments by the Plan.

# FINANCIAL STATEMENTS

## Notes to the Financial Statements

<b>1. Contributions</b>	<b>2011</b> £ million	2010 £ million
Contributions by employer – normal	<b>428</b>	521
– deficit funding	<b>292</b>	282
– augmentation	<b>30</b>	50
– other	<b>7</b>	6
Contributions by members – normal	<b>149</b>	155
– additional voluntary	<b>4</b>	4
– added years	<b>4</b>	5
	<b>914</b>	1,023

<b>2. Benefits</b>	<b>2011</b> £ million	2010 £ million
Retirement pensions	<b>912</b>	884
Lump sum retirement benefits	<b>279</b>	194
Death benefits	<b>20</b>	20
	<b>1,211</b>	1,098

<b>3. Payments to and on account of leavers</b>	<b>2011</b> £ million	2010 £ million
<b>Transfer values, withdrawing members:</b>		
Individual	<b>20</b>	16
Refunds of contributions to members	<b>–</b>	1
	<b>20</b>	17
Transfer values were calculated and verified in the manner prescribed by legislation. No allowance has been made for discretionary pension increases in respect of those sections of the Plan which do not guarantee pension increases fully in line with inflation.		

# FINANCIAL STATEMENTS

## Notes to the Financial Statements continued

### 4. Administration expenses

Administration expenses are stated after charging the following:

	2011 £'000	2010 £'000
<b>Auditor's remuneration</b>		
Fees payable to the Plan's auditors (KPMG) for the audit of the Plan's financial statements	94	95
Fees payable to the Plan's auditors for the audit of the Plan's subsidiaries pursuant to legislation	43	55
<b>Total audit fees</b>	<b>137</b>	150
<b>Total fees payable to the Plan's auditors</b>	<b>137</b>	150
<b>Total auditor's remuneration to other audit firms</b>	<b>12</b>	9

Administrative expenses include costs totalling £6.9 million in respect of the Pension Protection Fund (2010: £6.4 million). This cost has been reimbursed by the employer as disclosed in Note 1 as Employer contributions – other.

### 5. Investment management expenses

	2011 £ million	2010 £ million
Investment managers' base fees	40	34
Investment managers' performance fees	23	40
Other expenses	2	2
	<b>65</b>	76

### 6. Investment income

	2011 £ million	2010 £ million
UK equities	10	7
Overseas equities	64	57
Property, net of outgoings	67	87
Fixed interest	348	248
Index-linked	9	11
Income from derivatives	3	1
Pooled investment vehicles	15	37
Deposits and short-term investments	38	48
	<b>554</b>	496
Net recoverable withholding tax	–	3
	<b>554</b>	499

Income from property is net of expenses of £20 million (2010: £26 million).

# FINANCIAL STATEMENTS

## Notes to the Financial Statements continued

### 7. Change in market value of investments

This includes profits and losses on investments sold as well as increases and decreases in the value of investments held at 31 March 2011. An analysis of the change in market value of net assets is shown below:

	Market value at 31 March 2010	Net investment/ (disinvestment)	Change in value	Market value at 31 March 2011
	£ million	£ million	£ million	£ million
<b>Investment assets</b>				
UK equities	316	(104)	–	<b>212</b>
Overseas equities	3,316	(935)	257	<b>2,638</b>
Property	1,467	(249)	81	<b>1,299</b>
Fixed interest	5,484	3,300	(181)	<b>8,603</b>
Index-linked	474	99	118	<b>691</b>
Pooled investment vehicles	11,348	(193)	699	<b>11,854</b>
AVC investments and supplementary plan	83	(2)	–	<b>81</b>
Deposits and short-term investments	2,935	(1,025)	–	<b>1,910</b>
Loans	476	(390)	164	<b>250</b>
Derivative contracts*	25	(290)	383	<b>118</b>
	25,924	211	1,521	<b>27,656</b>
Other investment assets and liabilities	118			<b>28</b>
<b>Net investment assets</b>	26,042			<b>27,684</b>

\*Derivative contracts include both derivative assets and derivative liabilities which are shown separately on the face of the Consolidated Net Assets Statement.

Note: The 'Change in value' column comprises gains and losses on investments sold and increases and decreases in the value of investments held.

# FINANCIAL STATEMENTS

## Notes to the Financial Statements continued

### 7. Change in market value of investments continued

<b>Net investment is made up as follows:</b>	Purchases at cost and derivative payments £ million	Sale proceeds and derivative receipts £ million	Net investment £ million
UK equities	50	(154)	(104)
Overseas equities	904	(1,839)	(935)
Property	15	(264)	(249)
Fixed interest	12,756	(9,456)	3,300
Index-linked	466	(367)	99
Pooled investment vehicles	891	(1,084)	(193)
AVC investments and supplementary plan	15	(17)	(2)
Deposits and short-term investments	–	(1,025)	(1,025)
Loans	533	(923)	(390)
Derivative contracts	437	(727)	(290)
	16,067	(15,856)	211

Transaction costs are costs that are directly attributable to the acquisition or disposal of an investment and are included in the cost of purchases and sale proceeds. Transaction costs incurred during the year amounted to £6 million (2010: £4 million). In addition to these transaction costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

# FINANCIAL STATEMENTS

## Notes to the Financial Statements continued

8. Listed and unlisted investments	2011 £ million	2010 £ million
<b>UK equities</b>		
Quoted	211	315
Unquoted	1	1
	<b>212</b>	<b>316</b>
<b>Overseas equities</b>		
Quoted	2,627	3,293
Unquoted	11	23
	<b>2,638</b>	<b>3,316</b>
<b>Fixed interest</b>		
UK quoted public sector	2,569	46
UK quoted other	2,020	2,605
UK unquoted other	10	–
Overseas quoted other	4,004	2,833
	<b>8,603</b>	<b>5,484</b>
<b>Index-linked</b>		
UK quoted public sector	682	448
UK unquoted other	1	–
Overseas quoted public sector	8	26
	<b>691</b>	<b>474</b>
<b>Pooled investment vehicles</b>		
Managed funds – insurance policy	517	1,454
Managed funds – property	179	128
Managed funds – other	942	752
Unit trusts – cash and debt instruments with swap overlay	10,060	8,854
Unit trusts – property	156	160
	<b>11,854</b>	<b>11,348</b>
<p>Unit trusts – cash and debt instruments with swap overlay are managed by BlackRock and represent 36.4% (2010: 34.1%) of the Plan's net assets.</p> <p>Managed funds – other includes £555 million (2010: £442 million) relating to funds registered overseas.</p> <p>Managed funds – property includes £138 million (2010: £97 million) relating to funds registered overseas.</p> <p>Unit trusts – property includes £107 million (2010: £103 million) relating to funds registered overseas.</p> <p>All other funds and trusts are registered in the United Kingdom.</p>		

# FINANCIAL STATEMENTS

## Notes to the Financial Statements continued

9. Property	2011 £ million	2010 £ million
<b>UK</b>		
Offices	<b>459</b>	550
Retail	<b>675</b>	744
Industrial	<b>157</b>	173
Residential	<b>8</b>	–
	<b>1,299</b>	1,467
<p>The Plan consolidates property held in investments in subsidiary companies and joint ventures. The disclosure above includes £453 million of property held in such entities (2010: £460 million). 0.0% (2010: 0.1%) of property was leased back to Royal Mail at market rates.</p>		

10. Derivative contracts	2011 £ million	2010 £ million
<b>Assets</b>		
Futures contracts	<b>176</b>	79
FX forward contracts	<b>22</b>	45
Swaps	<b>30</b>	9
	<b>228</b>	133
<b>Liabilities</b>		
Futures contracts	<b>(64)</b>	(2)
FX forward contracts	<b>(37)</b>	(79)
Swaps	<b>(9)</b>	(27)
	<b>(110)</b>	(108)

### Objectives and Policies

The Trustees have authorised the use of derivatives by their investment managers as part of their overall investment strategy for the Plan. The main objectives for the use of derivatives are summarised as follows:

#### Futures

Futures contracts are entered into as a method of balancing the Plan's exposure to a particular market or sector. Derivatives often provide a cheaper and efficient way of modifying portfolio risk to remain within asset allocations governed by the investment strategy of the Plan.

#### Foreign exchange forward contracts

Foreign exchange forward contracts are used to hedge against adverse foreign exchange rate movements on investments denominated in non-sterling currencies.

#### Interest rate swaps

Interest rate swaps are used to decrease the Plan's risk to interest rates on floating rate instruments.

#### Credit default swaps

Credit default swaps are used to decrease the Plan's credit risk on fixed interest instruments.

# FINANCIAL STATEMENTS

## Notes to the Financial Statements continued

### 10. Derivative contracts continued

Disclosures of the derivatives held at year end are set out below:

#### Futures – exchange traded

Type of Future	Expiration	Economic Exposure Value £ million	2011	
			Asset £ million	Liability £ million
Long gilt	June 11	530	3	–
Fixed interest – overseas	June 11	(1,308)	10	(2)
UK equity	June 11	2,788	82	–
Overseas equities	June 11	3,847	81	(62)
			<b>176</b>	<b>(64)</b>

Type of Future	Expiration	Economic Exposure Value £ million	2010	
			Asset £ million	Liability £ million
Long gilt	June 10	110	2	–
Fixed interest – overseas	June 10	20	3	–
UK equity	June 10	3,033	23	(2)
Overseas equities	June 10	2,102	51	–
			<b>79</b>	<b>(2)</b>

#### FX forwards

Currency		Notional £ million	2011	
Bought	Sold		Asset £ million	Liability £ million
GBP	EUR	112	–	(5)
GBP	USD	2,469	17	(7)
USD	EUR	721	–	(21)
VARIOUS	VARIOUS	848	5	(4)
			<b>22</b>	<b>(37)</b>

All FX forward contracts are over the counter settling in less than one year.

# FINANCIAL STATEMENTS

## Notes to the Financial Statements continued

### 10. Derivative contracts continued

#### FX forwards continued

Currency			Notional £ million	2010	
Bought	Sold	Asset £ million		Liability £ million	
GBP	EUR	1,031	17	–	
GBP	USD	2,985	14	(66)	
USD	GBP	1,209	12	(7)	
EUR	GBP	135	–	(1)	
VARIOUS	VARIOUS	333	2	(5)	
			<b>45</b>	<b>(79)</b>	

All FX forward contracts are over the counter settling in less than one year.

#### Swaps – over the counter

Type of Swap	Expiration	Economic Exposure Value £ million	Asset £ million	2011 Liability £ million
Credit default swap – index	< 7 years	(212)	4	(1)
Credit default swap – equity	< 7 years	75	2	(1)
Interest rate swap – fixed for floating	< 40 years	4,110	24	(7)
			<b>30</b>	<b>(9)</b>

Type of Swap	Expiration	Economic Exposure Value £ million	Asset £ million	2010 Liability £ million
Credit default swap – index	< 5 years	30	1	–
Credit default swap – equity	< 7 years	138	1	–
Interest rate swap – fixed for floating	< 30 years	1,360	4	(14)
Interest rate swap – floating for fixed	< 30 years	626	3	(13)
			<b>9</b>	<b>(27)</b>

# FINANCIAL STATEMENTS

## Notes to the Financial Statements continued

11. Deposits and short-term investments	2011 £ million	2010 £ million
Interest earning deposits: Sterling	<b>1,304</b>	1,976
Foreign currency	<b>170</b>	377
Certificates of deposit	<b>170</b>	523
Commercial paper	<b>50</b>	–
Floating rate notes	<b>216</b>	59
	<b>1,910</b>	2,935

## 12. AVC investments and supplementary plan

Members' Additional Voluntary Contributions are invested separately from the principal Plan on a money purchase basis. Since October 2010, contributions have been made to a number of funds under a recently established policy with Zurich, and a total of £60 million was transferred to Zurich from existing providers. At the year end, there were legacy 'with profits' arrangements with Aviva, Standard Life and Equitable Life Assurance Society and a small amount of funds in a legacy deposit fund with Santander. Members participating in these arrangements each receive an annual statement confirming the amount held in their account and the movements in the year.

At the year end, Zurich held £39 million of the total funds within the AVC Plan and £21 million within the Supplementary Plan.

	AVC Plan				Supplementary Plan			
	Insurance Policies	Other funds	Total	2010 £ million	Insurance Policies	Other funds	Total	2010 £ million
	2011 £ million	2011 £ million	2011 £ million		2011 £ million	2011 £ million	2011 £ million	
At start of year	<b>16</b>	<b>39</b>	<b>55</b>	51	<b>9</b>	<b>19</b>	<b>28</b>	27
Net benefits/contributions:								
- by employer	–	–	–	–	–	–	–	–
- by members	<b>(16)</b>	<b>15</b>	<b>(1)</b>	(1)	<b>(8)</b>	<b>7</b>	<b>(1)</b>	(1)
Change in market value of investments	–	–	–	5	–	–	–	2
At end of year	–	<b>54</b>	<b>54</b>	55	<b>1</b>	<b>26</b>	<b>27</b>	28

# FINANCIAL STATEMENTS

## Notes to the Financial Statements continued

13. Investment borrowings	2011 £ million	2010 £ million
<b>Sterling – secured</b>		
Repayable within one year	<b>53</b>	–
Repayable in 2 to 5 years	–	53
<b>Sterling – unsecured</b>		
Repayable within one year	–	33
<b>Overseas – unsecured</b>		
Repayable within one year	<b>6</b>	–
	<b>59</b>	<b>86</b>
The sterling secured borrowings are secured on property held in a subsidiary of the Plan. The unsecured borrowings are short-term overdrafts for investment purposes.		

14. Creditors	2011 £ million	2010 £ million
Accrued benefits	<b>26</b>	24
Other creditors	<b>42</b>	37
	<b>68</b>	<b>61</b>

### 15. Minority Interests

Minority interests of £10 million (2010: £11 million) disclosed in the Consolidated Net Assets Statement comprise the interests of co-investors in the Hyde Park Partnership. As shown in the Consolidated Fund Account, they include a gain attributable to minority interests of £nil (2010: gain of £nil) comprising both income and change in market value. The Plan fully consolidates all investment income and change in market value from the properties in the Hyde Park Partnership as shown in note 6 and note 7 respectively. The gain to the Plan represents the share of the fall in the market value of the properties less investment income earned that is attributable to those minority interests.

# FINANCIAL STATEMENTS

## Notes to the Financial Statements continued

### 16. Stock on loan

Securities have been lent to market makers in return for fee income earned by the Plan. Security for the loans is obtained by holding collateral in the form of financial instruments.

	2011		2010	
	On Loan £ million	Collateral £ million	On Loan £ million	Collateral £ million
UK equities	–	–	2	2
Overseas equities	49	53	109	119
Fixed interest – UK	453	465	–	–
Fixed interest – overseas	12	12	–	–
	<b>514</b>	<b>530</b>	<b>111</b>	<b>121</b>

### 17. Commitments and contingent liabilities

	2011 £ million	2010 £ million
<b>Commitments for investments at 31 March</b>		
Property	147	119
Other*	276	560
	<b>423</b>	<b>679</b>

\*Other commitments represent funds allocated for specific private equity investments.

### 18. Other Investment assets and investment liabilities

'Other investment assets' consists of accrued income and amounts due from brokers.

'Other investment liabilities' consists of amounts due to brokers.

### 19. Related party transactions

During the year there were transactions with Royal Mail Pensions Trustees Limited (RMPTL). RMPTL provides RMPP with comprehensive trustee services including the provision of external supplies. The cost to RMPTL of providing these services is borne by RMPP, and allocated between administrative and investment expenses. Contributions received and pension benefits paid in respect of Trustee Directors who are members of the Plan were in accordance with the Schedule of Contributions and Plan rules where appropriate.

There was no employer related investment during the year.

	2011 £ million	2010 £ million
Fees charged for the year (including amounts payable to RMPTL as at 31 March of £9 million) (2010: £14 million)	<b>83</b>	95

# INDEPENDENT AUDITOR'S REPORT TO THE TRUSTEE OF THE ROYAL MAIL PENSION PLAN

---

We have audited the financial statements of the Royal Mail Pension Plan for the year ended 31 March 2011. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Plan Trustee, as a body, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Plan Trustee those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Plan Trustee, as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective Responsibilities of the Trustee and Auditors

As explained more fully in the Statement of Trustee's Responsibilities set out on page 18, the Plan Trustee is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). These standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

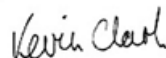
## Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at:  
[www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

## Opinion on financial statements

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Plan during the Plan year ended 31 March 2011 and of the amount and disposition at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan year;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.



**Kevin Clark**  
**for and on behalf of KPMG LLP,**  
**Statutory Auditor**

Chartered Accountants  
15 Canada Square  
London  
E14 5GL

14 July 2011

Neither an audit nor a review provides assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the Trustee but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

# INDEPENDENT AUDITOR'S STATEMENT ABOUT CONTRIBUTIONS, TO THE TRUSTEE OF THE ROYAL MAIL PENSION PLAN

---

We have examined the summary of contributions to the Royal Mail Pension Plan for the year ended 31 March 2011 to which this statement is attached.

This statement is made solely to the Trustee, as a body, in accordance with regulation 4 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our work has been undertaken so that we might state to the Trustee those matters we are required to state to it in an auditor's statement about contributions and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee for our work, for this statement, or for the opinion we have formed.

## Respective Responsibilities of the Trustee and Auditors

As described in the Statement of Trustee's Responsibilities, the Plan Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a schedule of contributions which sets out the rates and due dates of certain contributions payable towards the Plan by or on behalf of the employers and the active members of the Plan. The Trustee has a general responsibility for procuring that contributions are made to the Plan in accordance with the schedules of contributions.

It is our responsibility to provide a statement about contributions paid under the schedules of contributions and to report our opinion to you.

We read the other information contained in the annual report for the above year as described in the contents section and consider whether it is consistent with the summary of contributions. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary of contributions.

## Basis of Statement about Contributions

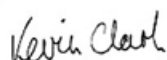
We planned and performed our work so as to obtain the information and explanations which we considered necessary in order to give reasonable assurance that contributions reported in the summary of contributions have been paid in accordance with the schedules of contributions. For this purpose the work that we carried out included examination, on a test basis, of evidence relevant to the amounts of contributions paid to the Plan and the timing of those payments under the schedules of contributions. Our statement about contributions is required to refer to those breaches of the schedules of contributions which come to our attention in the course of our work.

# INDEPENDENT AUDITOR'S **STATEMENT** ABOUT CONTRIBUTIONS, TO THE TRUSTEE OF THE ROYAL MAIL PENSION PLAN

---

## **Statement about Contributions Payable under the Plan**

In our opinion, contributions payable to the Plan during the year ended 31 March 2011 as set out in the summary of contributions have, in all material respects, for the period 1 April 2010 to 31 March 2011, been paid at least in accordance with the schedule of contributions certified by the actuary on 30 June 2010.



**Kevin Clark**  
**for and on behalf of KPMG LLP,**  
**Statutory Auditor**

Chartered Accountants  
15 Canada Square  
London  
E14 5GL

14 July 2011

Neither an audit nor a review provides assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the Trustee but no control procedures can provide absolute assurance in this area.

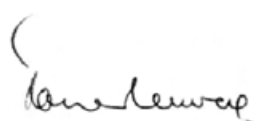
Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

## TRUSTEE'S SUMMARY OF CONTRIBUTIONS

The following summary of contributions is designed to show contributions as specified in the schedules of contributions and those paid in addition.

Contributions Receivable						
	2011	2011	2011	2010	2010	2010
	Per Schedule £ million	Additional £ million	Total £ million	Per Schedule £ million	Additional £ million	Total £ million
Employers' normal contributions	428	–	428	517	4	521
Members' normal contributions	149	–	149	155	–	155
Employers' deficit funding contributions	292	–	292	282	–	282
Employers' augmentation contributions	30	–	30	50	–	50
Employers' other contributions	7	–	7	6	–	6
Members' additional voluntary contributions	–	4	4	–	4	4
Members' added years' contributions	–	4	4	–	5	5
Total contributions (see Note 1 to the financial statements)	906	8	914	1,010	13	1,023

Approved by the Trustee and signed on behalf of the Directors by:



**J Newell OBE**  
Chair

14 July 2011

# ACTUARIAL CERTIFICATE

---

## Actuary's certification of schedule of contributions Royal Mail Pension Plan

### 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 could have been expected on 31 March 2009 to be met by the end of the period specified in the recovery plan dated 30 June 2010.

### 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 30 June 2010.

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

### **C G Singer**

Fellow of the Institute of Actuaries  
Towers Watson Limited  
Watson House  
London Road  
Reigate  
Surrey  
RH2 9PQ

30 June 2010



## APPENDICES

# APPENDIX 1

<b>Membership Analysis: 31 March 2011</b>		<b>Total RMPP</b>
<b>Employee Members at 31 March 2010</b>		<b>138,827</b>
Plus		
Employees joining scheme at age 18	0	
New records added (i)	72	
		72
Less		
Normal Retirements	2,982	
Ill Health Retirements	171	
Death in service	156	
Refunds of Contributions	34	
Deferred Pensioners	5,219	
Deferred – Dual Status	112	
Deletions	44	
No Liability (others)	12	
Unconfirmed Leavers	4	
Flexible Retirement members	4,410	
		(13,144)
<b>At 31 March 2011</b>		<b>125,755</b>
<b>Dual Status – Active Members with part benefits as pension at 31 March 2010</b>		<b>0</b>
Plus		
Members opting for flexible retirement – active	4,410	
New records added	3	
		4,413
Less		
New Pensioners taking full benefits	83	
New Ill Health	10	
Deferred – Dual Status	390	
Death in Retirement/Death in Service	5	
Deletions	2	
		(490)
<b>At 31 March 2011</b>		<b>3,923</b>
<b>Total Active Members</b>		<b>129,678</b>

(i) 'New records added' are where liability has been established and the record did not exist.

# APPENDIX 1

<b>Membership Analysis: 31 March 2011 (continued)</b>		<b>Total RMPP</b>
<b>Deferred Pensioner Members at 31 March 2010</b>		<b>115,914</b>
Plus		
	New Leavers	5,219
	Unconfirmed Leavers	4
		5,223
Less		
	Pensions commenced	2,551
	Death in Deferment	247
	Transfers to other schemes	390
	Deferred – Dual Status	16
		(3,204)
<b>At</b>	<b>31 March 2011</b>	<b>117,933</b>
<b>Dual Status – Deferred members with part benefits in pension at 31 March 2010</b>		<b>0</b>
Plus		
	Members opting for Flexible Retirement – active	504
	Members opting for Flexible Retirement – pensioner	2
	Members opting for Flexible Retirement – deferred	16
		522
Less		
	Pensions commenced	23
		(23)
<b>At</b>	<b>31 March 2011</b>	<b>499</b>
<b>Total Deferred Members</b>		<b>118,432</b>
<b>Pensioner Members at 31 March 2010</b>		<b>182,250</b>
Plus		
	Age Retirers	3,064
	Ill Health	181
	Deferred pensions coming into payment	2,570
	Widow/widower	2,203
	Child Pensioner	172
	Dependant	90
		8,280
Less		
	Deceased Pensioner	4,453
	Deceased Widow/Widower	2,312
	Deceased Dependant	33
	Deceased Child Pensioner	2
	Dependants/Child Pensioners ceasing to be eligible	218
		(7,018)
<b>At</b>	<b>31 March 2011</b>	<b>183,512</b>
<b>Total Pensioner Members</b>		<b>183,512</b>
<b>Members at 31 March 2011</b>		<b>431,622</b>

## APPENDIX 2

---

### Five Year History of the Fund

<b>Income</b>					
	2007 £ million	2008 £ million	2009 £ million	2010 £ million	2011 £ million
Employers' contributions	789	858	869	859	<b>757</b>
Member contributions and transfers-in	183	183	182	181	<b>157</b>
Investment income	383	446	390	499	<b>554</b>

<b>Benefits</b>					
	2007 £ million	2008 £ million	2009 £ million	2010 £ million	2011 £ million
Retirement pension	780	818	844	884	<b>912</b>
Lump sum retirement benefits	146	150	167	194	<b>279</b>
Death benefits and leavers	37	35	36	37	<b>40</b>

<b>Assets</b>					
	2007 £ million	2008 £ million	2009 £ million	2010 £ million	2011 £ million
Assets	23,460	23,688	20,250	25,984	<b>27,657</b>

## APPENDIX 3

---

### Statement of Investment Principles

#### 1. Introduction

- 1.1 This Statement of Investment Principles (the "Statement") has been prepared by Royal Mail Pensions Trustees Limited (the "Trustee"), who acts as Trustee for the Royal Mail Pension Plan (the "Plan"). The Statement sets out the principles governing the Trustee's decisions about the investment of the Plan's assets. The Trustee refers to this Statement when making investment decisions, to ensure that they are consistent with the principles set out in it.
- 1.2 The Statement is designed to meet the requirements of Section 35 of the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005.
- 1.3 The Trustee has obtained written professional advice from the Plan's Investment Consultant in preparing this Statement. The Trustee believes that the Investment Consultant meets the relevant requirements under Section 35 (3) of the Pensions Act 1995. In matters where the investment policy may affect the Plan's funding policy, advice has also been obtained from the Plan Actuary. The Trustee will obtain similar advice whenever it reviews this Statement.
- 1.4 The Trustee's investment powers are set out within the Plan's Trust Deed & Rules, subject to applicable legislation. If necessary, the Trustee will take appropriate legal advice regarding the interpretation of these. The Trustee notes that, according to the law, the Trustee has ultimate power and responsibility for the Plan's investment arrangements.
- 1.5 The Trustee seeks to maintain a good working relationship with Royal Mail Group (the "Company"), has consulted the Company in preparing this Statement and will consult the Company regarding any proposed changes to the Statement.
- 1.6 The Trustee does not expect to revise this Statement frequently because the Statement covers broad principles. The Trustee will review this Statement in response to any material changes to any aspects of the Plan, its liabilities, finances and the attitude to risk of the Trustee and the Company that it judges to have a bearing on the Statement. This review will occur no less frequently than triennially. Any such review will again be based on written expert advice and will include consultation with the Company.

## APPENDIX 3

---

### 2. Fund Governance

- 2.1 The Trustee is responsible for the investment of the Plan's assets but is permitted to delegate execution of these responsibilities. When determining which decisions to delegate, the Trustee has taken into account whether it has the appropriate training and is able to secure the necessary expert advice in order to take an informed decision. The Trustee's ability to execute the decision effectively is also taken into account. Details of the Trustee's duties and responsibilities are included in the Appendix.
- 2.2 The Trustee has established the Investment Sub-Committee ("ISC") to focus on investment issues. Details of the ISC's duties and responsibilities are included in separate Terms of Reference.
- 2.3 The Trustee has appointed an Investment Consultant to advise the Trustee and the ISC as to the setting, implementation and monitoring of the investment policy. Details of the Investment Consultant's duties and responsibilities are included in the Appendix (page 53).
- 2.4 The Trustee has chosen to delegate day-to-day management of the Plan's investments to a number of Investment Managers, in accordance with Section 34 of the Pensions Act 1995. The terms of each Investment Manager's appointment are contained in the Investment Management Agreement between the Investment Manager and the Trustee.
- 2.5 The Trustee has appointed a Performance Measurer independent of the Plan's Investment Managers. Summary details of the Performance Measurer's duties and responsibilities are included in the Appendix.
- 2.6 The Custodian is responsible for the safekeeping of the Plan's assets and performs the associated administrative duties (e.g. trade settlement, dividend collection, corporate actions, tax reclamation and proxy voting). The details of the Custodian's appointment and duties are set out in the contract between the Trustee and the Custodian. Summary details of the Custodian's duties and responsibilities are included in the Appendix.

### 3. Investment Objective

#### 3.1 Meeting the Plan's Liabilities

The Trustee recognises that in setting investment policy to meet the liabilities, it must have regard to both the potential for the investment policy to generate positive return that would lead to an improvement in the Plan's funding position and to the potential for poor returns that would cause it to deteriorate. The Trustee recognises that there is a natural conflict between improving the potential for positive return and limiting the potential for poor return. The Trustee has specified objectives for the investment policy that balance these requirements.

## APPENDIX 3

---

### 4. Risk and Return

- 4.1 The Trustee recognises that it is not necessarily possible, or even desirable, to select investments that exactly match the Plan's estimated liabilities. Given the ongoing commitment of the Company to the Plan, a degree of investment risk can be taken, in the expectation of generating excess returns relative to the lowest risk strategy.
- 4.2 In deciding to take investment risk relative to the liabilities, the Trustee has carefully considered the following possible consequences:
- Over any time period, the assets might not achieve the anticipated excess return relative to the liabilities. This would result in the deterioration of the Plan's financial position and consequently may result in higher contributions than currently expected from the Company.
  - There may be a shortfall of assets relative to the liabilities in the event of discontinuance of the Plan. This consequence is particularly serious if it coincides with the Company being unable to make good the shortfall.
- 4.3 The Trustee has taken advice on these issues from the Investment Consultant and the Plan Actuary.
- 4.4 The Trustee's willingness to take investment risk is dependent on the continuing financial strength of the Company and its willingness to contribute appropriately to the Plan. The financial strength and perceived commitment of the Company to the Plan is monitored by the Trustee and the Trustee will review the level of investment risk relative to the liabilities should either of these change.
- 4.5 The degree of investment risk the Trustee is willing to take also depends on the financial position of the Plan. The Trustee will monitor the Plan's financial position and liability profile, with a view to reviewing the investment objective, risk tolerance and/or return target should there be a significant change in either.
- 4.6 There are many different combinations of assets and investment management approaches that could be adopted in targeting a particular level of investment risk and/or expected return. The Trustee's objective is to identify those combinations that it believes are likely to maximise the return (net of all costs) for the level of risk taken.

## APPENDIX 3

---

### 5. Diversification of Risks

- 5.1 To control the risk of deterioration in the financial position of the Plan, the Trustee requires the Plan's assets to be adequately diversified between different asset classes, especially among those asset classes which represent significant risk relative to the liabilities.
- 5.2 The asset categories set out below are among those that have been considered for the Plan's investments.
- 5.2.1 **UK Government bonds ("gilts")** – although gilts are the lowest risk asset relative to the Plan's liabilities, they are not risk free. *Interest rate risk* exists if the cash-flow profile of the gilts held by the Plan differs from that of the Plan's projected benefit cash-flows due to members. *Inflation risk* exists if the assets and projected liabilities have different linkages to inflation. A sovereign *credit risk* would exist if the UK government were not certain to make the payments due on the gilts (a default) and/or if markets perceived an increase in the risk of default and the market values of gilts fell as a result.
- 5.2.2 **Non-Government Sterling bonds** – in addition to interest rate risk and inflation risk, investing in non-Government bonds introduces *credit risk*. Credit risk is the possibility that the payments due under the bond might not be made by the borrower (that is, that the borrower defaults) and/or that markets perceive an increase in the risk of default and the market values of these bonds fall as a result.
- 5.2.3 **Non-Sterling bonds** – in addition to the risks listed above, investing in non-Sterling bonds adds *currency risk* as the Plan's liabilities are denominated in Sterling. Consequently, changes in exchange rates will impact the relative value of the assets and liabilities. Non-Sterling bonds may be issued by governments and non-governmental borrowers.
- 5.2.4 All interest bearing assets, including high yield bonds and emerging markets debt as well as cash, share the risk characteristics detailed above to varying degrees. The Trustee has also considered the use of derivatives which can be used in combination with or as an alternative to bonds and as a means of managing currency exposures. In using derivatives, the Plan is exposed to the associated *counterparty risks*, a form of credit risk in that the counterparty to the derivative transaction could fail to meet its obligations to the Plan.
- 5.2.5 **Equities** – equities, whether public or private, represent an ownership stake in a company. The value of this stake is determined by the buyer and seller of the stake and there is no certain value to this investment (unlike the payments contracted under a bond, subject to credit and currency risk). A periodic payment, in the form of a dividend, might be made to an equity holder although the timing and amount of this is uncertain. The uncertainty of the return from equities relative to the liabilities means there is a significant *equity/liability mismatch risk*.
- 5.2.6 **Property** – the return generated by an investment in property can be broken down into income and capital. The income component is subject to interest rate risk and inflation risk relative to the liabilities. There is also uncertainty as to the long-term level of the income. The capital value of the property is determined by the buyer and seller of the property and is not certain. These uncertainties, including currency risk in the case of properties outside the UK, constitute a significant *property/liability mismatch risk*.

## APPENDIX 3

---

- 5.3 The Trustee has chosen to employ active management for a proportion of the Plan's assets. The active managers are given asset class benchmarks which it is their objective to outperform. The asset class benchmarks have the risks relative to the liabilities mentioned above (interest rate and inflation risk, currency risk, equity mismatch risk etc.). Active managers will seek to outperform the benchmarks by taking positions against them and this introduces a further *active risk* into the investment policy. Part of this active risk is the risk taken by the Trustee in selecting active investment managers that some or all of the managers selected lack the skill to outperform their benchmarks with a sufficiently high degree of confidence.
- 5.4 Some of the managers may employ derivatives for the purposes of efficient portfolio management and subject to agreed restrictions. The risks associated with investing in derivatives are largely the same as those of investing in the underlying asset categories.
- 5.4.1 *Leverage* may be an additional risk introduced if the economic exposure arising from investing in a derivative is greater than the capital committed to the investment.
- 5.4.2 *Administrative risk* may also be present depending on the terms of the contract governing the derivative.
- 5.5 A *regulatory risk* arises from investing in a market environment where the regulatory regime may change. This may be compounded by *political risk* in those environments subject to unstable regimes.
- 5.6 There is a *liquidity risk* attaching to assets which may not always be readily realisable or whose market values may be adversely affected as a direct consequence of the Plan seeking to realise them. This risk applies to all the asset categories listed above, albeit to varying degrees. The Trustee believes that the Plan's long-term investment horizon justifies a degree of liquidity risk and that such risk is rewarded. Thus, a proportion of the Plan's assets are invested in less liquid investments, but the majority are realisable at short notice.
- 5.7 The Trustee acknowledges that it is not possible to monitor all the risks listed above at all times. However, it seeks to take on those risks for which reasonable potential exists to be rewarded over time, in the form of excess returns, and it seeks to expose the Plan to a diversified range of risks. The Trustee reviews the overall level of risk periodically and when considering the impact of any proposed change of investment strategy. The resulting combination of assets and investment management approaches has been selected to be consistent with the investment objective.

## APPENDIX 3

---

### 6. Strategic Management

6.1 The Plan's strategic asset allocation has been designed to capture the strategic risks that the Trustee has decided to take. The detail of the strategic asset allocation as at 1 April 2010 is set out in the table below:

	Strategic Asset Allocation (%)
Global Equities	33
Emerging Market Equities	4
Global Small Cap Equities	3
Private Equity	4
Property	10
High-yield Bonds	4
Investment Grade Credit	19
Nominal and Index-linked Bonds	60
Cash and derivative commitments	(37)
	<b>100</b>

6.2 The derivative commitments relate to the Plan's commitments under various contracts such as swaps and futures used to obtain part of the economic exposures set out above.

### 7. Investment Managers

7.1 The Investment Managers have full discretion to buy and sell investments on behalf of the Plan, subject to agreed constraints. They have been selected for their expertise in different specialisations and each manages investments for the Plan to a specific mandate, which includes performance objectives, risk parameters, and timescales over which their performance will be measured.

7.2 Where assets are managed on a segregated basis, the Trustee is able to tailor the nature of the investment mandate and restrictions on how assets are managed to the Plan's specific requirements. The precise terms differ between the Investment Managers depending on the nature of their mandate.

7.3 The Trustee accepts that it is not possible to specify investment restrictions where assets are managed via pooled funds, but nonetheless takes appropriate legal and investment advice regarding the suitability of the pooled fund and its documentation.

## APPENDIX 3

---

### 8. Cashflow Management

- 8.1 The Trustee recognises the liquidity risks associated with the level of cashflow required by the Plan over a specified period.
- 8.2 The Plan's administrator monitors the monthly benefit outgoings to ensure that sufficient cash balances are available.
- 8.3 In general, the Plan's Investment Managers have discretion in the timing of realisations of investments and in considerations relating to the liquidity of those investments. In the event that the cashflow of the Plan is negative, the Trustee decides from which asset classes and managers assets should be realised to meet the Plan's cashflow needs.

### 9. Additional Voluntary Contributions

- 9.1 Additional Voluntary Contributions (AVCs) made by members may either be invested in a range of pooled investment vehicles to provide money purchase benefits or be used to purchase 'added years' of reckonable service which are invested with the main Plan's assets. The Trustee's objective in relation to money purchase AVC funds is to provide a reasonable range of appropriate funds, recognising that members can choose to invest outside the Plan.

### 10. Responsible Investment

#### 10.1 Sustainable Investment

- 10.1.1 The Trustee aims to be an engaged and responsible long-term investor in the assets and markets in which it invests. The Trustee believes that the integration of these factors within investment managers' investment processes is not detrimental to the risk and the sustainable long term expected returns from the Plan's investments. All of the Plan's investment managers are encouraged to take these factors into account within their respective investment processes.
- 10.1.2 The Plan is a signatory to the United Nations based Principles for Responsible Investment which acts as a framework for investors to take environmental, social and governance issues into account.

#### 10.2 Corporate Governance

- 10.2.1 The Trustee has given the Investment Managers full discretion in exercising rights, including voting rights, in relation to the Plan's investments.
- 10.2.2 The Trustee encourages best practice in terms of engagement with investee companies. It therefore seeks to require its Investment Managers to discharge their responsibilities in respect of investee companies in which they invest in accordance with the UK Stewardship Code drawn up by the Financial Reporting Council. The Plan became a signatory to the code in 2011.
- 10.2.3 It believes that good corporate governance is important and it expects the Investment Managers to have suitable policies which promote the concept of good corporate governance and, in particular, a policy of exercising voting rights. The Trustee holds the Investment Managers accountable for their decisions in the use of voting rights.

## APPENDIX 3

---

### 10.3 Social Investment

10.3.1 With regard to ethical and related considerations, the active investment managers have, where relevant, been instructed by the Trustee:

- Not knowingly to invest in:
  - Countries that are on the United Nations trade embargo list;
  - Companies that are involved in terrorism, money laundering, drug trafficking or any other serious crime;
  - Companies that do not take into account the reasonable long-term interests of their stakeholders.
- To use their best efforts to avoid investing in companies that in the Investment Manager's opinion persistently behave without due regard for the environment or society as a whole.

### 11. Compliance With and Review of This Statement

11.1 The Trustee will review compliance with this Statement on a regular basis. The regular review will occur no less frequently than triennially to coincide with the Actuarial Valuation, in the light particularly of any changes to the funding position of the Plan.

11.2 Each Investment Manager will provide written confirmation that they have complied with their obligations under the Pensions Act 1995. The Trustee undertakes to advise the Investment Managers promptly and in writing of any material change to this Statement.

11.3 The Trustee will also periodically review this statement as stated in paragraph 1.6 above. Any review of this Statement will be in response to any material changes to any aspect of the Plan, its liabilities, finances and the attitudes to risk of the Trustee and the Company, which it judges to have a bearing on the stated investment policy.

11.4 A copy of this Statement has been provided to the Company, Investment Consultant, Investment Managers, Performance Measurer and Custodian.

31 March 2011

## APPENDIX 3

---

### Appendix to Statement of Investment Principles – Plan Governance

This appendix sets out a summary of the Plan's current governance structure. It is not a formal part of the Statement of Investment Principles. The responsibilities of the Trustee and its current advisers are set out below.

#### A1. Trustee

The Trustee is responsible for the investment of the Plan's assets. The Trustee takes some decisions and delegates the balance. An overview of the Trustee's duties and responsibilities is as follows:

- Overall responsibility for the Plan's investments.
- Compliance with legislative and regulatory requirements.
- Define the terms of operation of the Investment Sub-Committee (ISC) of the Trustee.
- Appoint the members of the ISC.
- Appoint the Investment Consultant.
- Decide on investment strategy, based on recommendations from the ISC and the Investment Consultant.
- Appoint the Investment Managers and Custodian, based on recommendations from the ISC and the Investment Consultant.

The Trustee has established the ISC under written Terms of Reference to focus on investment issues. The ISC has been delegated the responsibility for ongoing monitoring of the current investment arrangements against their agreed objectives and for reviewing and making recommendations to the Trustee for changes to investment policy as necessary from time to time. These include recommendations on the overall strategic benchmark and the appointments of investment managers and advisers.

#### A2. Administrator

Royal Mail Pension Service Centre administers the benefits of the Plan and monitors the associated monthly outgoings.

#### A3. Custodian

In relation to the segregated investments the Trustee has appointed JP Morgan Chase Bank as the Plan's Custodian, responsible for the safekeeping of a part of the Plan's assets and performs the associated administrative duties. The Trustee is not responsible for the appointment of the custodian of the assets contained within pooled fund investments.

#### A4. Investment Consultant

The Investment Consultant is Mercer, regulated by the Financial Services Authority.

#### A5. Performance Measurer

The Performance Measurer is JP Morgan Chase Bank. The details of their appointment, including reporting and analysis to be provided and the fees for the service are set out in a contract entered into between the Trustee and JP Morgan Chase Bank.

## APPENDIX 4

---

### The UK Stewardship Code Principles

The Financial Reporting Council published 'The UK Stewardship Code' in July 2010.

The principles of the code are that institutional investors should:

- publically disclose their policy on how they will discharge their stewardship responsibilities;
- have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed;
- monitor their investee companies;
- establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value; and
- report periodically on their stewardship and voting activities.

The Trustee has adopted the UK Stewardship Code.

## APPENDIX 5

---

### The Principles for Responsible Investment

The Plan has signed up to the United Nations backed Principles for Responsible Investment. The principles are reproduced below.

As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

#### 1. We will incorporate ESG issues into investment analysis and decision-making processes.

##### Possible actions:

- 1.1 Address ESG issues in investment policy statements.
- 1.2 Support development of ESG-related tools, metrics and analyses.
- 1.3 Assess the capabilities of internal investment managers to incorporate ESG issues.
- 1.4 Assess the capabilities of external investment managers to incorporate ESG issues.
- 1.5 Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis.
- 1.6 Encourage academic and other research on this theme.
- 1.7 Advocate ESG training for investment professionals.

#### 2. We will be active owners and incorporate ESG issues into our ownership policies and practices.

##### Possible actions:

- 2.1 Develop and disclose an active ownership policy consistent with the Principles.
- 2.2 Exercise voting rights or monitor compliance with voting policy (if outsourced).
- 2.3 Develop an engagement capability (either directly or through outsourcing).
- 2.4 Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights).
- 2.5 File shareholder resolutions consistent with long-term ESG considerations.
- 2.6 Engage with companies on ESG issues.
- 2.7 Participate in collaborative engagement initiatives.
- 2.8 Ask investment managers to undertake and report on ESG-related engagement.

## APPENDIX 5

---

### 3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.

#### Possible actions:

- 3.1 Ask for standardising reporting on ESG issues (using tools such as the Global Reporting initiative).
- 3.2 Ask for ESG issues to be integrated within annual financial reports.
- 3.3 Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact).
- 3.4 Support shareholder initiatives and resolutions promoting ESG disclosure.

### 4. We will promote acceptance and implementation of the Principles within the investment industry.

#### Possible actions:

- 4.1 Include Principle-related requirements in requests for proposals (RFPs).
- 4.2 Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate).
- 4.3 Communicate ESG expectations to investment service providers.
- 4.4 Revisit relationships with service providers that fail to meet ESG expectations.
- 4.5 Support the development of tools for benchmarking ESG integration.
- 4.6 Support regulatory or policy developments that enable implementation of the Principles.

### 5. We will work together to enhance our effectiveness in implementing the Principles.

#### Possible actions:

- 5.1 Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning.
- 5.2 Collectively address relevant emerging issues.
- 5.3 Develop or support appropriate collaborative initiatives.

## APPENDIX 5

---

### 6. We will each report on our activities and progress towards implementing the Principles.

#### **Possible actions:**

- 6.1 Disclose how ESG issues are integrated within investment practices.
- 6.2 Disclose active ownership activities (voting, engagement, and/or policy dialogue).
- 6.3 Disclose what is required from service providers in relation to the Principles.
- 6.4 Communicate with beneficiaries about ESG issues and the Principles.
- 6.5 Report on progress and/or achievements relating to the Principles using a 'Comply or Explain'\* approach.
- 6.6 Seek to determine the impact of the Principles.
- 6.7 Make use of reporting to raise awareness among a broader group of stakeholder.

\*The Comply or Explain approach requires signatories to report on how they implement the Principles, or provide an explanation where they do not comply with them.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of the environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

**We encourage other investors to adopt the Principles.**

## APPENDIX 6

---

### Statement on Risk Management and Internal Control

The Trustee Board has put in place a risk management framework for the identification, assessment, treatment, monitoring and reporting of risk. The process helps support the Trustee's objectives by linking to the business plan, identifying and reacting to emerging risks, and developing cost-effective solutions to risk.

Risks identified and action plans for their management are recorded in the Risk Register and reviewed regularly by the Audit and Accounts Sub-Committee, together with reports testing the internal controls in place to mitigate the identified risks. All Sub-Committees of the Trustee Board regularly review the risks within their domain. The Trustee Board retains overall responsibility for risk management and receives a report, at least annually, on the Risk Register and effectiveness of internal controls.

It should be borne in mind that the system of internal control and risk management is designed to manage rather than eliminate the risk of failure to achieve the Trustee's objectives. Summarised below are the most important risks currently faced by the Plan. They are being managed to support the long-term objectives of the Trustee Board:

#### **1. Plan Sponsor becomes insolvent**

Royal Mail Group's continuing funding of the Plan so that all members receive the benefits they are entitled to needs to be carefully monitored on an ongoing basis. The Trustee ensures that contributions from Royal Mail Group are paid on time in accordance with the agreed schedule and it regularly reviews the Company finances. In addition, following the 2006 valuation, £1 billion was set aside in an escrow account for the Trustee to call on should the need arise.

#### **2. Employer covenant monitoring is inaccurate**

The funding of the Plan could be affected if the monitoring of the Plan Sponsor's covenant (i.e. its ability and willingness to finance the Plan) is not accurate. To this end, the Trustee receives regular independent reports from PricewaterhouseCoopers LLP on the strength of this covenant, including Royal Mail Group's transformation plans.

#### **3. The Government's proposals for Royal Mail Group's pensions deficit are not implemented**

The Postal Services Bill has now received Royal Assent. The proposal for the Government to take on the pensions deficit requires European Union state aid approval before it can proceed. A decision on this is expected early in 2012. The Trustee continues to engage with both the Government and Royal Mail Group regarding this issue.

#### **4. Investment performance relative to the liabilities is adverse because of market movements or inappropriate strategy**

Investment market movements affect the value of both the assets and the liabilities of the Plan. When liabilities increase relative to assets, the funding position deteriorates. The Trustee regularly reviews its investment strategy and as and when market conditions are favourable, it continues to reduce the level of risk inherent in its assets by diversifying its portfolio and by increasing its proportion of liability matching assets held.

## APPENDIX 6

---

### **5. Real yields move substantially below trigger levels for a sustained period**

The Trustee's strategy of de-risking its investments by reducing its proportion of return seeking assets in favour of liability matching assets depends upon market conditions being acceptable for carrying out the required transactions. Should the market be unfavourable for a sustained period this could slow down the long term de-risking strategy and this could impair the funding position. The Trustee constantly monitors market conditions and trigger levels.

### **6. Membership data is incorrect**

Inaccurate or missing data can cause errors in Plan administration or provide misleading information on benefit illustrations sent to members. The Pensions Service Centre has a dedicated data integrity team working on verifying data.

### **7. Deflation (sustained period of negative inflation)**

Sustained deflation would impact negatively on the Plan's funding position through adverse yields from index-linked gilts relative to the Plan's liabilities. Equities would also produce adverse returns. The Trustee constantly monitors economic forecasts and holds fixed interest as well as index-linked gilts.

### **8. Inflation (sustained period of inflation exceeding 5%)**

Sustained inflation would produce adverse returns from fixed interest investments relative to the Plan's liabilities. However, a proportion of the Plan's liabilities have increases capped at 5%. As with the deflation risk, the Trustee constantly monitors economic forecasts.

# APPENDIX 7

---

## Governance Policy

### Trustee Mission and Key Objectives

The mission and key objectives of the Trustee Board of the Royal Mail Pension Plan ("the Plan") are:

- Mission:** to pay all of the benefits as they fall due under the Plan, in accordance with the Trust Deed and Rules
- Key objectives:**
- to maintain an appropriate funding basis for the Plan
  - to maintain an appropriate investment strategy for the Plan
  - to ensure that the membership administration of the Plan is properly carried out
  - to ensure best practice governance of the Plan

The key objectives are to be achieved in a cost-effective manner.

The Trustee also has a long-term aim of establishing the funding of the Plan on a self-sufficient basis for the financial security of all members.

### Plan Governance

The Trustee has a responsibility to ensure that the Plan is managed and administered in accordance with its Trust Deed and Rules and in accordance with all relevant laws and regulations.

The Trust Deed and Rules stipulate primarily:

- How the Trustee conducts business including powers and discretions
- The procedure for agreeing funding of the Plan
- The contributions payable by the participating employers and Plan members
- The investment powers of the Trustee
- The benefits payable to Plan members

The Trustee governs the Plan through a number of policies and procedures. These are shown in Annex A on pages 63 and 64, categorised by each of the four main objectives of the Trustee Board.

## APPENDIX 7

---

### Delegation of powers and duties

Under the Trust Deed and Rules the Trustee may delegate the powers, duties and responsibilities of managing the Plan. The administration of the Plan is carried out by Royal Mail Group (the "Pensions Service Centre") but the Trustee retains the ultimate responsibility for ensuring its effectiveness. The Trustee has delegated limited powers with regard to certain discretionary benefits to the Trustee Executive and Pensions Service Centre.

### Royal Mail Pensions Trustees Ltd ("RMPTL")

RMPTL is a wholly owned subsidiary of Royal Mail Group Ltd. Its sole purpose is to act as corporate Trustee to the Plan. It does not trade but it is a registered company and therefore it must act in accordance with the Companies Act and with its Memorandum and Articles of Association. The Memorandum states the principal purpose of the company and its objects, whilst the Articles stipulate how business is conducted including proceedings at meetings, structure of the Board, appointment and removal of directors, voting and delegation of powers.

### Trustee Board composition

The Board of RMPTL is supported by an executive team of pensions management professionals who advise the Board on its responsibilities and ensure that Board decisions are fully implemented.

The Trustee Board has an equal number of member and employer-nominated Trustee Directors, together with an independent Chair. All Board members are appointed by Royal Mail Group, with the agreement of the Royal Mail Unions and the eligible pensioner membership, where appropriate. Five of the Board members are nominated by Royal Mail Group, four by the Royal Mail Unions (by ballot where appropriate) and one is selected by a pensioner ballot. The independent Chair is appointed by Royal Mail Group after agreement with the Unions. No matter who they are nominated by, each Trustee Director is responsible for protecting the benefits of all members. Each Trustee Director contributes his or her own blend of business knowledge and experience when making Trustee decisions.

### Sub-Committees

The Board has established the following standing Sub-Committees:

- Administration
- Audit and Accounts
- Funding
- Investment.

Additionally, the following Sub-Committees conduct business by correspondence and by meeting as and when required:

- Internal Disputes Resolution
- Discretions.

## APPENDIX 7

---

### Risk Committee

Additionally, a Risk Committee, consisting of members of the Executive, has been established to discuss matters relating to risk management and internal control. It reports to the Audit & Accounts Sub-Committee. Other Sub-Committees are established on an ad hoc basis as and when required, such as the Member Nominated Directors Sub-Committee. The Investment Sub-Committee has established an Implementation Working Group which monitors progress of investment strategy.

All the Sub-Committees of the Trustee Board have approved terms of reference which include details of how they operate, their duties and powers. In general terms, Sub-Committees monitor the services provided by key external service providers, have limited delegated powers of appointment, carry out scrutiny of reports and make recommendations for action to the Trustee Board.

### The Trustee Executive

The Trustee is supported by its Executive, a team of pensions professionals who provide advice and support services. The Trustee has delegated authority to enter into certain agreements on the Trustee's behalf to the Executive but retains the decision making responsibility in such cases.

### Trustee Training

The Board follows the Pensions Regulator's Code of Practice known as Trustee Knowledge and Understanding, which was introduced by the Pensions Act 2004. All Trustee Directors are required to complete the Pensions Regulator's training course, the "Trustee Toolkit".

### Assessment and Benchmarking

The Trustee carries out regular self-assessments of its Board's effectiveness. It also participates in governance surveys and is represented in several benchmarking groups of pension schemes.

### Relationship with Royal Mail Group Limited ("RMG")

RMG is the principal employer and sponsor of the Plan. The Trustee engages with RMG on investment strategy and funding arrangements through the Trustee's Investment and Funding Sub-Committees. The Chair and Chief Executive of RMPTL present an annual report on the affairs of the Plan to the Board of Royal Mail Holdings plc.

### Pensions Partnership

Regular dialogue is carried out between the RMPTL Executive, the Pensions Strategy Team of RMG and the Pensions Service Centre (which provides administration services to the Plan) through the Pensions Partnership.

### Other Stakeholders

The Trustee engages with its other stakeholders, including the following:

- Her Majesty's Government (as the sole Shareholder in Royal Mail Group);
- Members of the Plan;
- Representative bodies of the members of the Plan, namely the Communication Workers Union, the Communication Managers Association section of UNITE, and the Pensioner Federation;
- The Pensions Regulator;
- Postcomm.

# ANNEX A TO APPENDIX 7

## Key Policies and Procedures

Policy/Procedure	Date Last Reviewed
<b>Funding</b>	
Triennial Valuation Report	June 2010
Statement of Funding Principles	June 2010
Annual Actuarial Report	June 2010
Summary Funding Statement	June 2010
Schedule of Contributions	June 2010
Recovery Plan	June 2010
<b>Investment</b>	
Statement of Investment Principles	June 2010
Responsible Investment policy	Sept 2010
Myners Compliance report	Nov 2009
Quarterly Investment Reports	Mar 2011
<b>Investment Manager Agreements:</b>	
Beachpoint	April 2009
BlackRock	Sept 2009
Dimensional	April 2009
Hamilton Lane	April 2009
Hermes cash	Sept 2009
Hermes emerging markets	Jan 2011
Hermes index-linked	Sept 2009
LaSalle	June 2010
Legal & General	April 2009
Pantheon	April 2009
Pathway	April 2009
Standard Life	April 2009
Walter Scott	April 2009
Wellington	April 2009
<b>Administration</b>	
Pensions Service Centre ("PSC") pricing and service level agreement	Jan 2011
Internal Dispute Resolution procedure	Dec 2007
PSC compliance statements	Mar 2011
Member Communications Strategy	July 2009
Review of Discretionary powers	Sept 2008

# ANNEX A TO APPENDIX 7

Policy/Procedure continued	Date Last Reviewed
<b>Governance</b>	
Trust Deed and Rules	Nov 2009
RMPTL Memorandum & Articles	Feb 2009
Trustee Board and Sub-Committee meetings schedule	May 2011
<b>Sub-Committees terms of reference:</b>	
Investment	Mar 2009
Funding	Feb 2008
Audit & Accounts	Feb 2008
Administration	Feb 2008
Discretions	Feb 2008
IDR	Feb 2008
Business Plan	Mar 2011
Member Nominated Trustee nomination and selection process	Sept 2010
Induction process for new Trustee directors	Oct 2008
Business Continuity Plans for RMPTL and key service providers	Mar 2011
Conflicts of Interest Policy	Nov 2009
Risk Register	Mar 2011
Freedom of Information Act procedure	Nov 2009
Notifiable Events and whistle-blowing report	Mar 2011
Review of compliance with the Pensions Regulator's codes of practice	Jan 2010
Board effectiveness review	July 2010
Trustee Knowledge & Understanding review	July 2010
<b>Assessment of advisers:</b>	
Lawyers: Sackers, CMS Cameron McKenna, Burness	May 2010
Actuary: Towers Watson	July 2011
Covenant Reviewer: PWC	Jan 2009
Auditors: KPMG	Dec 2010
AVC Consultant: Mercer	Dec 2010
Investment Consultant: Mercer	Mar 2010
Custodian: JP Morgan	Sept 2010
<b>Contracts and Service Level Agreements for key providers:</b>	
Lawyers: Sackers	Sept 2005
Actuary: Towers Watson	Oct 2007
Covenant Reviewer: PWC	Sept 2006
Auditors: KPMG	Jan 2008
Investment Consultant: Mercer	Oct 2005
Custodian: JP Morgan	Nov 2005
Accounting & Tax: Hermes	June 2009
Publicity protocol	Dec 2008
HMG Confidentiality agreements	Mar 2009
Business travel, hospitality and gifts policy	May 2011

# GLOSSARY OF TERMS

---

## **Added Years**

A method of increasing pensionable service for those members wishing to provide for enhanced pensions benefits by paying additional contributions. New Added Years arrangements and changes to existing Added Years arrangements (other than cancelling regular contributions) are no longer available.

## **Additional Voluntary Contributions (AVCs)**

Contributions made by active members to purchase additional benefits.

## **Asset Allocation**

The proportions in which the Plan's assets are distributed between different classes of investment.

## **Consumer Prices Index (CPI)**

A measure of inflation, based on the geometric average change in cost of a fixed basket of products and services. CPI excludes a range of costs included in RPI – notably mortgage interest and a number of other housing components.

## **Contracting Out**

The use of the Pension Plan to provide benefits in place of the State Second Pension (S2P).

## **Contributory Pay**

Basic annual salary (including London weighting and contributory allowances) less, for Section C employees only, the Lower Earnings Deduction of £3,328 per annum for full-timers (scaled down for part-timers).

## **Corporate Trustee**

The Plan is managed by a corporate trustee company, Royal Mail Pensions Trustees Limited, acting as the Plan's Trustee.

## **Deferred Pensioners**

Members of the Plan who have left their employment and have ceased contributing. They each have a benefit preserved in the Plan, payable at normal retiring age or on earlier death based on their period of service.

## **Derivatives**

Financial contracts which derive their value from some other underlying asset. Examples include futures, options and swaps.

## **Emerging Market Equities**

This is an overseas equities asset class which covers countries with developing economies. This asset class currently covers certain countries in Asia, Latin America, Europe and Africa.

## **Equities**

Shares in UK and overseas companies.

## **Fixed Interest Securities**

Investments on which a fixed rate of interest is received.

# GLOSSARY OF TERMS

---

## **Futures and Options Contracts**

A futures contract is a firm agreement to buy or sell a security or quantity of securities at an agreed price and future date. An option contract confers the right without the obligation to complete a similar transaction at an agreed price and future date. In particular, stock futures and options are used by the Plan as a means to buy or sell, with a single transaction, the equivalent of a wide range of shares that are the constituents of stock market indices. Similarly, bond futures and options contracts relate to future transactions in UK and overseas bonds.

## **Guaranteed Minimum Pension (GMP)**

The minimum pension which an occupational pension scheme must provide as one of the conditions of contracting out pre 6 April 1997 service.

## **Index Linked Securities**

Stocks of which the capital value is linked to the rate of inflation.

## **Investment Return**

The return achieved by the Plan's investments in respect of both income and capital gains (realised and unrealised) normally expressed as an equivalent annual rate.

## **Money Purchase Benefits**

Pensions and lump sums which are based on the accumulated value of contributions together with investment returns. Benefits on a money purchase basis are not related to either the member's salary or period of service.

## **Over The Counter (OTC) Contracts**

Contracts traded directly between the two parties rather than those which take place on a public, regulated exchange.

## **Realised Gains**

The net gain on investments sold, calculated by comparing the selling price with the price at which they were purchased, or with the value at which they were transferred to the Plan at inception.

## **Retail Prices Index (RPI)**

A measure of inflation, based on the arithmetic average change in cost of a fixed basket of products and services. RPI covers a range of costs excluded from the CPI – notably mortgage interest and a number of other housing components.

## **Sections A, B, C, D and E**

Section A essentially mirrors the provisions of the Principal Civil Service Pension Scheme and only those who became members of POSSS before 1 December 1971 have an opportunity to elect for Section A benefits. Section B provides benefits for members of POSSS who joined after 30 November 1971. Section C provides benefits for members of the Plan who joined since 1 April 1987 as members of Section C and Section C Supplementary Plan. Section D contains the matching AVC arrangement for Section C members. Section E replicates the provisions of Section A and B but without the enhanced pension benefits on redundancy.

# GLOSSARY OF TERMS

---

## Section C Supplementary Plan

A Plan to which full-time employee members may contribute £150 per annum (scaled down for part-timers). For most employee members, the Employer matches these contributions; for higher earners there is a lower Employer contribution or no contribution.

## Short-term Investments

Securities with a maturity of a year or less. Examples are bank deposits, deposits in the interbank market, certificates of deposit and Treasury bills.

## Swaps

Swaps are derivative contracts between two parties in which they agree to exchange one set of cash flows for another.

## The Pensions Regulator

A statutory body which regulates pension schemes.

## Time Value Of Money

The idea that money available at the present time is worth more than the same amount in the future due to its potential earning capacity (i.e. its ability to earn interest).

## Transfer Value

The cash equivalent or present value of a deferred pensioner's preserved benefit which can be used to purchase benefits in a new employer's scheme or a personal pension.

## Unlisted Investments

Stocks and shares not traded on a recognised stock exchange.

## Unrealised Gains

The net increase in the market value of investments held, but not yet realised.

## CONTACT DETAILS

---

Members' queries about the Plan generally or about individuals' entitlement to benefits should be addressed to:

**Pensions Service Centre**  
**PO Box 500**  
**Chesterfield**  
**S49 1WX**

Telephone **0114 241 4545** (Postline **5456 4545**)

E-mail [pensionshelpline@royalmail.com](mailto:pensionshelpline@royalmail.com)

The Plan website is:  
[www.royalmailpensionplan.co.uk](http://www.royalmailpensionplan.co.uk)

Royal Mail Pensions Trustees Limited  
Published August 2011 © Royal Mail Group Ltd.  
Royal Mail Group Ltd is registered in England and Wales.  
Registered office: 100 Victoria Embankment, LONDON EC4Y 0HQ.  
Registered number: 4138203