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# report & accounts 08/09

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of the Royal Mail Pension Plan

*looking after your pension*



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

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## Trustee Directors & Advisers

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## 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 Pension 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 recently 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. He joined the Trustee Board in April 2003. He is also a Trustee of the Royal Mail Retirement Savings Plan.



### Jonathan **Evans** OBE BSc

Jonathan Evans is Company Secretary of Royal Mail Group. He joined the Company directly from university in 1974, and held a wide range of senior management positions across the Group prior to his current appointment in 1999. 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.



## trustee directors & advisers



### **Martin Gafsen** BA, Solicitor, MBA

Martin Gafsen is the Group Property Director at Royal Mail. 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.



### **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 Lindley** BSc FFA

Geoff Lindley 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 ACMA

Alwen Lyons is the Head of Mails and Retail Marketing in Post Office Ltd. 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 Director.



# trustee directors & advisers



Trustee Directors	Number of formal Trustee Board meetings attended	Number of meetings could have attended
Mrs J Newell OBE Chair	7	7
Mr P Browne (appointed 1 October 2008)	4	4
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 K Shaw (mandate ended 30 September 2008)	2	3
Mr R Wilde	5	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  
(Change of registered office 8 June 2009)

## Administration

Pensions Service Centre  
PO Box 500  
CHESTERFIELD  
S49 1WX

# trustee directors & advisers



## Executive

Peter Metcalfe FCCA MCIPD  
Head of Finance and Membership

Gerry P Degaute ACII FPMI  
Chief Executive

Heath Mottram FIA  
Head of Investment and Funding



## Actuary

Colin Singer FIA of Watson Wyatt

## Auditors

KPMG LLP

## Bankers

The Royal Bank of Scotland  
The Bank of New York

## Custodian and Performance Measurer

JP Morgan Chase Bank

## Financial Advisers

PricewaterhouseCoopers LLP

## Investment Consultant

Mercer Investment Consulting

## Investment Managers

AllianceBernstein  
Barclays Global Investors  
Beach Point Capital Management  
Dimensional  
Hamilton Lane  
Hermes Pensions Management  
Legal and General Investment Management  
Pantheon Ventures  
Pathway Capital Management  
Standard Life  
Walter Scott & Partners

## Solicitors

Burness LLP  
CMS Cameron McKenna LLP  
Sacker & Partners LLP

The particulars stated on this page are as at 31 March 2009 unless otherwise stated.

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# Trustee Report

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# Trustee Report

This is the Annual Report of the Royal Mail Pension Plan ('RMPP' or the 'Plan') for the year ended 31 March 2009.

## 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, 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.

Martin Gafsen (with effect from 1 April 2009) and Law Debenture (represented by Mark Ashworth and with effect from 1 March 2009) were both re-appointed as Board members. Following an election for one of the three CWU Member Nominated Trustee positions, Phil Browne replaced Kevin Shaw with effect from 1 October 2008. Following a further election for the position of Pensioner Nominated Trustee, Bob Wilde was re-elected with effect from 1 April 2009.

### Trustee Meetings

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

- Implementation of the changes to the Plan resulting from the Pensions Reform exercise undertaken by Royal Mail
- Funding update as at 31 March 2008
- Business Plan for 2009-10
- Statement of Investment Principles
- Investment strategy and monitoring
- Board evaluation (self-assessment)
- Employer covenant monitoring and reporting by Royal Mail on their financial results
- Risk management and business continuity
- Trustee knowledge and understanding
- Communications strategy
- Administration, governance and compliance reports
- Member Nominated and Pensioner Nominated Trustee elections
- Consideration of the Postal Services Review (the "Hooper Report").
- Conflicts of interest policy

The chart on page 6 shows each individual Trustee Director's 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 (4 meetings)
- Audit and Accounts (3 meetings)
- Funding (6 meetings)
- Investment (6 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 State pensions and liability driven investment strategies to ensure ongoing compliance with the Code of Practice. 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 Plan are closed to new entrants.

Appendices 2 and 3 (on pages 43 and 44) provide a summary explanation of the benefits available under Sections A/B and C respectively.

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 Services Ltd, Romec Ltd and the Postal Heritage Trust.

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 Final Salary 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 the Royal Mail Pensions Service Centre in Chesterfield under contractual arrangements. These arrangements specify service levels against which the Board monitors performance.

The contact details address for all enquiries is shown on page 64.

## Contributions

Contributions to the Plan, which in total amounted to £1,042 million during the year, were received in accordance with the schedule of contributions as shown in the Trustee's Summary of Contributions (page 39).

# Trustee Report

## Pensions Increase

In accordance with the Trust Deed, pensions in payment and deferred pensions were increased by 5.0% in April 2009 representing the increase in the Retail Prices Index (RPI) for the year ended September 2008. For members over State retirement age, the Trustee and the State share responsibility for payment of the increase. Full details can be found in the Plan booklet, '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.

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 9 on page 58) includes a summary of the main risks faced by the Plan.

## AVCs

Additional Voluntary Contributions (AVCs) can be made by members in order to increase provision for retirement. These contributions are invested and managed in funds which are selected by each member from a range of investment options. The range of options is currently under review.

## Key events during 2008-09

### Postal Services Review

Following the publication of the independent report on Postal Services by Richard Hooper (the "Hooper Report"), the Government announced its intention to take over responsibility for meeting all liabilities of the Plan accrued up to 16 December 2008.

However, in July 2009 the Government announced that it will not be proceeding with the Postal Services Bill at this time. The Trustee will be engaging with Royal Mail Group to find an appropriate way forward for the Plan.

### Investment Strategy

The Trustee aims to choose investments that contain the right mixture of growth and security to fit the current membership profile. This year, after consulting its investment advisers, the Trustee continued to move more of its assets away from shares to bonds, with the aim of giving the Plan funding greater security. Further details are shown in the Investment section of the Trustee Report (pages 13 to 16).

### Changes for Future Service

Following the consultation carried out by Royal Mail Group in 2008, a number of changes to the Plan were introduced. The Plan was closed to new members from 31 March 2008 and employee members' pensions changed from Final Salary to Career Salary Defined Benefit for service from 1 April 2008. Death in service benefits were increased to 4 times pensionable pay for members of Section C of the Plan. The Trustee has worked with Royal Mail during the year to implement these changes. On 1 April 2010 a further significant change is due to be implemented when the Plan's normal retirement age will change from age 60 to 65, for service from that date.

# Trustee Report

## Accounting and Membership Summary

During the year, the impact of the credit crunch and worsening global economy resulted in the assets of RMPP reducing in value from £23,688 million at 1 April 2008 to £20,250 million at 31 March 2009. There were receipts from contributions and transfers of £1,051 million and benefit payments were £1,047 million. The fall in the market value of investments during the year was £3,755 million. Investment income totalled £390 million and there were other costs of £77 million.

Total membership decreased during the year from 452,131 to 443,254. Following Royal Mail's decision to close the Plan to new entrants, employee members have decreased from 161,078 to 148,307 as at 31 March 2009. Deferred members have increased to 115,375 and pensioners have increased to 179,572. A full analysis of membership appears in Appendix 1 (page 42).

## Actuarial Valuation and Funding Update

The last formal actuarial valuation of the Plan was made as at 31 March 2006. This was the first valuation made in accordance with the scheme-specific funding requirements prescribed by the Pensions Act 2004. On this basis, the 2006 valuation report showed that the value of the Plan's assets was £21.9 billion, but that this was £3.4 billion less than the Plan's accrued liabilities. This equated to a funding level of 86.7%. As the asset cover was less than 100%, the Trustee was required to establish a recovery plan aimed at restoring the position to 100% asset cover. The Trustee agreed a plan with Royal Mail Group to eliminate the shortfall more quickly than in the past - in 17 rather than 40 years. Royal Mail Group agreed to pay regular contributions of 20% of contributory pay for current employee members plus additional deficit contributions of £260 million a year, increasing in line with inflation.

To provide additional security for members' benefits, Royal Mail set aside £1 billion in an escrow account.

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.

The next formal valuation is being carried out as at 31 March 2009 but it is expected that this will not be formally completed until 2010. However, the funding shortfall is expected to have deteriorated, primarily due to investment market conditions and increasing life expectancy.

An alternative method of valuation looks at the funding level if the Plan had been 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 2006, the Plan would have been able to fund 64% of the benefits earned by members.

# Trustee Report

## Investment

### 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
- Socially responsible investment
- Corporate governance
- Compliance with, and review of, the SIP

The SIP appears in full in Appendix 8 (pages 49 to 57).

### Investment Strategy

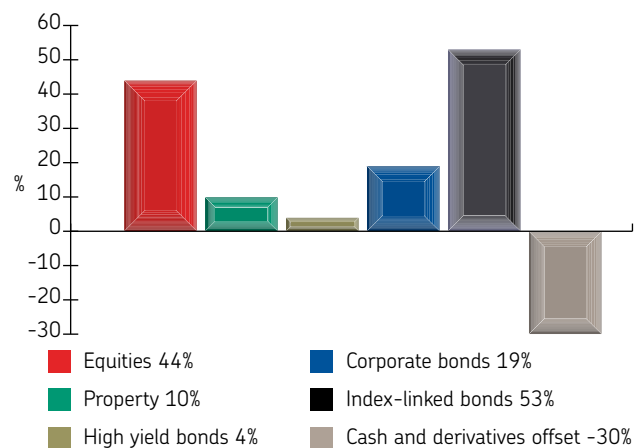
The investment strategy of RMPP aims to safeguard the assets and to provide, together with contributions, the financial resource from which benefits are paid.

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.

Through its Investment Sub-Committee, the Trustee has made further progress with reducing the risk in its asset allocation strategy. As a result of this work, the target percentage split of assets between return seeking (equities, property and high yield bonds) and liability hedging (all other bonds, swaps and cash) has changed from 62:38 to 58:42. The chart below shows the detailed target asset mix as at 31 March 2009:



The Plan uses derivatives (such as swaps and futures), whose economic values are shown in the above graph, to achieve the investment split set out above. The cash and derivatives offset shown in the graph reflect the positive values that are inherent within the other asset classes represented above. The use of derivatives enables the Plan to reduce risk whilst maintaining expected investment returns.

The above chart shows assets on an economic exposure basis and includes pooled investments which have been redistributed in the chart to reflect the underlying values by asset type (ie equities, property, bonds). Therefore the above chart differs from the analysis of investment values included in the financial statements.

# Trustee Report

## Investment managers

The Plan's assets as at 31 March 2009 are managed by several external investment managers with specialist portfolios as detailed below:

Manager	Mandate	Value (£m)
Legal & General	Passive Global (ex UK) Equities	2,323
Legal & General	Passive Index-Linked Bonds	3,697
Alliance Bernstein	Global Unconstrained Equities	567
Barclays Global Investors	Liability Driven Investment	5,036
Beach Point Capital	High Yield Debt	842
Dimensional	Global Small Cap Equities	528
Hamilton Lane	USA Private Equity	216
Hermes	Emerging Market Equities	408
Hermes	Index-Linked Bonds	715
Hermes	Private Equity	56
Hermes	Special Situations	32
Hermes	Cash	531
Hermes	UK Property	1,611
Pantheon Ventures	Global Private Equity	167
Pathway Capital	USA Private Equity	184
Standard Life	Investment Grade Credit	2,167
Walter Scott	Global Unconstrained Equities	1,092
		20,172
AVC investments		78
<b>Net assets</b>		<b>20,250</b>

The figures shown above are based on the investment values as at 31 March 2009 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 accounts on page 25).

## Liquidity of Investments

The Trustee regards the bulk of the investment 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 funding package agreed with Royal Mail Group is intended to return the Plan to a 100% funding level within 17 years. The chart below shows progress up to 31 March 2008 against this objective. The analysis has not been extended to 2009, as the results of the formal actuarial valuation as at 31 March 2009 are not yet known.

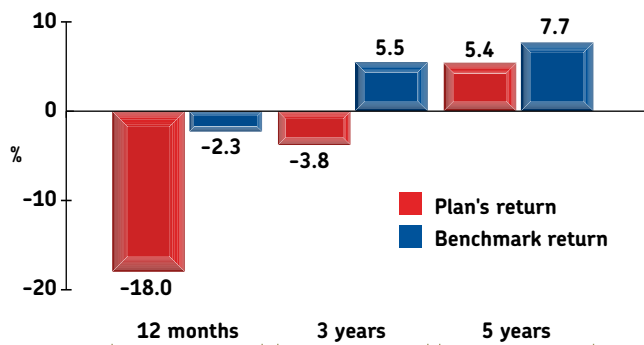
	2006 %	2007 %	2008 %
Funding level as at 31 March	86.7	90.2	80.0
Overall change in funding level		3.5	(10.2)
Individual elements of funding level change: Deficiency contributions		0.8	0.9
Liabilities: Experience on year different from expected Change in index-linked bond yields (resulting in change to discount rate)		0.3 2.2	(1.9) (7.0)
Assets: Experience in year different from expected strategy Implementation		(0.2) 0.4	(2.5) 0.3

The reported funding level as at 31 March 2008 was 80.0%, some 10.2% lower than reported as at 31 March 2007. The majority of the reduction in the reported funding level in the year ended 31 March 2008 was due to the fall in index-linked bond yields, leading to a higher assessment of the value of the Plan's liabilities. The Trustee plans to publish the results of the 2009 actuarial valuation in next year's Annual Report. The funding shortfall is expected to have deteriorated primarily due to investment market conditions and increasing life expectancy.

# Trustee Report

## Investment Returns

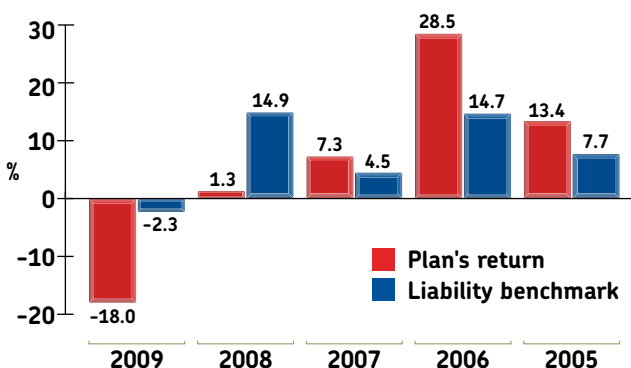
The chart below shows the Plan returns compared to the liability benchmark for the year ended 31 March 2009, together with annualised rates of return for the past 3 years and 5 years.



During the year, the impact of the credit crunch and the worsening global economy resulted in the value of the Plan falling.

The Plan's investment return is compared with the liability benchmark return which uses the returns on index-linked bonds to value the Plan's liabilities. As noted on page 15, the funding shortfall for the year ended 31 March 2009 is expected to have increased, in part due to the decrease in the value of the Plan's assets being greater than the decrease in the value of the liabilities which by contrast were relatively stable.

Over the longer periods shown above the increase in value of the Plan's liabilities has been driven by a significant fall in index-linked bond yields during a period when market conditions for return seeking assets have been challenging.



The second chart shows the annual returns for each of the previous 5 years.

## Conclusion

This has been another difficult year for pension funds in investment markets and this has been borne out in the Plan's accounts, which show the assets reducing in value from £23.7bn to £20.3bn. In the past year the change from Final Salary to Career Salary Defined Benefit for service from 1 April 2008 has been implemented, together with the closure of the Plan to new members, which has resulted in a reduction in the total membership.

Currently, we do not know if the pensions solution contained in the Postal Services Bill will come into effect. The Trustee will engage with Royal Mail Group to find an appropriate way forward.

Throughout the year, 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 particularly like to thank Kevin Shaw, who has stepped down after serving as a Trustee Director for 11 years, and to welcome Phil Browne onto the Board. The Trustee Board would also like to thank all those who have been of significant assistance during the year in the operation of the Plan including the RMPTL Executive, the Royal Mail Pensions Strategy team, the Royal Mail Pensions Service Centre and our team of external advisers.

For the Trustee

**Jane Newell OBE**

Chair

15 July 2009

# Statement of Trustee's Responsibilities

## **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.

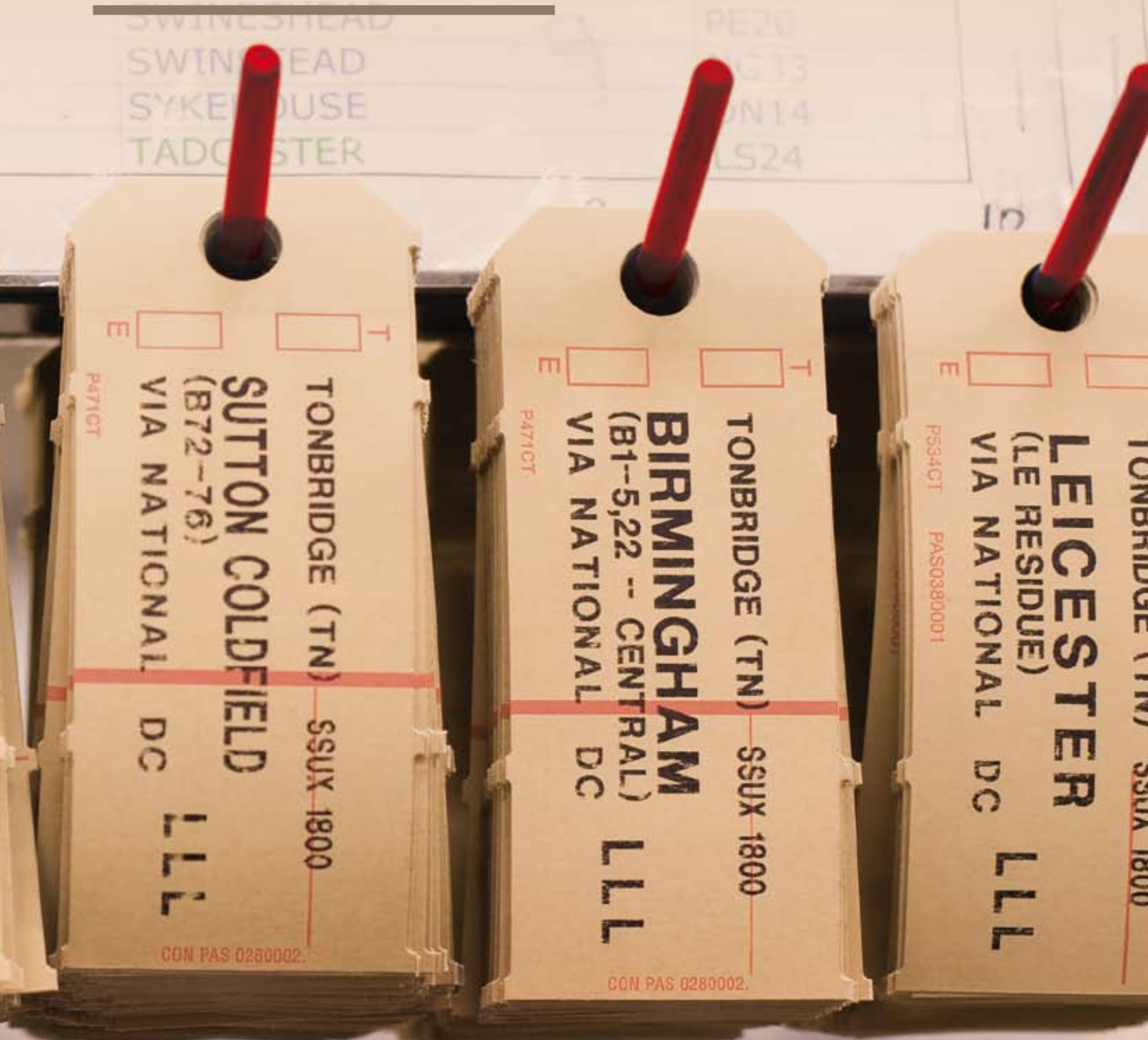
The Trustee also has certain responsibilities in respect of contributions which are set out in the Statement of Trustee's Responsibilities accompanying the Trustee's Summary of Contributions.

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.

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# Royal Mail Pension Plan **financial** statements

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# financial statements

Consolidated Fund Account for the year ended 31 March 2009	Notes	2009 £ million	2008 £ million
<b>Contributions and benefits</b>			
Contributions	1	<b>1,042</b>	1,033
Individual transfers in		<b>9</b>	8
		<b>1,051</b>	1,041
Benefits	2	<b>(1,032)</b>	(986)
Payments to and on account of leavers	3	<b>(15)</b>	(17)
		<b>(1,047)</b>	(1,003)
Administrative expenses	4,19	<b>(17)</b>	(19)
Net (withdrawals)/additions from dealing with members		<b>(13)</b>	19
<b>Return on investments</b>			
Investment income	6	<b>390</b>	446
Change in market value of investments	7	<b>(3,755)</b>	(114)
Interest on borrowings		<b>(25)</b>	(91)
Investment expenses	5,19	<b>(40)</b>	(31)
Minority interests	15	<b>5</b>	(1)
Net (loss)/return on investments		<b>(3,425)</b>	209
Net (decrease)/increase in the fund during the year		<b>(3,438)</b>	228
<b>Net Assets of the Plan</b>			
At start of year		<b>23,688</b>	23,460
At end of year		<b>20,250</b>	23,688

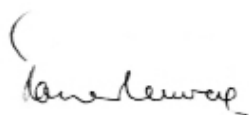
# financial statements

Consolidated Net Assets Statement as at 31 March 2009	Notes	2009 £ million	2008 £ million
<b>Investment assets</b>			
UK equities	8	172	269
Overseas equities	8	2,263	3,074
Property	9	1,364	2,044
Fixed interest	8	2,520	1,853
Index linked	8	1,061	4,491
Pooled investment vehicles	8	11,271	11,303
Derivative contracts	10	72	15
AVC investments and supplementary plan	12	78	84
Deposits and short-term investments	11	903	2,497
Loans		361	164
Other investment assets		401	108
		<b>20,466</b>	25,902
<b>Investment liabilities</b>			
Derivative contracts	10	(11)	(20)
Investment borrowings	13	(103)	(1,845)
Other investment liabilities		(54)	(262)
		<b>(168)</b>	(2,127)
<b>Net investment assets</b>		<b>20,298</b>	23,775
<b>Minority interests</b>	15	<b>(12)</b>	(16)
		<b>20,286</b>	23,759
<b>Current assets</b>			
Other debtors		13	25
Bank balances		18	2
		<b>31</b>	27
<b>Current liabilities</b>			
Creditors	14	(67)	(98)
<b>Net current liabilities</b>		<b>(36)</b>	(71)
<b>Net assets of the Plan at 31 March 2009</b>		<b>20,250</b>	23,688

# financial statements

The accounts 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 accounts 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

15 July 2009

## Accounting Policies

The financial statements have been prepared and audited 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 accounts, is dealt with in the Actuarial Valuation Report as at 31 March 2006.

## Basis of Consolidation

The results of subsidiary undertakings are included from the date of acquisition and up to the 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 accounts 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.

# financial statements

## 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 accounts. Additional Voluntary Contributions are accounted for on an accruals basis when deducted from payroll.

Deficit funding and augmentation contributions are recognised in the accounts in accordance with the due dates set out in the schedule 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 accounts 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.

## 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.



## financial statements

Interest rate 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 accounts 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 accounts.

### **Market Value of Properties**

Properties are valued on a market value basis for accounts purposes as at the audit year end date in accordance with the 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.

The property market, in common with many other capital markets, is at present extremely volatile. On top of that, very few transactions are taking place to provide market evidence. Valuers are therefore having to rely more on their judgement and skill in preparing market values although they believe there is sufficient evidence to value. A comment relating to market conditions and valuation uncertainty is present in the CB Richard Ellis report, although this does not represent a qualification and their valuation methodology remains consistent.

### **Commitments**

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

## Notes to the Accounts

1. Contributions	2009 £ million	2008 £ million
Contributions by employer - normal	<b>549</b>	545
- deficit funding	<b>282</b>	274
- augmentation	<b>32</b>	30
- other	<b>6</b>	9
Contributions by members - normal	<b>164</b>	165
- additional voluntary	<b>4</b>	5
- added years	<b>5</b>	5
	<b>1,042</b>	1,033

A full actuarial valuation of the Plan was undertaken as at 31 March 2006, which recommended that for Sections A/B and C the combined rate of contributions be increased to 26%, comprising 20% paid by the employer and 6% by the members. The full valuation also identified a deficiency and a funding plan has been put in place to make further additional contributions, represented above as deficit funding contributions. Other contributions by the employer relate to the reimbursement of the Pension Protection Fund levy.

2. Benefits	2009 £ million	2008 £ million
Retirement pensions	<b>844</b>	818
Lump sum retirement benefits	<b>167</b>	150
Death benefits	<b>21</b>	18
	<b>1,032</b>	986

3. Payments to and on Account of Leavers	2009 £ million	2008 £ million
Transfer values, withdrawing members:		
Individual	<b>12</b>	15
Refunds of contributions to members	<b>3</b>	2
	<b>15</b>	17

Transfer values were calculated and verified in the manner prescribed by legislation. 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.

## Notes to the Accounts (continued)

<b>4. Administration Expenses</b>	<b>2009</b>	2008
Administration expenses are stated after charging the following:	<b>£000</b>	£000
<b>Auditors' remuneration</b>		
Fees payable to the Plan's auditors (KPMG) for the audit of the Plan's accounts	<b>104</b>	95
Fees payable to the Plan's auditors for the audit of the Plan's subsidiaries pursuant to legislation	<b>54</b>	35
<b>Total audit fees</b>	<b>158</b>	130
<b>Total fees payable to the Plan's auditors</b>	<b>158</b>	130
<b>Total auditors' remuneration to other audit firms</b>	<b>9</b>	11
Administrative expenses include costs totalling £6.2 million in respect of the Pension Protection Fund (2008: £9.0 million). This cost has been reimbursed by the employer as disclosed in note 1 as contributions by employer - other.		

<b>5. Investment Management Expenses</b>	<b>2009</b>	2008
	<b>£ million</b>	£ million
Investment managers' base fees	<b>30</b>	26
Investment managers' performance fees	<b>7</b>	-
Other expenses	<b>3</b>	5
	<b>40</b>	31

<b>6. Investment Income</b>	<b>2009</b>	2008
	<b>£ million</b>	£ million
UK equities	<b>14</b>	25
Overseas equities	<b>83</b>	89
Property, net of outgoings	<b>105</b>	107
Fixed interest	<b>100</b>	16
Index linked	<b>31</b>	74
Pooled investment vehicles	<b>22</b>	17
Deposits and short-term investments	<b>40</b>	126
	<b>395</b>	454
Irrecoverable withholding tax	<b>(5)</b>	(8)
	<b>390</b>	446
Income from property is net of expenses of £10 million (2008: £16 million).		

## Notes to the Accounts (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 2009. An analysis of the change in market value of net assets is shown below:

	Market value at 31 March 2008	Net investment/ (disinvestment)	Change in value	Market value at 31 March 2009
	£ million	£ million	£ million	£ million
<b>Investment assets</b>				
UK equities	269	(9)	(88)	<b>172</b>
Overseas equities	3,074	(97)	(714)	<b>2,263</b>
Property	2,044	(29)	(651)	<b>1,364</b>
Fixed interest	1,853	845	(178)	<b>2,520</b>
Index linked	4,491	(3,520)	90	<b>1,061</b>
Pooled investment vehicles	11,303	2,137	(2,169)	<b>11,271</b>
AVC investments and supplementary plan	84	(1)	(5)	<b>78</b>
Deposits and short-term investments	2,497	(1,594)	-	<b>903</b>
Loans	164	289	(92)	<b>361</b>
Derivative contracts*	(5)	14	52	<b>61</b>
	25,774	(1,965)	(3,755)	<b>20,054</b>
Other investment assets and liabilities	(1,999)			<b>244</b>
<b>Net investment assets</b>	<b>23,775</b>			<b>20,298</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.

## Notes to the Accounts (continued)

7. Change in Market Value of Investments (continued)			
Net investment is made up as follows:	Purchases at cost and derivative payments £ million	Sale proceeds and derivative receipts £ million	Net investment £ million
UK equities	86	(95)	(9)
Overseas equities	891	(988)	(97)
Property	76	(105)	(29)
Fixed interest	2,648	(1,803)	845
Index linked	1,277	(4,797)	(3,520)
Pooled investment vehicles	11,049	(8,912)	2,137
AVC investments and supplementary plan	3	(4)	(1)
Deposits and short-term investments	-	(1,594)	(1,594)
Loans	702	(413)	289
Derivative contracts	14	-	14
	16,746	(18,711)	(1,965)

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. Transactions costs incurred during the year amounted to £5 million (2008: £13 million). In addition to these transaction costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

## Notes to the Accounts (continued)

8. Listed and Unlisted Investments	2009 £ million	2008 £ million
<b>UK equities</b>		
Listed	172	269
	<b>172</b>	269
<b>Overseas equities</b>		
Listed	2,263	3,074
	<b>2,263</b>	3,074
<b>Fixed interest</b>		
UK listed public sector	7	1,486
UK listed other	2,084	3
UK unlisted other	8	204
Overseas listed other	421	160
	<b>2,520</b>	1,853
<b>Index linked</b>		
UK listed public sector	621	4,037
UK listed other	437	135
UK unlisted	3	4
Overseas listed public sector	-	315
	<b>1,061</b>	4,491
<b>Pooled investment vehicles</b>		
Managed funds – insurance policy	6,021	6,794
Managed funds – property	106	96
Managed funds – other	684	848
Unit trusts – cash and debt instruments with swap overlay	4,301	3,164
Unit trusts – property	159	401
	<b>11,271</b>	11,303

Managed funds – insurance policy includes the following investments with a concentration of greater than 5% of the Plan's assets:

<b>Legal &amp; General Investment Management:</b>	Market Value	% of net assets
Over 15 years Index linked	3,697	18.2
World ex UK Index	2,059	10.2

Unit trusts – cash and debt instruments with swap overlay are managed by Barclays Global Investors (BGI) and represent 21.2% of the Plan's net assets.

Managed funds – other includes £423 million (2008: £365 million) relating to funds registered overseas.

Managed funds – property includes £84 million (2008: £34 million) relating to funds registered overseas.

Unit trusts – property includes £116 million (2008: £328 million) relating to funds registered overseas.

All other funds and trusts are registered in the United Kingdom.

## Notes to the Accounts (continued)

9. Property	2009 £ million	2008 £ million
<b>UK</b>		
Offices	<b>540</b>	861
Retail	<b>667</b>	969
Industrial	<b>157</b>	214
	<b>1,364</b>	2,044
<p>The Plan consolidates property held in investments in subsidiary companies and joint ventures. The disclosure above includes £439 million of property held in such entities (2008: £493 million).</p> <p>0.1% (2008: 0.1%) of property was leased back to Royal Mail at market rates.</p>		

10. Derivative Contracts	2009 £ million	2008 £ million
<b>Assets</b>		
Futures contracts	<b>61</b>	-
FX forward contracts	<b>8</b>	15
Swaps	<b>3</b>	-
	<b>72</b>	15
<b>Liabilities</b>		
FX forward contracts	<b>(11)</b>	(20)
	<b>(11)</b>	(20)

### 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.

## Notes to the Accounts (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 £ million	2009	
			Asset £ million	Liability £ million
Long gilt	June 09	54	1	-
UK equity	June 09	2,056	60	-
			<b>61</b>	<b>-</b>
Type of Future	Expiration	Economic Exposure £ million	2008	
			Asset £ million	Liability £ million
Overseas equities	< 1 year	3	-	-
			<b>-</b>	<b>-</b>

Included within other investment assets are £291 million in respect of initial and variation margins arising on open futures contracts at the year end (2008: £2 million).

#### FX Forwards

Currency			Notional £ million	2009	
Bought	Sold			Asset £ million	Liability £ million
GBP	EUR	205	-	(5)	
NZD	GBP	29	3	-	
USD	EUR	69	-	(1)	
USD	GBP	56	1	(2)	
AUD	GBP	49	3	-	
VARIOUS	VARIOUS	319	1	(3)	
			<b>8</b>	<b>(11)</b>	

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

## Notes to the Accounts (continued)

10. Derivative Contracts (continued)				
FX Forwards				
			2008	
Currency		Notional £ million	Asset £ million	Liability £ million
Bought	Sold			
GBP	EUR	315	-	(10)
GBP	SEK	11	1	(1)
GBP	USD	277	-	(3)
GBP	CHF	106	-	(1)
GBP	JPY	93	1	(3)
SEK	GBP	65	4	-
NOK	GBP	34	1	-
CHF	GBP	117	1	-
AUD	GBP	118	1	-
CAD	GBP	118	-	(2)
EUR	GBP	106	6	-
VARIOUS	VARIOUS	209	-	-
			15	(20)

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	2009	
			Asset £ million	Liability £ million
Interest rate swap – floating vs fixed	2010	75	3	-
			3	-

Under the over the counter interest rate swaps, the counterparties had deposited £3 million of cash collateral at year end. This collateral is not reported with the Plan's net assets.

11. Deposits and Short-Term Investments		2009 £ million	2008 £ million
Interest earning deposits:	Sterling	520	1,163
	Foreign currency	212	483
Certificates of deposit		125	789
Floating rate notes		46	62
		903	2,497

## Notes to the Accounts (continued)

### 12. AVC Investments and Supplementary Plan

Members' Additional Voluntary Contributions are invested separately from the principal Plan on a money purchase basis with Abbey, Aviva, Standard Life and Equitable Life Assurance Society. Members participating in this arrangement each receive an annual statement confirming the amount held in their account and the movements in the year.

	AVC Plan				Supplementary Plan			
	Insurance Policies	Other Funds	Total		Insurance Policies	Cash Deposits	Total	
	2009 £ million	2009 £ million	2009 £ million	2008 £ million	2009 £ million	2009 £ million	2009 £ million	2008 £ million
At start of year	17	39	56	55	8	20	28	28
Net benefits/contributions								
by employer	-	-	-	-	-	-	-	-
by members	(1)	(1)	(2)	(2)	-	-	-	(1)
Change in market value of investments	(4)	1	(3)	3	(1)	-	(1)	1
At end of year	12	39	51	56	7	20	27	28

### 13. Investment Borrowings

	2009 £ million	2008 £ million
Sterling – secured		
Repayable within one year	-	1,785
Repayable in two to five years	53	-
Repayable in more than five years	-	52
Sterling – unsecured		
Repayable within one year	50	3
Overseas – unsecured		
Repayable within one year	-	5
	<b>103</b>	<b>1,845</b>

The sterling secured borrowings repayable within one year (2008) are sale and repurchase agreements as disclosed in note 17. 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.

## Notes to the Accounts (continued)

14. Creditors	2009 £ million	2008 £ million
Accrued benefits	27	25
Other creditors*	40	73
	<b>67</b>	98

\*Other creditors include contributions paid in advance by the employer of £nil (2008: £50 million).

### 15. Minority Interests

Minority interests of £12 million (2008: £16 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 £5 million (2008: loss of £1 million) 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.

### 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.

	2009		2008	
	On Loan £ million	Collateral £ million	On Loan £ million	Collateral £ million
UK equities	2	2	11	12
Overseas equities	120	132	97	112
	<b>122</b>	<b>134</b>	108	124

### 17. Sale and Repurchase Agreements

Fixed interest investments have been sold subject to contractual agreements for the repurchase of equivalent securities. Security for the agreements is provided by the cash received on sale and by holding collateral in the form of securities.

	2009 £ million	2008 £ million
Value of fixed interest investments sold subject to repurchase agreements at 31 March	-	1,838
Value of cash received on sales at 31 March	-	1,785
Value of collateral held at 31 March	-	54
Total value of cash and collateral	-	1,839

The liability for cash received on sale and repurchase agreements used for arbitrage purposes is included in note 13 under sterling secured investment borrowings repayable within one year. As at 31 March 2009 no sale and repurchase agreements were in place.

## Notes to the Accounts (continued)

18. Commitments and Contingent Liabilities	2009 £ million	2008 £ million
Commitments for investments at 31 March		
Property	<b>104</b>	220
Other*	<b>659</b>	745
	<b>763</b>	965
*Other commitments represent funds allocated for specific private equity investments.		

### 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.

	2009 £ million	2008 £ million
Fees charged for the year (including amounts payable to RMPTL as at 31 March of £15 million) (2008: £13 million)	<b>57</b>	50

# Independent Auditors' Report

## **Independent Auditors' 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 2009 which comprise the consolidated fund account, consolidated net assets statement, accounting policies and the related notes 1 to 19. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Trustee, as a body, in accordance with regulation 3 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 audit work has been undertaken so that we might state to the Trustee those matters we are required to state to it in an auditors' 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 Trustee, as a body, for our audit work, for this report, 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's Trustee is responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and for making available certain information about the Plan in an annual report.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements show a true and fair view in accordance with the relevant financial reporting framework 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 made under the Pensions Act 1995. We also report if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law is not disclosed.

We read the Trustee's report and 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 financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

# Independent Auditors' Report

## **Basis of Audit Opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Trustee in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Plan's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of the information in the financial statements.

## **Opinion**

In our opinion:

- the financial statements show a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the financial transactions of the Plan during the year ended 31 March 2009 and the amount and disposition of its assets and of its liabilities as at that date, other than the liabilities to pay pensions and benefits after the Plan year end; and
- the financial statements 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.

*KPMG LLP*

## **KPMG LLP**

Chartered Accountants and Registered Auditors

London

United Kingdom

15 July 2009

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 Auditors' statement

## **Independent Auditors' 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 2009 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 auditors' 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's 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 Auditors' statement

## Statement About Contributions under the Plan

In our opinion, contributions payable to the Plan during the year ended 31 March 2009 as set out in the summary of contributions have, in all material respects, for the period 1 April 2008 to 31 March 2009, been paid at least in accordance with the schedule of contributions certified by the actuary on 23 March 2007.

KPMG LLP

### KPMG LLP

Chartered Accountants and Registered Auditors

London

United Kingdom

15 July 2009

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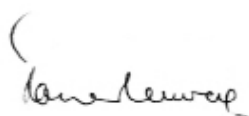
# Trustee's Summary

## 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						
	Per Schedule £ million	Additional £ million	Total 2009 £ million	Per Schedule £ million	Additional £ million	Total 2008 £ million
Employers' normal contributions	545	4	549	545	-	545
Members' normal contributions	164	-	164	165	-	165
Employers' deficit funding contributions	282	-	282	274	-	274
Employers' augmentation contributions	32	-	32	30	-	30
Employers' other contributions	6	-	6	9	-	9
Members' additional voluntary contributions	-	4	4	-	5	5
Members' added years' contributions	-	5	5	-	5	5
Total contributions (see note 1 to the accounts)	1,029	13	1,042	1,023	10	1,033

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



**J Newell OBE**

Chair

15 July 2009



## 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 can be expected to be met by the end of the period specified in the recovery plan dated 19 March 2007.

### 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 19 March 2007.

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.

### H R Chambers

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

23 March 2007



## Appendices

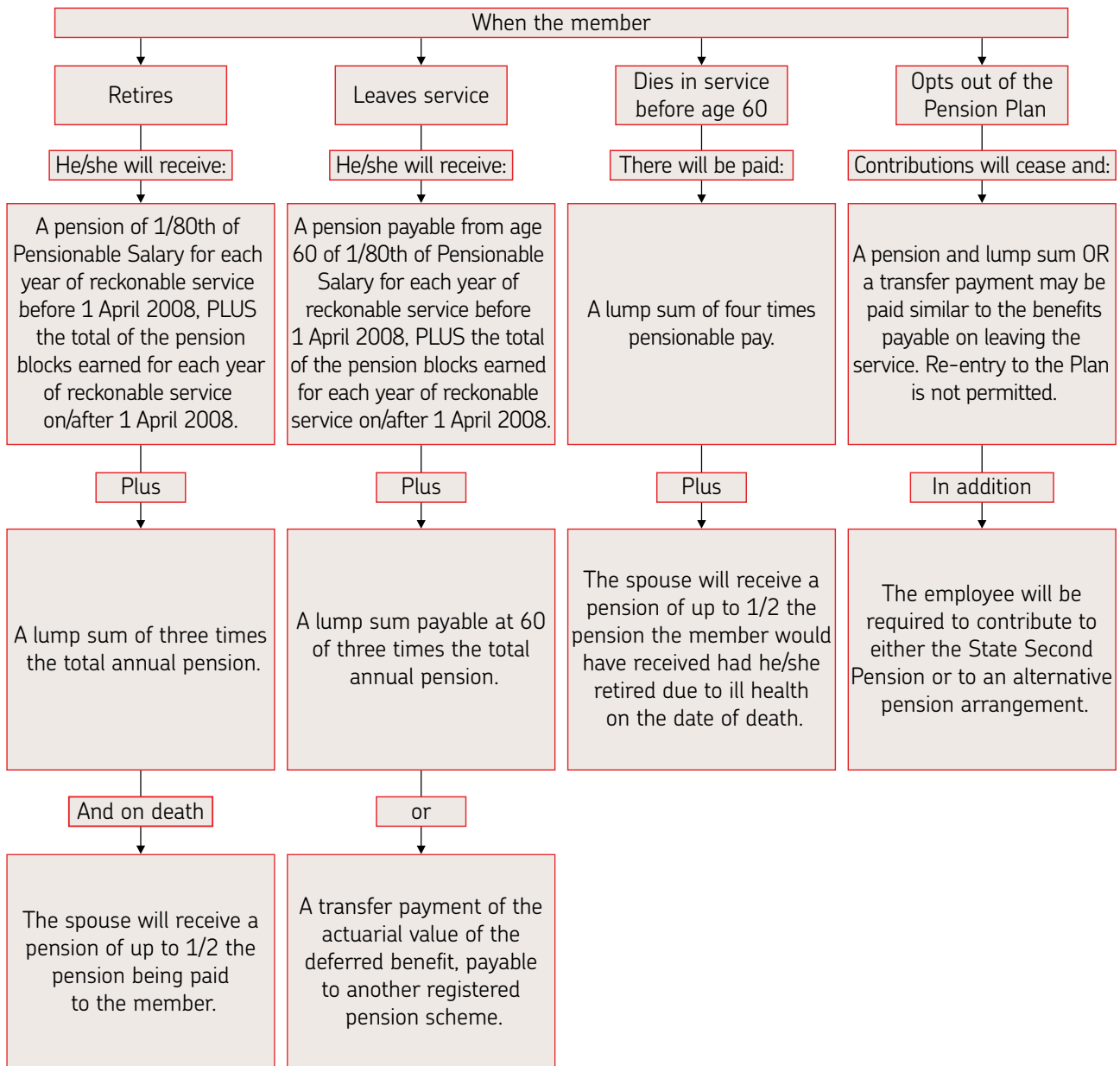
# Appendix 1

## Membership Analysis

	<b>Total RMPP</b>
<b>Employee Members</b>	
At 31 March 2008	161,078
Add	
Employees joining during year	822
	822
Less	
Members leaving during year	
Normal retirements	3,771
Ill health retirements	226
Deaths	172
Refund of contributions	3,759
Deferred pensioners	5,506
Deletions	132
Other (no liability)	27
	(13,593)
At 31 March 2009	<b>148,307</b>
<b>Pensioner Members</b>	
At 31 March 2008	177,757
Add	
New pensioners during year	
Normal retirements	3,771
Ill health retirements	226
Dependants	2,570
Deferred pensions coming into payment	2,644
	9,211
Less	
Deaths	7,204
Dependents ceasing to be eligible	192
	(7,396)
At 31 March 2009	<b>179,572</b>
<b>Deferred Pensioner Members</b>	
At 31 March 2008	113,296
Add	
Leavers during the year	5,506
	5,506
Less	
Pensions commenced during year	2,644
Deaths and transfers to other schemes	783
	(3,427)
At 31 March 2009	<b>115,375</b>
<b>Total Membership at 31 March 2009</b>	<b>443,254</b>

# Appendix 2

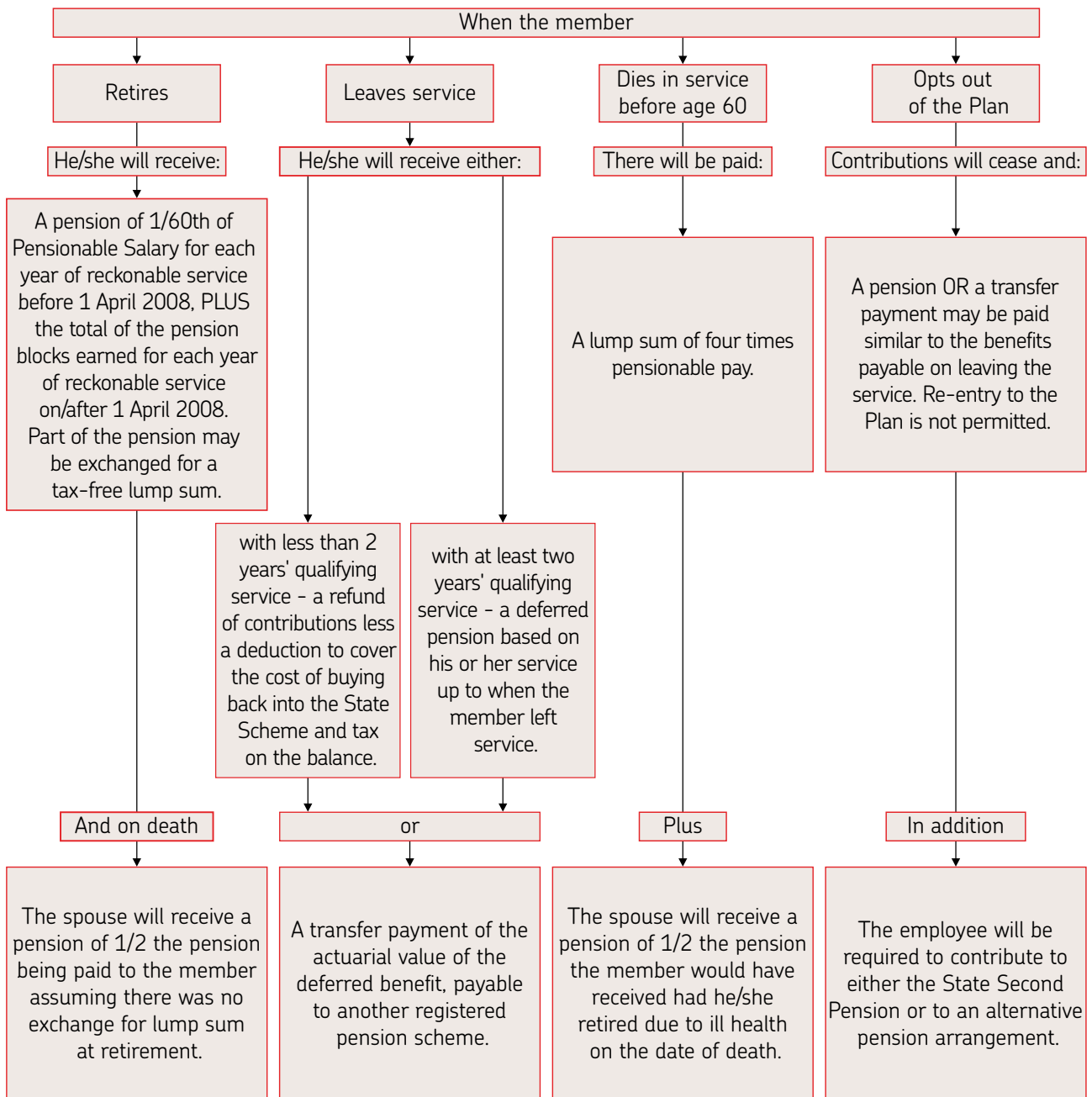
## Section A/B Summary of Benefits



The above diagram is illustrative only and does not reproduce full details of benefits.

# Appendix 3

## Section C Summary of Benefits



The above diagram is illustrative only and does not reproduce full details of benefits.

## Appendix 4

### Geographical Analysis of Securities

31 March 2009

	£ million	Market Value %
<b>United Kingdom:</b>		
Equities	172	1.0
Fixed-interest investments	2,099	12.1
Index-linked investments	1,061	6.1
Pooled investment vehicles	10,648	61.6
	13,980	80.8
<b>Overseas:</b>		
Europe (ex UK)	654	3.8
North America	1,601	9.3
Japan	445	2.6
Pacific Basin (ex Japan)	322	1.9
Emerging markets	285	1.6
	3,307	19.2
Total	17,287	100.0

The above table illustrates the geographical analysis of the securities disclosed in note 8 on page 28.

The geographical analysis of the pooled investment vehicles is driven by the location of the investment manager. Geographical analysis of the underlying equity exposure of the pooled investment vehicles is illustrated in Appendix 5 on page 46.

# Appendix 5

## Analysis of Passively and Actively Managed Equities

31 March 2009

	£ million	Market Value %
<b>Passively managed</b>		
World (ex UK)	2,059	37.9
Emerging Markets	265	4.9
	2,324	42.8
<b>Actively managed</b>		
United Kingdom	418	7.7
Europe (ex UK)	476	8.8
North America	1,181	21.7
Japan	445	8.2
Pacific Basin (ex Japan)	301	5.5
Emerging markets	285	5.3
	3,106	57.2
Total	5,430	100.0

The above table includes investments in pooled investment vehicles which have an underlying exposure to equities.

# Appendix 6

## Thirty Largest Investments

31 March 2009

<b>Investment</b>	<b>Asset Class</b>	<b>Market Value £ million</b>	<b>% of Total Net Investment Assets</b>
BGI Pooled Fund	Pooled Investment Vehicles	4,059	20.0
LGIM Index Linked Fund	Pooled Investment Vehicles	3,697	18.2
LGIM World (ex UK) Equity Index	Pooled Investment Vehicles	2,059	10.1
UK Treasury 1.25% Index Linked	Index Linked	384	1.9
LGIM Emerging Markets Equity Index	Pooled Investment Vehicles	265	1.3
BGI Sterling Liquidity Pooled Fund	Pooled Investment Vehicles	242	1.2
Network Rail 1.75% Index Linked	Index Linked	192	0.9
Network Rail 1.375% Index Linked	Index Linked	152	0.7
UK Treasury 4.125% Index Linked	Index Linked	82	0.4
UK Treasury Index Linked 2055 1.25%	Index Linked	79	0.4
Brunswick Centre, London	Property	70	0.3
Tandem Centre, London	Property	59	0.3
Ryder Court, London	Property	56	0.3
Nordic Investment Bank 2012 4.875%	Fixed Income	54	0.3
Kreditanstalt 6%	Fixed Income	50	0.2
1 Sovereign Street, Leeds	Property	37	0.2
Wal Mart Stores	Overseas Equities	37	0.2
European Investment Bank 2028 5.375%	Fixed Income	37	0.2
Boulevard Industrial Estate, Liverpool	Property	35	0.2
Commonwealth Bank of Australia 6%	Fixed Income	34	0.2
UK Treasury Index Linked 2047 0.75%	Index Linked	34	0.2
Crompton Place, Bolton	Property	33	0.2
Kreditanstalt 5.125%	Fixed Income	32	0.2
Hermes Private Equity Partnership II	Pooled Investment Vehicles	31	0.2
Charlton Depot, London	Property	31	0.2
European Investment Bank 5.375%	Fixed Income	31	0.2
Hermes European Focus Fund	Pooled Investment Vehicles	31	0.2
The Turner Building, Slough	Property	30	0.1
Westfield Road, Edinburgh	Property	30	0.1
Keyence Corporation	Overseas Equities	30	0.1

The table above shows the 30 largest investments held directly by the Plan expressed as a percentage of the total net investment assets.

# Appendix 7

## Five Year History of the Fund

### Income

In accordance with the recommendation of the Actuary, normal Employers' contributions for all relevant sections of the Plan have been set at 20% with effect from 1 April 2007 (12.6% from 1 April 2003 to 31 March 2006). Employee members have contributed at the rate of 6% of contributory pay since 1 April 2003.

	2005	2006	2007	2008	2009
	£ million	£ million	£ million	£ million	£ million
Employers' contributions	670	526	789	858	869
Member contributions and transfers in	176	182	183	183	182
Investment income	490	351	383	446	390

### Benefits

In accordance with the Trust Deed, pensions were increased by 5.0% in April 2009 representing the increase in the Retail Prices Index (RPI) for the year ended September 2008. (The pensions increase in April 2008 was 3.9% representing the increase in the RPI for the year ended September 2007).

	2005	2006	2007	2008	2009
	£ million	£ million	£ million	£ million	£ million
Retirement pension	729	756	780	818	844
Lump sum retirement benefits	143	72	146	150	167
Death benefits and leavers	44	47	37	35	36
Other benefits	1	-	-	-	-

### Assets

The total assets of the Plan at 31 March 2009 were £20,250 million (2008: £23,688 million).

	2005	2006	2007	2008	2009
	£ million	£ million	£ million	£ million	£ million
Assets	17,246	21,882	23,460	23,688	20,250

# Appendix 8

## 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 8

## 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.
- 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 8

### 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 8

### 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.
- 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 8

- 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 risk is that 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 8

## 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 2009 is set out in the table below:

	<b>Strategic Asset Allocation (%)</b>
Equities - UK	11
Equities - Global ex UK	12
Equities - Global Unconstrained	10
Equities - Global Emerging Markets	4
Equities - Global Small Cap	3
Equities - Private	4
Property	10
High-yield bonds	4
Investment Grade Credit - UK	10
Investment Grade Credit - Global	9
Nominal and Index-Linked Bonds	53
Cash and Derivative Commitments	-30
	<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 8

## 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.

## General

## 10. Socially Responsible Investment

- 10.1 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,
  - To use their best endeavours to exercise shareholder rights on behalf of the Trustee and in particular to vote the shares where possible.

## Appendix 8

### **11. Corporate Governance**

- 11.1 The Trustee has given the Investment Managers full discretion in exercising rights, including voting rights, in relation to the Plan's investments.
- 11.2 The Trustee wishes to encourage best practice in terms of activism. It therefore encourages its Investment Managers that manage segregated portfolios to discharge their responsibilities in respect of investee companies in accordance with the Statement drawn up by the Institutional Shareholders' Committee. 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.

### **12. Compliance With and Review of this Statement**

- 12.1 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.
- 12.2 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.
- 12.3 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.
- 12.4 A copy of this Statement has been provided to the Company, Investment Consultant, Investment Managers, Performance Measurer and Custodian.

# Appendix 8

## 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

The 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 its 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 9

### 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 ability to fund the Plan so that all members receive the benefits they are entitled to needs to be carefully monitored on an ongoing basis. The Trustee receives regular reports from Royal Mail Group management on its finances and also receives independent reports from PricewaterhouseCoopers LLP on the strength of this covenant. As part of the funding package agreed following the 2006 actuarial valuation, £1 billion has been placed in an escrow account, for the Trustee to call on should the need arise.

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

Investment market movements affect the value of both assets and liabilities of the Plan. When liabilities increase relative to assets, the funding position deteriorates. The Trustee regularly reviews its investment strategy and during this year has taken steps to reduce the level of risk inherent in its assets by diversifying its portfolio and by reducing equity holdings in favour of bonds.

#### 3. Major changes to legislation or regulations

The Trustee has put in place a system of timely reporting of pending changes together with a project management methodology so that it can introduce the necessary changes to its policies and procedures when major legislative changes occur.

## Appendix 9

### **4. Interruption to key activities**

Disruption to key services provided by the Trustee can be caused by a number of risks largely out of its control such as fire, flood, terrorism, transport network breakdown or failure of equipment. Both the Trustee and the Pensions Service Centre have put in place business continuity plans to provide emergency services if such events occur and these are regularly tested.

### **5. Contributions are not paid in accordance with the agreed schedule**

Late or incorrect payment of contributions could result in pressure on the funding of the Plan, investigation or penalty fines by the Pensions Regulator and administration problems. The Trustee monitors receipts against the Schedule of Contributions on an ongoing basis.

### **6. Changes to the Plan arising from the recent consultation between Royal Mail Group and its employees**

The closure of the Plan to new members and changes to future service benefits for existing members require the Trustee to introduce new trust deed and rules, revise communications material and administer the revised benefits. The Trustee has received regular reports on progress with implementing the required changes.

### **7. Plan administration is ineffective**

Poor benefit administration can lead to delays and errors in providing members' benefits. The Trustee has a service level agreement in place with the Pensions Service Centre and receives regular reports on its performance against the agreed service standards.

### **8. Membership data is incorrect**

Inaccurate or missing data (such as payroll data from Royal Mail Group) 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.

# Glossary of Terms

## **Accounting Standards Board (ASB)**

The Accounting Standards Board is responsible for producing Financial Reporting Standards.

## **Added Years**

A method of increasing pensionable service for those members wishing to provide for enhanced pensions benefits by paying additional contributions.

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

Contributions made by active members to purchase additional benefits.

## **Asset Distribution**

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

## **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.

## **Corporate Trustee Company**

The Plan is managed by a corporate trustee company, 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 retirement 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.

## **Equities**

Shares in UK and overseas companies.

# Glossary of Terms

## **Fixed Interest Securities**

Investments on which a fixed rate of interest is received.

## **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.

## **Global 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.

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

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

## **Index-Linked Securities**

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

## **Level of Asset Cover**

The relationship between the value of assets and liabilities of the Plan revealed by the actuarial valuation.

## **Lower Earnings Deduction**

£3,328 per annum for full-timers (scaled down for part-timers).

## **Market Value of Securities**

Securities listed on order-driven stock exchanges are valued at last traded prices. Other listed securities are valued at closing mid-market prices.

## **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.

# Glossary of Terms

## **OTC contracts**

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

## **Pacific Basin (ex Japan) Equities**

This is an overseas equities asset class which covers countries in the Pacific Basin area (excluding Japan) which have developed economies.

## **Pensionable Pay**

Basic salary plus pensionable allowances less, for Section C employees only, the Lower Earnings Deduction.

## **Rate of 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.

## **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.

## **Salary Related Benefits**

Pensions and lump sums which are based on the member's final pensionable salary and years of service.

## **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. 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.

## **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.

# Glossary of Terms

## **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.

## **Whistle Blowing**

The statutory duty imposed on various parties including the scheme Actuary, scheme auditors and Trustee to advise the Pensions Regulator immediately in writing if they have reasonable cause to believe there is a material problem with a pension scheme.

## Contact details

### Contact details

Members' queries about benefits should be addressed to:

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

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

Email: **[pensions.helpline@royalmail.com](mailto:pensions.helpline@royalmail.com)**

The pensions website is found as follows:

For current employees, via the Royal Mail Group intranet:

**Royal Mail Group>services>benefits>pensions and retirement**

For deferred members and pensioners, via the Royal Mail website:

**[www.royalmail.com/pensions](http://www.royalmail.com/pensions)**

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