

2009/10



Report & Accounts

Looking after **your** pension

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

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Trustee Directors & Advisers

Trustee Directors & Advisers



Jane Newell
OBE JP BA FRSA – Chair

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



Mark Ashworth
MA FCIS

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



Phil Browne

Phil Browne joined Royal Mail in 1980 and is a member of the National and Postal Executive for the Communication Workers Union (CWU) a position he has held since 1995, prior to which he 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 (CMA) 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 was Company Secretary of Royal Mail Group until May 2010. He joined the Company directly from university in 1974, and held a wide range of senior management positions across the Group. He rejoined the Trustee Board in January 2005 following an earlier spell from 1997-2002. He is also the Chairman of the Royal Mail Senior Executives Pension Plan.



Martin Gafsen
BA Solicitor MBA

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

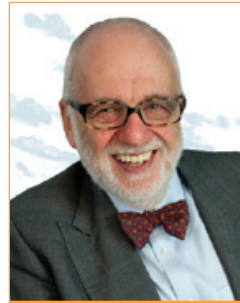
Trustee Directors & Advisers



Paul Kennedy

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

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



Geoff Lindey

BSc FFA

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



Alwen Lyons

BA 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 Adviser to the Deputy General Secretary, Postal Department, of the CWU. He was previously the Policy Adviser 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 a former Chairman and committee member of the National Association of Pension Funds' Yorkshire Group, chairing the Group 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	No. of Board meetings attended	No. of Board meetings could have attended
Mrs J Newell OBE Chair	7	7
Mr P Browne	7	7
Mr G Cunningham	7	7
Mr J Evans OBE	7	7
Mr M Gafsen	6	7
Mr P Kennedy	7	7
Law Debenture Pension Trust Corporation plc (represented by Mr M Ashworth)	7	7
Mr G M Lindey	6	7
Mrs A Lyons	7	7
Mr L S Sampson	7	7
Mr R Wilde	7	7

Trustee

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

Sponsoring Employer

Royal Mail Group
100 Victoria Embankment
London
EC4Y 0HQ

Administration

Pensions Service Centre
PO Box 500
Chesterfield
S49 1WX

Trustee Directors & Advisers

Executive



H Mottram FIA **G P Degaute ACII FPMI** **P Metcalfe FCCA MCIPD**
Head of Investment and Funding Chief Executive Head of Membership and Finance

Actuary

Colin Singer FIA, Towers Watson Limited

Auditors

KPMG LLP

Bankers

The Royal Bank of Scotland
The Bank of New York

Custodian and Performance Measurer

JP Morgan Chase Bank

Financial Advisers (covenant review)

PricewaterhouseCoopers LLP

Investment Consultant

Mercer Investment Consulting

Investment Managers

Alliance Bernstein
Beach Point Capital Management
BlackRock
Dimensional
Hamilton Lane
Hermes Pensions Management
LaSalle Investment Management
(From 1 June 2010)
Legal and General Investment Management
Pantheon Ventures
Pathway Capital Management
Standard Life
Walter Scott & Partners
Wellington Management International

Solicitors

Burness LLP
CMS Cameron McKenna LLP
Sacker & Partners LLP

The particulars stated on this page are as at 31 March 2010 unless otherwise stated.



Trustee Report

Trustee Report

This is the Annual Report of the Royal Mail Pension Plan ('RMPP' or the 'Plan') for the year ended 31 March 2010.

Plan Governance

Trustee Arrangements

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

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

Following his election during 2008-9 for one of the three CWU Member Nominated Trustee positions, Phil Browne was appointed as a Trustee Director with effect from 1 October 2008 for an initial one year period. He has been re-appointed with effect from 1 October 2009 for a three year term. Following an election during 2009-10 for another of the three CWU Member Nominated Trustee positions, Paul Kennedy has been re-elected for a further three year term commencing 1 April 2010.

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 Group
- Formal Actuarial Valuation as at 31 March 2009
- Amendments to, and consolidation of, the Plan Trust Deed and Rules
- Business Plan for 2010-11
- Statement of Investment Principles
- Investment strategy and monitoring
- Employer covenant monitoring and reporting by Royal Mail Group on their financial results
- Risk management and business continuity
- Assessment of advisers
- Trustee knowledge and understanding
- Communications strategy
- Formalising governance policy
- Administration, governance and compliance reports
- Member Nominated Trustee election
- Consideration of the Postal Services Review (the "Hooper Report")
- Conflicts of interest policy
- Review of AVC arrangements

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

Trustee Report

Sub-Committees

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

- Administration (3 meetings)
- Audit and Accounts (3 meetings)
- Funding (7 meetings)
- Investment (10 meetings)

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

- Internal Disputes Resolution
- Discretions

Trustee Training

The Board follows the Code of Practice known as Trustee Knowledge and Understanding, which was introduced by the Pensions Act 2004. During the year, training has been undertaken by the Board on Valuation Assumptions, Inflation and Deflation, Buy-ins, Buy-outs & Longevity Hedging, and Sustainable & Responsible Investing 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 of the Plan are closed to new entrants.

Royal Mail Group Ltd is the principal employer participating in the Plan. The following associated employers also participate: Quadrant Catering Ltd, NDC 2000 Ltd,

Romec 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 salary-related scheme.

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

Membership Administration

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

The contact address for all enquiries is shown on page 66.

Contributions

Contributions to the Plan, which in total amounted to £1,023 million during the year, were received in accordance with the schedule of contributions as shown in the Trustee's Summary of Contributions (page 39).

Pensions Increase for Pensioners

The RPI fell by 1.4% in the year ended September 2009. The Trustee wrote to all pensioners in March 2010 notifying them that pensions would not be reduced and would be unchanged for the year commencing 1 April 2010. This was in line with the Plan's Trust Deed.

Suspended Pension Payments

Where a member's Plan benefits are suspended as a result of, for example, unknown whereabouts, returned bank payments or no response to a pensioner existence letter, the pension payments are calculated and held in suspense for a period

Trustee Report

of six years. At the end of that period the total value of the suspended benefits is written back to the main Plan accounts. The member record is however retained and continues to hold the status 'pensioner'. The status will only change once positive confirmation is received to the contrary, i.e. certification of death or when contact is re-established.

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 and an internal risk committee. The Board's Statement on Risk Management and Internal Control (Appendix 5 on page 56) includes a summary of the main risks faced by the Plan.

Key Events during 2009-10

Postal Services Review

On 1 July 2009, the Government announced that, in light of market conditions, it had decided to delay the Postal Services Bill which sought to put into effect the recommendations of the Hooper Report. In relation to the Plan, the Hooper proposals had included the Government taking over responsibility for meeting all liabilities of the Plan accrued up to 16 December 2008, and the continuing existence of the Plan which would be responsible for benefits earned after 16 December 2008.

The Chair of the Trustee Board wrote to Plan members in May 2010 informing them that the Queen's Speech on 25 May 2010 included an

announcement that the Government would bring forward legislation relating to Royal Mail Group, which would include "measures to resolve the problems surrounding Royal Mail's pensions deficit". Since then the Government has repeated its intention to enact this legislation and in June 2010 announced that Richard Hooper will be updating his December 2008 Report. The Trustee has made a submission to this Report and will keep members informed as and when any significant developments take place.

Valuation

During the year the Trustee carried out the 2009 actuarial valuation. Alongside this the Trustee has reviewed the strength of the Employer's covenant, which has taken into account Royal Mail's transformation plans to take the business forward.

Investment Strategy

After consulting its investment advisers, the Trustee has continued to move its assets away from shares and property as markets permitted. The Plan's holding of index-linked bonds was increased because their returns are linked to inflation and closely match any increases to pensions. Further details are included in the Investment Report on pages 13 to 16. Also during the year the Trustee carried out a comprehensive review of its property mandate, following which Lasalle Investment Management were appointed with effect from 1 June 2010.

Changes for Future Service

During the year, the Trustee executed a Deed – effective in April 2010 – in relation to the change in the Plan's normal retirement age from age 60 to 65, for service from that date and the introduction of flexible retirement options. Communications dealing with these changes were issued to active members of the Plan in November 2009.

The Trustee has worked with Royal Mail Group during the year to implement these changes.

Trustee Report

AVCs

The Trustee has reviewed the options available to members under the Additional Voluntary Contributions (AVC) arrangements and has decided that the most appropriate way forward for the Plan would be through replacing the current range of providers with a single platform whereby Zurich Assurance will provide a gateway for the new arrangements. There will be a choice of four 'core' funds, with varying risk profiles. In addition, two 'satellite' funds will be available – a fund which complies with Shariah Law and an ethically focussed fund.

The new arrangements will commence in October 2010 and members who already have an AVC fund in Bonusplan or in Flexiplan were notified of the changes in May and July. Active members of the Plan will be notified of the changes later this year. In the meantime, details of the new fund choices have been posted to the Plan's website at www.royalmailpensionplan.co.uk

Accounting and Membership Summary

During the year, the investment markets recovered losses sustained in the previous years as a result of the credit crunch and recession. The Plan's assets increased in value from £20,250 million at 1 April 2009 to £25,984 million at 31 March 2010. There were receipts from contributions and transfers of £1,040 million and benefit payments were £1,115 million. The increase in the market value of investments during the year was £5,408 million. Investment income totalled £499 million and there were other costs of £98 million.

Total membership decreased during the year from 443,254 to 436,991. Following Royal Mail Group's decision to close the Plan to new entrants with effect from 1 April 2008, employee members have decreased during the year from 148,307 to 138,827. Deferred members have increased to 115,914 and pensioners have increased to 182,250. A full analysis of membership appears in Appendix 1 (page 42).

Actuarial Valuation and Funding Update

The latest formal actuarial valuation of the Plan was carried out as at 31 March 2009. The report valued the assets of the Plan at £20.2 billion and the liabilities at £30.5 billion giving rise to a deficit of £10.3 billion and a funding level of 66%.

The Trustee and Royal Mail Group have agreed a Recovery Plan. The key points are:

- deficit payments of £282 million a year (rising in line with inflation), plus contributions of 4% of contributory pay with effect from 1 April 2013 until 31 March 2023. This is planned to eliminate the deficit over an estimated period of 38 years,
- the £1 billion that Royal Mail set aside in an escrow account for the Plan in 2006 (value £1.189 billion as at 31 March 2010) remains available for the Plan to call on if necessary.

The Trustee, in coming to this agreement with Royal Mail Group, has the interests of members at the forefront of its mind and believes that this is the best arrangement that could be achieved.

The Trustee has been asked to inform you of the following:

The Pensions Regulator has not yet had the opportunity to carry out a detailed assessment of the formal financial health check. However, the provisional view from the Regulator is that it has substantial concerns about both the deficit figure and other aspects of the agreement which the Trustee reached with Royal Mail Group. The agreement is now subject to a formal review by the Regulator.

The Trustee is working with the Pensions Regulator to help it conduct its formal review.

The Trustee wrote to Plan members in July 2010 and drew their attention to the clear priority commitment from Government to pass legislation addressing the issues faced by Royal Mail Group, including the funding deficit in the Plan.

The latest funding update as at 31 March 2010 shows an improvement in the funding level to 76%, primarily due to strong investment returns. A full analysis is shown in the table on page 15.

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

Trustee Report

accordance with the Trustee's Statement of Funding Principles and the Recovery Plan.

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

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.

Investment and Funding

Investment Policy

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

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

The SIP appears in full in Appendix 3 (pages 44 to 52).

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

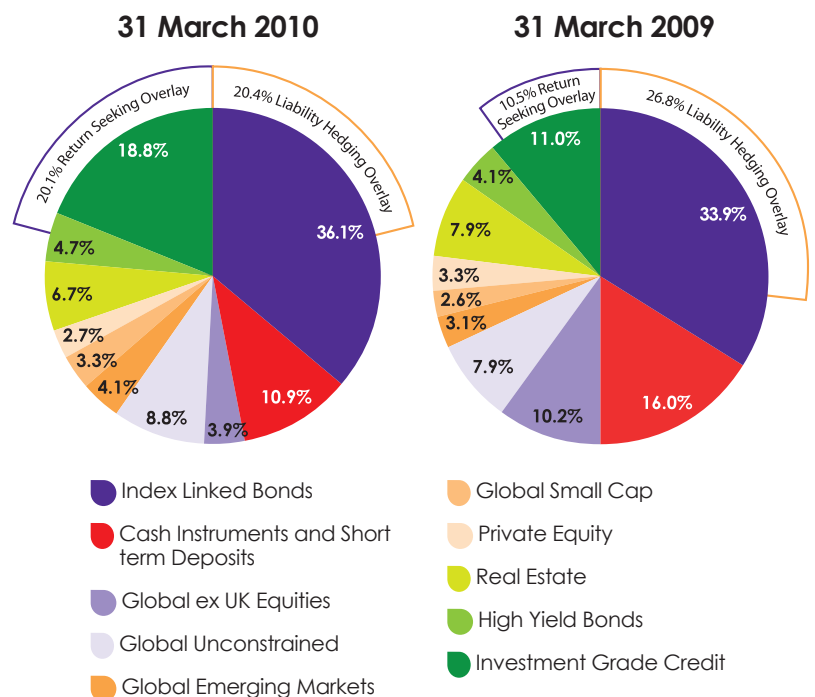
Investment Strategy

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

Investment is inevitably exposed to risks. These risks can be broadly classified as those inherent in the safe custody and record keeping of assets and those inherent in the investment markets.

The assets of the Plan are kept totally separate from the finances of the Employer. In order to control their title and security, where possible the Trustee holds the assets in designated

Weightings



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

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

Trustee Report

Investment Managers

The Plan's assets as at 31 March 2010 are managed by several external investment managers with specialist portfolios as detailed below:

Manager	Mandate	Value (£ million)
Legal & General	Passive Global (ex UK) Equities	1,454
Alliance Bernstein	Global Unconstrained Equities	879
Beach Point Capital	High Yield Debt	1,212
BlackRock	Liability Driven Investment	11,252
Dimensional	Global Small Cap Equities	857
Hamilton Lane	USA Private Equity	261
Hermes	Emerging Market Equities	605
Hermes	Index-Linked Bonds	511
Hermes	Private Equity	51
Hermes	Cash	400
Hermes	UK Property	1,750
Pantheon Ventures	Global Private Equity	209
Pathway Capital	USA Private Equity	207
Standard Life	UK Investment Grade Credit	2,685
Walter Scott	Global Unconstrained Equities	1,388
Wellington	Global Investment Grade Credit	2,180
AVC investments		83
Net assets		25,984

The figures shown above are based on the investment values as at 31 March 2010 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 majority of the assets as being readily realisable. Exceptions include certain pooled investments, private equity, property and some corporate bonds, which due either to the nature of the investments or current market conditions means they are less liquid than the rest of the investment portfolio.

Trustee Report

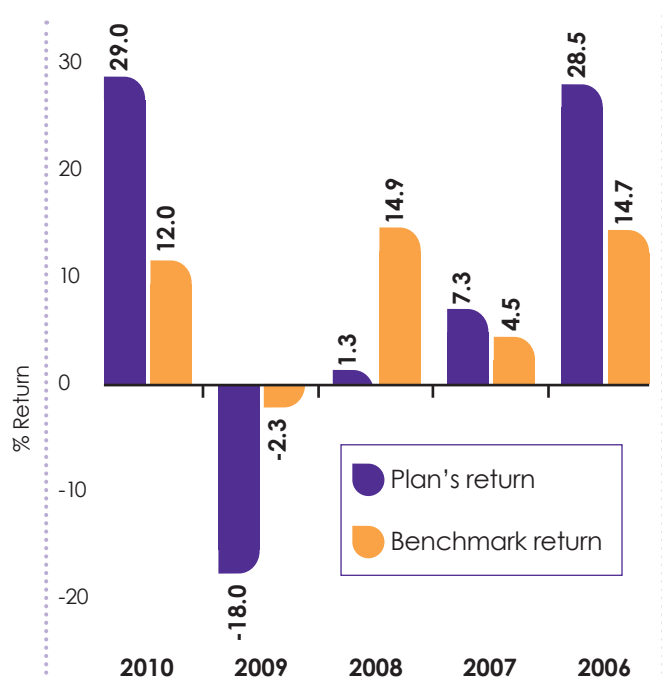
Funding Level Analysis

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

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

Investment Returns

The chart below shows the Plan's return compared with the liability benchmark for the year ended 31 March 2010, together with rates for the previous 4 years.



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

During the year the Plan's assets provided a return of 29.0% recovering the losses suffered in the previous year as a result of the credit crunch and recession. The Plan's liability benchmark showed an increase of 12.0% as bond yields fell during the year.

Trustee Report

Responsible Investment

The Trustee's policy on responsible investment is included in its Statement of Investment Principles. The Principles are shown in Appendix 3 (pages 50 to 51).

During the year the following activities have been carried out in implementing this policy:

- The Trustee has signed up to the United Nations backed Principles of Responsible Investment. The Principles are reproduced in Appendix 4 (pages 53 to 55).

Through its Investment Sub-Committee, the Trustee:

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

Conclusion

The year has been notable for three significant events:

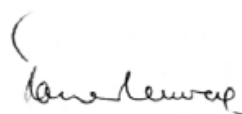
The Plan's actuarial valuation as at 31 March 2009 showed that the funding deficit had increased to £10.3 billion. An updated recovery plan has been agreed with Royal Mail Group.

In July 2009 the Government announced that it had decided to delay the Postal Services Bill. However, in May 2010, the new Government announced in the Queen's Speech its intention to take measures to resolve the problems surrounding Royal Mail Group's pensions deficit.

In the year ended 31 March 2010 the Plan's assets increased in value from £20.3 billion to £26 billion following strong investment returns and the funding level improved to 76%.

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 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, Royal Mail Pensions Service Centre and our team of external advisers.

For the Trustee



Jane Newell OBE Chair

9 August 2010

Statement of Trustee's Responsibilities for the Financial Statements

The audited financial statements, which are 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 them to safeguard the assets of the Plan and to prevent and detect fraud and other irregularities, including the maintenance of appropriate internal controls.

Statement of Trustee's Responsibilities in respect of Contributions

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



Royal Mail Pension Plan Financial Statements

Financial Statements

Consolidated Fund Account for the year ended 31 March 2010	Notes	2010 £ million	2009 £ million
Contributions and benefits			
Contributions	1	1,023	1,042
Individual transfers in		17	9
		1,040	1,051
Benefits	2	(1,098)	(1,032)
Payments to and on account of leavers	3	(17)	(15)
		(1,115)	(1,047)
Administrative expenses	4,18	(19)	(17)
Net withdrawals from dealing with members		(94)	(13)
Return on investments			
Investment income	6	499	390
Change in market value of investments	7	5,408	(3,755)
Interest on borrowings		(3)	(25)
Investment expenses	5,18	(76)	(40)
Minority interests	15	–	5
Net return/(loss)		5,828	(3,425)
Net increase/(decrease) in the fund during the year		5,734	(3,438)
Net Assets of the Plan			
At start of year		20,250	23,688
At end of year		25,984	20,250

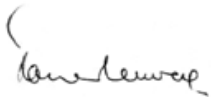
Financial Statements

Consolidated Net Assets Statement as at 31 March 2010		Notes	2010 £ million	2009 £ million
Investment assets				
UK equities	8		316	172
Overseas equities	8		3,316	2,263
Property	9		1,467	1,364
Fixed interest	8		5,484	2,520
Index-linked	8		474	1,061
Pooled investment vehicles	8		11,348	11,271
Derivative contracts	10		133	72
AVC investments and supplementary plan	12		83	78
Deposits and short-term investments	11		2,935	903
Loans			476	361
Other investment assets			429	401
			26,461	20,466
Investment liabilities				
Derivative contracts	10		(108)	(11)
Investment borrowings	13		(86)	(103)
Other investment liabilities			(225)	(54)
			(419)	(168)
Net investment assets			26,042	20,298
Minority interests	15		(11)	(12)
			26,031	20,286
Current assets				
Other debtors			3	13
Bank balances			11	18
			14	31
Current liabilities				
Creditors	14		(61)	(67)
Net current liabilities			(47)	(36)
Net assets of the Plan at 31 March			25,984	20,250

Financial Statements

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

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



J Newell OBE Chair



P Kennedy Director



G P Degaute Chief Executive

9 August 2010

Financial Statements

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 2009.

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.

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 Schedules of Contributions.

Benefits

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

Transfers

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

Investment Income

Income from property, fixed interest and index-linked securities and other interest receivable is taken into account on an accruals basis. Income from all other marketable securities is taken into account on the date when stocks are quoted ex-dividend. Investment income is recognised in the 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.

Financial Statements

Foreign Currencies

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

Market Value of Securities

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

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

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

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

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

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

Securities on Loan

Securities on loan are included in the accounts within the respective investment classes at the year end market value of the securities on loan. 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 Plan year end date in accordance with RICS Valuations Standards.

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

Commitments

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

Financial Statements

Notes to the Accounts

1. Contributions	2010 £ million	2009 £ million
Contributions by employer – normal	521	549
– deficit funding	282	282
– augmentation	50	32
– other	6	6
Contributions by members – normal	155	164
– additional voluntary	4	4
– added years	5	5
	1,023	1,042

Since the actuarial valuation undertaken as at 31 March 2006, the combined rate of contributions has been 26% of contributory pay, comprising 20% paid by the employer and 6% by the members. The valuation 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	2010 £ million	2009 £ million
Retirement pensions	884	844
Lump sum retirement benefits	194	167
Death benefits	20	21
	1,098	1,032

3. Payments to and on account of leavers	2010 £ million	2009 £ million
Transfer values, withdrawing members:		
Individual	16	12
Refunds of contributions to members	1	3
	17	15

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

Financial Statements

Notes to the Accounts continued

4. Administrative expenses

Administrative expenses are stated after charging the following:

Auditors' remuneration	2010 £'000	2009 £'000
Fees payable to the Plan's auditors (KPMG) for the audit of the Plan's accounts	95	104
Fees payable to the Plan's auditors for the audit of the Plan's subsidiaries pursuant to legislation	55	54
Total audit fees	150	158
Total fees payable to the Plan's auditors	150	158
Total auditors' remuneration to other audit firms	9	9

Administrative expenses include costs totalling £6.4 million in respect of the Pension Protection Fund (2009: £6.2 million). This cost has been reimbursed by the employer as disclosed in Note 1 as Contributions by Employer – other.

5. Investment management expenses

	2010 £ million	2009 £ million
Investment managers' base fees	34	30
Investment managers' performance fees	40	7
Other expenses	2	3
	76	40

6. Investment income

	2010 £ million	2009 £ million
UK equities	7	14
Overseas equities	57	83
Property, net of outgoings	87	105
Fixed interest	248	100
Index-linked	11	31
Income from derivatives	1	–
Pooled investment vehicles	37	22
Deposits and short-term investments	48	40
	496	395
Irrecoverable withholding tax	3	(5)
	499	390

Income from property is net of expenses of £26 million (2009: £10 million).

Financial Statements

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 2010. An analysis of the change in market value of net assets is shown below:

	Market value at 31 March 2009	Net Investment/ (disinvestment)	Change in value	Market value at 31 March 2010
	£ million	£ million	£ million	£ million
Investment assets				
UK equities	172	58	86	316
Overseas equities	2,263	(42)	1,095	3,316
Property	1,364	(2)	105	1,467
Fixed interest	2,520	2,401	563	5,484
Index linked	1,061	(827)	240	474
Pooled investment vehicles	11,271	(2,019)	2,096	11,348
AVC investments and supplementary plan	78	(2)	7	83
Deposits and short-term investments	903	2,032	–	2,935
Loans	361	48	67	476
Derivative contracts*	61	(1,185)	1,149	25
	20,054	462	5,408	25,924
Other investment assets and liabilities	244			118
Net investment assets	20,298			26,042

*Derivative contracts include both derivative assets and derivative liabilities which are shown separately in the Consolidated Net Assets Statement.

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

Financial Statements

Notes to the 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	167	(109)	58
Overseas equities	1,478	(1,520)	(42)
Property	20	(22)	(2)
Fixed interest	7,535	(5,134)	2,401
Index-linked	868	(1,695)	(827)
Pooled investment vehicles	5,710	(7,729)	(2,019)
AVC investments and supplementary plan	4	(6)	(2)
Deposits and short-term investments	2,032	–	2,032
Loans	1,390	(1,342)	48
Derivative contracts	–	(1,185)	(1,185)
	19,204	(18,742)	462

Transaction costs are costs that are directly attributable to the acquisition or disposal of an investment and are included in the cost of purchases and sale proceeds. Transaction costs incurred during the year amounted to £4 million (2009: £5 million). In addition to these transaction costs, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

Financial Statements

Notes to the Accounts continued

8. Listed and unlisted investments	2010 £ million	2009 £ million
UK equities		
Quoted	315	172
Unquoted	1	–
	316	172
Overseas equities		
Quoted	3,293	2,263
Unquoted	23	–
	3,316	2,263
Fixed interest		
UK quoted public sector	46	7
UK quoted other	2,605	2,084
UK unquoted other	–	8
Overseas quoted other	2,833	421
	5,484	2,520
Index linked		
UK quoted public sector	448	621
UK quoted other	–	437
UK unquoted other	–	3
Overseas quoted public sector	26	–
	474	1,061
Pooled investment vehicles		
Managed funds – insurance policy	1,454	6,021
Managed funds – property	128	106
Managed funds – other	752	684
Unit trusts – cash and debt instruments with swap overlay	8,854	4,301
Unit trusts – property	160	159
	11,348	11,271

Unit trusts – cash and debt instruments with swap overlay are managed by BlackRock and represent 34.1% (2009: 21.2%) of the Plan's net assets.

Managed funds – other includes £442 million (2009: £423 million) relating to funds registered overseas. Managed funds – property includes £97 million (2009: £84 million) relating to funds registered overseas.

Unit trusts – property includes £103 million (2009: £116 million) relating to funds registered overseas.

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

Financial Statements

Notes to the Accounts continued

9. Property	2010 £ million	2009 £ million
UK		
Offices	550	540
Retail	744	667
Industrial	173	157
	1,467	1,364
<p>The Plan consolidates property held in investments in subsidiary companies and joint ventures. The disclosure above includes £460 million of property held in such entities (2009: £439 million). 0.1% (2009: 0.1%) of property was leased back to Royal Mail Group at market rates.</p>		

10. Derivative contracts	2010 £ million	2009 £ million
Assets		
Futures contracts	79	61
FX forward contracts	45	8
Swaps	9	3
	133	72
Liabilities		
Futures contracts	(2)	–
FX forward contracts	(79)	(11)
Swaps	(27)	–
	(108)	(11)

Objectives and policies

The Trustee has 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 contracts

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 more efficient way of modifying portfolio risk whilst remaining 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 rate changes.

Credit default swaps

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

Financial Statements

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 Value £ million	2010	
			Asset £ million	Liability £ million
Long gilt	June 10	110	2	–
Fixed interest – overseas	June 10	20	3	(2)
UK equity	June 10	3,033	23	–
Overseas equities	June 10	2,102	51	–
			79	(2)

Type of Future	Expiration	Economic Exposure Value £ million	2009	
			Asset £ million	Liability £ million
Long gilt	June 09	54	1	–
UK equity	June 09	2,056	60	–
			61	–

FX Forwards

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

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

Financial Statements

Notes to the Accounts continued

10. Derivative contracts continued

FX Forwards continued

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)	
			8	(11)	

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	2010	
			Asset £ million	Liability £ million
Credit default swap – index	< 5 years	30	1	–
Credit default swap – individual companies	< 7 years	138	1	–
Interest rate swap – fixed for floating	< 30 years	1,360	4	(14)
Interest rate swap – floating for fixed	< 30 years	626	3	(13)
			9	(27)

Type of Swap	Expiration	Economic Exposure Value £ million	2009	
			Asset £ million	Liability £ million
Interest rate swap – floating vs fixed	2010	75	3	–
			3	–

11. Deposits and short-term investments

	2010 £ million	2009 £ million
Interest earning deposits: Sterling	1,976	520
Foreign currency	377	212
Certificates of deposit	523	125
Floating rate notes	59	46
	2,935	903

Financial Statements

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 Santander, Aviva, Legal and General, Standard Life and Equitable Life Assurance Society. Members participating in these arrangements 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	2009 £ million	Insurance Policies	Cash Deposits	Total	2009 £ million
	2010 £ million	2010 £ million	2010 £ million		2010 £ million	2010 £ million	2010 £ million	
At start of year	12	39	51	56	7	20	27	28
Net benefits/contributions:								
- by employer	-	-	-	-	-	-	-	-
- by members	-	(1)	(1)	(2)	-	(1)	(1)	-
Change in market value of investments	4	1	5	(3)	2	-	2	(1)
At end of year	16	39	55	51	9	19	28	27

13. Investment borrowings

	2010 £ million	2009 £ million
Sterling – secured		
Repayable in two to five years	53	53
Sterling – unsecured		
Repayable within one year	33	50
	86	103

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.

Financial Statements

Notes to the Accounts continued

14. Creditors	2010 £ million	2009 £ million
Accrued benefits	24	27
Other creditors	37	40
	61	67
The other creditors balance includes £14 million due to RMPTL (2009 £15 million) as disclosed in note 18.		

15. Minority Interests

Minority interests of £11 million (2009: £12 million) disclosed in the Consolidated Net Assets Statement comprise the interests of co-investors in the Hyde Park Partnership. As shown in the Consolidated Fund Account, they include a gain attributable to minority interests of £nil (2009: gain of £5 million) comprising both income and change in market value. The Plan fully consolidates all investment income and changes 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.

	2010		2009	
	On Loan £ million	Collateral £ million	On Loan £ million	Collateral £ million
UK equities	2	2	2	2
Overseas equities	109	119	120	132
	111	121	122	134

17. Commitments and contingent liabilities

	2010 £ million	2009 £ million
Commitments for investments at 31 March		
Property	119	104
Other*	560	659
	679	763
*Other commitments represent funds allocated for specific private equity investments.		

Financial Statements

Notes to the Accounts continued

18. Related party transactions

During the year there were transactions with 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.

	2010 £ million	2009 £ million
Fees charged for the year (including amounts payable to RMPTL as at 31 March of £14 million) (2009: £15 million)	95	57

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 2010 which comprise the fund account, the net assets statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Plan's Trustee in accordance with the Pensions Act 1995 and Regulations made thereunder. Our audit work has been undertaken so that we might state to the Plan Trustee those matters we are required to state to it in an 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 Plan Trustee, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Trustee and auditors

As described in the Statement of Trustee's Responsibilities on page 17, the Plan's Trustee is responsible for preparing an annual report, including audited financial statements prepared in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant 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 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 to you if, in our opinion, we have not received all the information and explanations we require for our audit.

We read the Trustee's report and other information contained in the annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Independent Auditors' **Report** to the Trustee of the Royal Mail Pension Plan

Basis of audit opinion

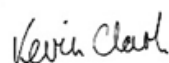
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by or on behalf of 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 information in the financial statements.

Opinion

In our opinion the financial statements:

- show a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the financial transactions of the Plan during the Plan year ended 31 March 2010 and of the amount and disposition at that date of its assets and liabilities (other than liabilities to pay pensions and benefits after the end of the Plan year); and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995.



Kevin Clark

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

Chartered Accountants
15 Canada Square
London
E14 5GL

9 August 2010

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** about Contributions, made under Regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, to the Trustee of the Royal Mail Pension Plan

We have examined the summary of contributions to the Royal Mail Pension Plan in respect of the Plan year ended 31 March 2010 which is set out on page 39.

This statement is made solely to the Plan's Trustee, in accordance with the Pensions Act 1995 and Regulations made thereunder. Our work has been undertaken so that we might state to the Plan's 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 Plan's Trustee, for our work, for this statement, or for the opinions we have formed.

Respective responsibilities of Trustee and auditors

As described on page 17, the Plan's Trustee is responsible, under the Pensions Act 1995, for ensuring that there is prepared, maintained and from time to time revised a payment schedule which sets out the rates and due dates of certain contributions payable towards the Plan by or on behalf of the employer 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 payment schedule.

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

We read the Trustee's report and other information in the annual report and consider whether it is consistent with the summary of contributions. We consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the summary of contributions.

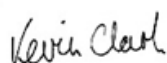
Basis of statement about contributions

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

Independent Auditors' **Statement** about Contributions, made under Regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, to the Trustee of the Royal Mail Pension Plan

Statement about contributions payable under the schedule

In our opinion contributions for the Plan year ended 31 March 2010 as reported in the summary of contributions and payable under the schedule have in all material respects been paid at least in accordance with the schedule of contributions certified by the actuary on 23 March 2007.



Kevin Clark

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

Chartered Accountants
15 Canada Square
London
E14 5GL

9 August 2010

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

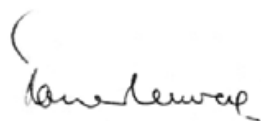
Legislation in the United Kingdom governing the preparation and dissemination of financial information differs from legislation in other jurisdictions.

Trustee's Summary of Contributions

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

Contributions Receivable						
	2010	2010	2010	2009	2009	
	Per	Additional	Total	Per	Additional	Total
	Schedule	£ million	£ million	Schedule	£ million	2009
	£ million		£ million	£ million		£ million
Employers' normal contributions	517	4	521	545	4	549
Members' normal contributions	155	–	155	164	–	164
Employers' deficit funding contributions	282	–	282	282	–	282
Employers' augmentation contributions	50	–	50	32	–	32
Employers' other contributions	6	–	6	6	–	6
Members' additional voluntary contributions	–	4	4	–	4	4
Members' added years' contributions	–	5	5	–	5	5
Total contributions (see Note 1 to the accounts)	1,010	13	1,023	1,029	13	1,042

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



J Newell OBE
Chair

9 August 2010

Actuarial Certificate

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

Adequacy of rates of contributions

1 I certify that, in my opinion, the rates of contributions shown in this schedule of contributions are such that the statutory funding objective could have been expected on 31 March 2009 to be met by the end of the period specified in the recovery plan dated 30 June 2010.

Adherence to statement of funding principles

2 I hereby certify that, in my opinion, this schedule of contributions is consistent with the Statement of Funding Principles dated 30 June 2010.

The certification of the adequacy of the rates of contributions for the purpose of securing that the statutory funding objective can be expected to be met is not a certification of their adequacy for the purpose of securing the scheme's liabilities by the purchase of annuities, if the scheme were to be wound up.

C G Singer

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

30 June 2010



Appendices

Appendix 1

Membership Analysis		Total RMPP
Employee Members		
At 31 March 2009		148,307
Add		
Employees joining at age 18	35	
New records added	202	237
Less		
Members leaving during year:		
Normal retirements	3,898	
Ill health retirements	216	
Deaths	167	
Refund of contributions	830	
Deferred pensioners	4,197	
Deletions	38	
No liability (others)	70	
Unconfirmed leavers	301	(9,717)
At 31 March 2010		138,827
Deferred Pensioner Members		
At 31 March 2009		115,375
Add		
New leavers during year:		
Normal retirements	4,197	
Unconfirmed leavers	301	4,498
Less		
Pensions commenced	3,186	
Death in deferment	170	
Transfers to other schemes	603	(3,959)
At 31 March 2010		115,914
Pensioner Members		
At 31 March 2009		179,572
Add		
Normal retirements	3,898	
Ill health retirements	216	
Deferred pensions coming into payment	3,186	
Widows/widowers	2,171	
Child pensioners	166	
Dependants	66	9,703
Less		
Deceased pensioners	4,423	
Deceased widows/widowers	2,378	
Deceased dependants	22	
Deceased child pensioners	9	
Dependants/child pensioners ceasing to be eligible	193	(7,025)
At 31 March 2010		182,250
Total Membership at 31 March 2010		436,991

The Plan's policy for dealing with suspended pension payments is shown on page 11.

Appendix 2

Five Year History of the Fund

Income

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 2007) to 31 March 2010. Employee members have contributed at the rate of 6% of contributory pay since 1 April 2003.

	2006 £ million	2007 £ million	2008 £ million	2009 £ million	2010 £ million
Employers' contributions	526	789	858	869	859
Member contributions and transfers in	182	183	183	182	181
Investment income	351	383	446	390	499

Benefits

In accordance with the Trust Deed, pensions were unchanged in April 2010. There was a decrease of 1.4% in the Retail Prices Index (RPI) for the year ended September 2009 and the Plan rules do not allow pensions in payment to be decreased in these circumstances. (The pensions increase in April 2009 was 5.0% representing the increase in the RPI for the year ended September 2008).

	2006 £ million	2007 £ million	2008 £ million	2009 £ million	2010 £ million
Retirement pension	756	780	818	844	884
Lump sum retirement benefits	72	146	150	167	194
Death benefits and leavers	47	37	35	36	37

Assets

The total assets of the Plan at 31 March 2010 were £25,984 million (2009: £20,250 million).

	2006 £ million	2007 £ million	2008 £ million	2009 £ million	2010 £ million
Assets	21,882	23,460	23,688	20,250	25,984

Appendix 3

Statement of Investment Principles

1. Introduction

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

Appendix 3

2. Fund Governance

- 2.1 The Trustee is responsible for the investment of the Plan's assets but is permitted to delegate execution of these responsibilities. When determining which decisions to delegate, the Trustee has taken into account whether it has the appropriate training and is able to secure the necessary expert advice in order to take an informed decision. The Trustee's ability to execute the decision effectively is also taken into account. Details of the Trustee's duties and responsibilities are included in the Appendix.
- 2.2 The Trustee has established the Investment Sub-Committee ("ISC") to focus on investment issues. Details of the ISC's duties and responsibilities are included in separate Terms of Reference.
- 2.3 The Trustee has appointed an Investment Consultant to advise the Trustee and the ISC as to the setting, implementation and monitoring of the investment policy. Details of the Investment Consultant's duties and responsibilities are included in the Appendix (page 52).
- 2.4 The Trustee has chosen to delegate day-to-day management of the Plan's investments to a number of Investment Managers, in accordance with Section 34 of the Pensions Act 1995. The terms of each Investment Manager's appointment are contained in the Investment Management Agreement between the Investment Manager and the Trustee.
- 2.5 The Trustee has appointed a Performance Measurer independent of the Plan's Investment Managers. Summary details of the Performance Measurer's duties and responsibilities are included in the Appendix.
- 2.6 The Custodian is responsible for the safekeeping of the Plan's assets and performs the associated administrative duties (e.g. trade settlement, dividend collection, corporate actions, tax reclamation and proxy voting). The details of the Custodian's appointment and duties are set out in the contract between the Trustee and the Custodian. Summary details of the Custodian's duties and responsibilities are included in the Appendix.

3. Investment Objective

3.1 Meeting the Plan's Liabilities

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

Appendix 3

4. Risk and Return

- 4.1 The Trustee recognises that it is not necessarily possible, or even desirable, to select investments that exactly match the Plan's estimated liabilities. Given the ongoing commitment of the Company to the Plan, a degree of investment risk can be taken, in the expectation of generating excess returns relative to the lowest risk strategy.
- 4.2 In deciding to take investment risk relative to the liabilities, the Trustee has carefully considered the following possible consequences:
- Over any time period, the assets might not achieve the anticipated excess return relative to the liabilities. This would result in the deterioration of the Plan's financial position and consequently may result in higher contributions than currently expected from the Company.
 - There may be a shortfall of assets relative to the liabilities in the event of discontinuance of the Plan. This consequence is particularly serious if it coincides with the Company being unable to make good the shortfall.
- 4.3 The Trustee has taken advice on these issues from the Investment Consultant and the Scheme 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 minimise the level of risk taken for the level of return sought.

Appendix 3

5. Diversification of Risks

- 5.1 To control the risk of deterioration in the financial position of the Plan, the Trustee requires the Plan's assets to be adequately diversified between different asset classes, especially among those asset classes which represent significant risk relative to the liabilities.
- 5.2 The principal asset categories used by the Plan are set out below.
- 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 uses derivatives in combination with or as an alternative to bonds and as a means of managing currency exposures. In using derivatives, the Plan is exposed to the associated *counterparty risks*, a form of credit risk in that the counterparty to the derivative transaction could fail to meet its obligations to the Plan.
- 5.2.5 **Equities** – equities, whether public or private, represent an ownership stake in a company. The value of this stake is determined by the buyer and seller of the stake and there is no certain value to this investment (unlike the payments contracted under a bond, subject to credit and currency risk). A periodic payment, in the form of a dividend, might be made to an equity holder although the timing and amount of this is uncertain. The uncertainty of the return from equities relative to the liabilities means there is a significant *equity/liability mismatch risk*.
- 5.2.6 **Property** – the return generated by an investment in property can be broken down into income and capital. The income component is subject to interest rate risk and inflation risk relative to the liabilities. There is also uncertainty as to the long-term level of the income. The capital value of the property is determined by the buyer and seller of the property and is not certain. These uncertainties, including currency risk in the case of properties outside the UK, constitute a significant *property/liability mismatch risk*.

Appendix 3

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

Appendix 3

6. Strategic Management

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

	Strategic Asset Allocation (%)
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	60
Cash and derivative commitments	-37
	100

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

7. Investment Managers

- 7.1 The Investment Managers have full discretion to buy and sell investments on behalf of the Plan, subject to agreed constraints. They have been selected for their expertise in different specialisations and each manages investments for the Plan to a specific mandate, which includes performance objectives, risk parameters, and timescales over which their performance will be measured.
- 7.2 Where assets are managed on a segregated basis, the Trustee is able to tailor the nature of the investment mandate and restrictions on how assets are managed to the Plan's specific requirements. The precise terms differ between the Investment Managers depending on the nature of their mandate.
- 7.3 The Trustee accepts that it is not possible to specify investment restrictions where assets are managed via pooled funds, but nonetheless takes appropriate legal and investment advice regarding the suitability of the pooled fund and its documentation.

Appendix 3

8. Cashflow Management

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

9. Additional Voluntary Contributions

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

10. Responsible Investment

- 10.1 Sustainable Investment
 - 10.1.1 The Trustee aims to be an engaged and responsible long-term investor in the assets and markets in which it invests. The Trustee believes that the integration of these factors within investment managers' investment processes is not detrimental to the risks and the sustainable long term expected returns from the Plan's investments. All of the Plan's investment managers are encouraged to take these factors into account within their respective investment processes.
 - 10.1.2 The Plan is a signatory to the United Nations backed Principles for Responsible Investment which acts as a framework for investors to take environmental, social and governance issues into account.
- 10.2 Corporate Governance
 - 10.2.1 The Trustee has given the Investment Managers full discretion in exercising rights, including voting rights, in relation to the Plan's investments.
 - 10.2.2 The Trustee encourages best practice in terms of engagement with investee companies. It therefore seeks to require its Investment Managers to discharge their responsibilities in respect of investee companies that they invest in accordance with the Statement of Principles drawn up by the Institutional Shareholders' Committee.
 - 10.2.3 It believes that good corporate governance is important and it expects the Investment Managers to have suitable policies which promote the concept of good corporate governance and, in particular a policy of exercising voting rights. The Trustee holds the Investment Managers accountable for their decisions in the use of voting rights.

Appendix 3

10.3 Social Investment

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

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

11. Compliance With and Review of This Statement

- 11.1 The Trustee will review compliance with this Statement on a regular basis. The regular review will occur no less frequently than triennially to coincide with the Actuarial Valuation, in the light particularly of any changes to the funding position of the Plan.
- 11.2 Each Investment Manager will provide written confirmation that they have complied with their obligations under the Pensions Act 1995. The Trustee undertakes to advise the Investment Managers promptly and in writing of any material change to this Statement.
- 11.3 The Trustee will also periodically review this statement as stated in paragraph 1.6 above. Any review of this Statement will be in response to any material changes to any aspect of the Plan, its liabilities, finances and the attitudes to risk of the Trustee and the Company, which it judges to have a bearing on the stated investment policy.
- 11.4 A copy of this Statement has been provided to the Company, Investment Consultant, Investment Managers, Performance Measurer and Custodian.

July 2010

Appendix 3

Appendix to Statement of Investment Principles – Plan Governance

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

A1. Trustee

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

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

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

A2. Administrator

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

A3. Custodian

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

A4. Investment Consultant

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

A5. Performance Measurer

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

Appendix 4

The Principles for Responsible Investment

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

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

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

Possible actions:

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

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

Possible actions:

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

Appendix 4

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

Possible actions:

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

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

Possible actions:

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

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

Possible actions:

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

Appendix 4

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

Possible actions:

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

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

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

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

We encourage other investors to adopt the Principles.

Appendix 5

Statement on Risk Management and Internal Control

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

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

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

1. Plan Sponsor becomes insolvent

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

2. Employer covenant monitoring is inaccurate

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

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

The new Coalition Government has stated its intention to bring forward legislation relating to Royal Mail Group which would include "measures to resolve the problems surrounding Royal Mail's pensions deficit". The Trustee continues to engage with both the Government and Royal Mail Group regarding this issue.

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

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

Appendix 5

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

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

6. Membership data is incorrect

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

7. Deflation (sustained period of negative inflation)

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

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

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

Appendix 6

Governance Policy

Trustee Mission and Key Objectives

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

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

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

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

Plan Governance

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

The Trust Deed and Rules stipulate primarily:

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

The Trustee governs the Plan through a number of policies and procedures. These are shown in the Annex A on pages 61 and 62, categorised by each of the four main objectives of the Trustee Board.

Appendix 6

Delegation of powers and duties

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

Royal Mail Pensions Trustees Ltd ("RMPTL")

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

Trustee Board composition

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

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

Sub-Committees

The Board has established the following standing Sub-Committees:

- Administration
- Audit and Accounts
- Funding
- Investment

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

- Internal Disputes Resolution
- Discretions

Appendix 6

Risk Committee

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

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

The Trustee Executive

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

Trustee Training

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

Assessment and Benchmarking

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

Relationship with Royal Mail Group Limited ("RMG")

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

Pensions Partnership

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

Other Stakeholders

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

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

Annex A to Appendix 6

Key Policies and Procedures

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

Annex A to Appendix 6

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

Glossary of Terms

Added Years

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

Additional Voluntary Contributions (AVCs)

Contributions made by active members to purchase additional benefits.

Asset Allocation

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

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, a company established to act 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.

Emerging Market Equities

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

Equities

Shares in UK and overseas companies.

Fixed Interest Securities

Investments on which a fixed rate of interest is received.

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.

Glossary of Terms

Guaranteed Minimum Pension (GMP)

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

Index Linked Securities

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

Investment Return

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

Lower Earnings Deduction

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

Money Purchase Benefits

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

Over The Counter (OTC) contracts

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

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.

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.

Sections A, B, C, D and E

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

Glossary of Terms

Section C Supplementary Plan

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

Short-term Investments

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

Swaps

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

The Pensions Regulator

A statutory body which regulates pension schemes.

Time Value Of Money

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

Transfer Value

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

Unlisted Investments

Stocks and shares not traded on a recognised stock exchange.

Unrealised Gains

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

Contact details

Contact details

Members' queries about benefits should be addressed to:

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Chesterfield
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E-mail pensionshelpline@royalmail.com

The pensions website is found at:
www.royalmailpensionplan.co.uk

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