This change has been introduced by the Group in order to control costs and to enhance the stability of the Fund in the future.

Minimum retirement age increased

In last year’s newsletter we mentioned that the Government was planning to increase the minimum age at which pension benefits can be claimed to 55. This legislation came into effect from April 2015. It is important to take this into account when planning your retirement. There are some exceptions, including remaining in employment on the grounds of ill health and in most cases retirement from the Group as a result of redundancy over age 53.

Taxation for high earners

In April 2009 it was announced that steps would be taken to restrict the rate of tax relief available on pension contributions for people earning over £150,000 a year. This year’s emergency budget was announced that the previously proposed changes would not apply. However, alternative measures to restrict tax relief will be introduced from April 2011 and these may potentially affect a larger number of employees. We will give you more information once the Government has confirmed its proposals. In the meantime, employees earning over £135,000 a year who are considering any changes to their pension arrangements may wish to take financial advice before taking any action.

The State pension

The way in which State pensions will increase in payment is changing. With effect from April 2012, the Basic State Pension will increase by the highest of the indexation rate, earnings, or 2.5%. The phased increase in State pension age for women from 60 to 65 is now underway and will be complete by 2020. Further increases in State pension age are likely but the exact timings is still to be decided.

For more information on the State pension, including details on the age you can claim your State pension, obtaining a State pension estimate, and the tax implications of receiving a State pension, please visit:

www.direct.gov.uk/en/pensionsandretirementplanning/statepension

Find out more

The following documents are available online:

• Annual Valuation Report and Accounts
• Latest Annual Valuation Report
• Pension scheme rules and regulations
• Trustee’s Statement of Investment Principles
• Information about other products available to

...
The Group increased its regular contributions to the Group Fund from 21.5% to 25.0% of salaries with effect from 1 July 2009.

Summary of financial position
The Group Fund’s most recent completed valuation at 31 March 2009 showed that the Group Fund’s assets exceeded the amount needed to provide member benefits (known as ‘full solvency’). The funding level – which measures assets as a percentage of liabilities – was 154%.

Since March 2009, there has been a partial recovery in global investment markets which has led to a reduction in the Group Fund’s assets. The Scheme Actuary's latest formal report of the Group Fund showed that the funding level was 140% at 31 March 2009.

Since 31 March 2006, there has been a partial recovery in global investment markets which has led to an increase in the Group Fund’s assets. In August 2009, the Group also announced that this increase to the solvency ratio of the Group Fund’s assets members will be capped for many years. This change to the benefits has also served to lower the amount of the GroupFund’s liabilities. Both these effects have had a positive impact on the funding level. Discussions between the Trustees and the Group as to the assumptions which should be used to carry out the 31 March 2010 valuation are currently underway, and we will include the full results of the 31 March 2010 valuation in next year’s statement once the current valuation process is complete.

The Group increased its regular contributions to the Group Fund from 21.5% to 25.0% of salaries with effect from 1 July 2009.

We are pleased to say that it has not needed to use its powers in this way for the Group Fund.

Activity in relation to the Fund’s investments has focused on 3 main areas:

Diversifying the Fund assets
- Further growth in the fund's equity investment in the corporate bond portfolio, following a large equity call on a portfolio of single-name equities with a high beta to the bond market. The Group has also increased its use of fixed-interest bonds in its mix of investments.

Diversifying across investment managers
- Increased number of equity funds and property managers.
- Increased use of Mt & S and external asset managers.
- Increased use of equity index bonds.

Performance:
Strong performance over the year to 31 March 2010
- Strong growth in the fund’s assets over the year reflected a robust in asset prices and improved sentiment in the global economy.
- Performance over the year was 14% ahead of the benchmark target.
- Performance is behind target over 3 and 5 year periods mainly due to weak returns in the second half of 2008.

Distribution of assets
At 31 March 2010 (clockwise from the top)

Asset class Value
Index-Linked Bonds £1,361m
Corporate Bonds £203m
Direct Global Equity £872m
Private Equity £599m
Hedge Funds £26m
Cash & Other £113m
Total Fund £1,789m

At 31 March 2010 the Fund had additional exposure to equity market through futures contracts of £4,059m (equivalent to 26% of fund assets)

Global equities rose by 48.4% over the period, with the highest returns from emerging markets, particularly in Brazil, Russia, India and China.

Bond market returns have been mixed in the UK, fixed-interest gilt returns -0.7% over the period however, growing concerns about future inflation fuelled demands for index-linked gilts which returned 5.2%. Corporate bonds returned 21%, with emerging markets and high-yield bonds generating the highest returns.

Alternative investments also generated positive returns over the period. The UK property market rebounded strongly, returning 16.3% over the year although valuations remain below the pre-crisis levels.

Hedge fund strategies benefited from the easing of the credit crisis, seeing improved credit conditions and better market liquidity.

Private equity managers found the year challenging however they weathered the storm better than many expected.

This is a summary of the financial statements contained in the Trustees’ Annual Report for the year ended 31 March 2010. The full financial statements from which these figures have been taken have been independently audited by Deloitte LLP.
The Group increased its regular contributions to the Group Fund from 21.5% to 25.0% of salaries with effect from 1 July 2009.

Summary of financial position
The Group Fund’s most recent completed valuation at 31 March 2007 showed that the Group Fund’s assets exceeded the amount needed to provide members’ benefits (known as ‘liabilities’). The funding level – which measures assets as a percentage of liabilities – was 154%.

Since that time there has been a drop in the funding level, caused mainly by falls in global investment markets leading to a reduction in the Group Fund’s assets. The Scheme Actuary’s latest formal report of the Group Fund showed that the funding level was 69% at 31 March 2010.

Since 31 March 2009, there has been a partial recovery in global investment markets which has led to increases in the Group Fund’s assets. In August 2009, the Group also announced that increases to the sustainable contributions of the Group Fund’s active members will be capped in future years. This change to the benefits has also served to lower the amount of the Group Fund’s liabilities. Both these effects have had a positive impact on the funding level. Discussions between the Trustees and the Group as to the assumptions which should be used to carry out the 31 March 2010 valuation are currently underway and we will include the full results of the 31 March 2010 valuation in next year’s statement once the current valuation process is complete.

The Group increased its regular contributions to the Group Fund from 2010 to 25% of salaries with effect from 1 July 2009.

We can confirm that there has been payment to the Group Fund from the Group Fund in the previous 12 months.

They address two key issues:
- Is the Group Fund building enough money to cover the benefits members wish to receive?
- What level of contributions does the Group need to pay to fund future liabilities?

The Group Fund is currently undergoing an Actuarial Valuation as at 31 March 2010, and we will include the results of this valuation as part of next year’s newsletter.

Diversifying the Fund assets
- Return generating lower risk, lower equity repositioning of the portfolio towards fixed income, resulting from a decline in property markets, reducing the Group Fund’s exposure to property and increasing the Group Fund’s exposure to fixed income.
- Additional return is achieved from matching investments, a key element in the Group Fund’s investment strategy.

Diversifying across investment managers
- Increased number of equity and fixed income managers.
- Increased use of multi- and single-asset managers.
- Increased use of long dated bonds.

The Group’s defined benefit pension scheme operates on a ‘full solvency’ basis, meaning that the funding level is to be determined on a basis which considers all the factors which could affect the funding level.

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Performance:
Strong performance over the year to 31 March 2010
Strong growth in the Fund’s assets over the year reflecting robust asset prices and improved sentiment in the global economy. Performance over the year was 14% ahead of the benchmark target. Performance was behind target over 3 and 5 year periods mainly due to weak returns in the second half of 2008.

Distribution of assets
As at 31 March 2010 (clockwise from the top)

Asset class Value
Index-Linked Bonds £314m
Corporate Bonds £323m
Direct Global Equity £472m
Private Equity £930m
Property £608m
Hedge Funds £533m
Cash & Other £533m
Total Fund £17,467m

At 31 March 2010 the Fund had additional exposure in equity markets through futures contracts of £4,089m (equivalent to 26% of fund assets).

Market commentary
Over the year to 31 March 2010 the global economy came out of deep recession. Measures taken by governments and central banks, including quantitative easing and loose monetary policy, prevented economic depression as the global economy returned to growth. The UK was the last major developed economy to report positive growth, in the fourth quarter.

Global equities rose by 48.4% over the period, with the highest returns from emerging markets, particularly in Brazil, Russia, India and China.

Bond market returns were mixed in the UK, fixed interest gilt returns differed 0.8% over the period however; growing concerns about future inflation fuelled demand for index-linked gilts which returned 1.2%, corporate bonds returned 2.5%, high-yield markets and high-yield bonds generating the highest returns.

Alternative investments also generated positive returns over the period.

The UK property market rebounded strongly, returning 16.3% over the year although valuations remain below the peaks.

Hedge fund strategies benefited from the easing of the credit crisis, seeing improved credit conditions and better market liquidity.

Private equity managers found the year challenging however, they weathered the storm better than many expected.

Fund finances and membership
This is a summary of the financial statements contained in the Trustee Annual Report for the year ended 31 March 2010. The full financial statements from which these figures have been taken have been independently audited by Deloitte LLP.

<table>
<thead>
<tr>
<th>Description</th>
<th>Figures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>£17,467m</td>
</tr>
<tr>
<td>Income:</td>
<td></td>
</tr>
<tr>
<td>Investment returns</td>
<td>£13,739m</td>
</tr>
<tr>
<td>Member transfers in</td>
<td>£17,802m</td>
</tr>
<tr>
<td>Expenses:</td>
<td></td>
</tr>
<tr>
<td>Benefit payments</td>
<td>£707m</td>
</tr>
<tr>
<td>Member transfers out</td>
<td>£52m</td>
</tr>
<tr>
<td>Total expenses</td>
<td>£759m</td>
</tr>
<tr>
<td>Total</td>
<td>£17,467m</td>
</tr>
</tbody>
</table>

The Group increased its regular contributions to the Group Fund from 21.5% to 25.0% of salaries with effect from 1 July 2009.

The Group’s defined benefit pension scheme operates on a ‘full solvency’ basis, meaning that the funding level is to be determined on a basis which considers all the factors which could affect the funding level.

The Group Fund’s most recent completed valuation at 31 March 2007 showed that the Group Fund’s assets exceeded the amount needed to provide members’ benefits (known as ‘liabilities’). The funding level – which measures assets as a percentage of liabilities – was 154%.

Since that time there has been a drop in the funding level, caused mainly by falls in global investment markets leading to a reduction in the Group Fund’s assets. The Scheme Actuary’s latest formal report of the Group Fund showed that the funding level was 69% at 31 March 2010.

Since 31 March 2009, there has been a partial recovery in global investment markets which has led to increases in the Group Fund’s assets. In August 2009, the Group also announced that increases to the sustainable contributions of the Group Fund’s active members will be capped in future years. This change to the benefits has also served to lower the amount of the Group Fund’s liabilities. Both these effects have had a positive impact on the funding level. Discussions between the Trustees and the Group as to the assumptions which should be used to carry out the 31 March 2010 valuation are currently underway and we will include the full results of the 31 March 2010 valuation in next year’s statement once the current valuation process is complete.

The Group increased its regular contributions to the Group Fund from 2010 to 25% of salaries with effect from 1 July 2009.

We can confirm that there has been payment to the Group Fund from the Group Fund in the previous 12 months.

Intervention by the Pensions Regulator
The Pensions Regulator can make changes to a scheme, give directions on working out its liabilities, or impose a schedule of contributions. We pleased to say that it has not been necessary to use this power in the Group Fund.

Full solvency
The above figures assume the Group Fund will keep going as it is. As part of the valuation, the Actuary also calculates the benefits of the Group Fund were to be wound up. This is known as the ‘full solvency’ position. To arrive at this figure, the actuary estimates the cost of buying insurance policies to cover the benefits members have already earned. Insurers companies have to invest their ‘funded’ assets, which usually give low returns, and their returns include allowances for costs and profits. So the amount needed to buy policies is likely to be far more than the total assets of the fund. The 2007 valuation showed a solvency level of 70%.

The Group Fund’s most recent completed valuation at 31 March 2007 showed that the Group Fund’s assets exceeded the amount needed to provide members’ benefits (known as ‘liabilities’). The funding level – which measures assets as a percentage of liabilities – was 154%.

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Summary of financial position
The Group Fund’s most recent completed valuation at 31 March 2009 showed that the Group Fund’s assets exceeded the amount needed to provide members’ benefits (known as ‘lackle’). The funding level – which measures assets as a percentage of liabilities – was 104%.

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Since 31 March 2006, there has been a partial recovery in global investment markets which has led to increases in the Group Fund’s assets. In August 2009, the Group also announced that increases to the pensionable salaries of the Group’s active members will be capped in future years. This change to the benefits has also served to lower the amount of the Group’s liabilities. Both these effects have had a positive impact on the funding level. Discussions between the Trustee and the Group as to the assumptions which should be used for 2010 have envisaged a valuation date of 31 March 2010 valuation are currently underway, and we will include the full results of the 31 March 2010 valuation in next year’s statement once the current valuation process is complete.

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Performance:
Strong performance over the year to 31 March 2010
Strong growth in the Fund’s assets over the year reflected robust asset price movements and improved sentiment in the global economy.

Performance over the year was 14% ahead of the benchmark target.
Performance is behind target over 3 and 5 year periods mainly due to weak returns in the second half of 2008.

Investment report
Activity in relation to the Fund’s investments has focused on 3 main areas
- Diversifying the Fund assets
- Diversifying across investment managers
- Increased use of liability matching investments

Investment returns have been mixed across the different asset classes, reflecting a volatile year in financial markets.

Strong growth in the Fund’s assets over the year was largely due to increased contributions and investment gains, and is a positive sign for funding the future.

Average returns on the Group’s existing diversified portfolio were 34.7%. While this is a significant improvement from the previous year, it is important to note that the gains were mixed.

Corporate bonds returned the highest gains, with an average return of 44.9%. This is in contrast to 2008, when these assets suffered significant losses.

Inflation-linked bonds returned 5.0%, which was a positive result given the low inflation environment.

Property investments returned 14.2% on average, with Asian property delivering the best performance.

Index-linked bonds and index-linked sterling Gilt Index returned 3.6% and 3.4%, respectively.

The Group also invested in hedge funds (25.0% of the portfolio), matching investments made by the pension fund in the previous years.

In addition, the Group Fund’s performance was strongly influenced by its exposure to emerging markets, particularly in Brazil, Russia, India and China.

The above figures are broadly in line with the benchmark indices.

Distribution of assets
At 31 March 2010 (clockwise from the top)

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Index-linked bonds</td>
<td>£134m</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>£332m</td>
</tr>
<tr>
<td>Direct Global Equity</td>
<td>£472m</td>
</tr>
<tr>
<td>Private Equity</td>
<td>£93m</td>
</tr>
<tr>
<td>Property</td>
<td>£57m</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>£549m</td>
</tr>
<tr>
<td>Cash &amp; Other</td>
<td>£133m</td>
</tr>
<tr>
<td>Total Fund</td>
<td>£1,786m</td>
</tr>
</tbody>
</table>

At 31 March 2010 the Fund had additional exposure to equity markets through future contracts of £4.65bn (equivalent to 26% of fund assets).

Market commentary
Over the year to 31 March 2010 the global economy came out of deep recession. Measures taken by governments and central banks, including quantitative easing and fiscal stimulus, prevented economic depression as the global economy returned to growth. The UK was the last major developed economy to report positive growth, in the fourth quarter.

Global equities rose by 43.4% over the period, with the highest returns from emerging markets, particularly in Brazil, Russia, India and China.

Bond market returns have been mixed in the UK, fixed interest gilt returns lost 0.8% over the period however; growing concerns about future inflation fuelled demands for index-linked gilts, which returned 12.5%. Corporate bonds returned 21.7%, with emerging-markets and high-yield bonds generating the highest returns.

Alternative investments also generated positive returns over the period.

The UK property market rebounded strongly, returning 16.3% over the year although valuations remain below pre-crisis levels.

Hedge fund strategies benefited from the easing of the credit crisis, seeing improved credit conditions and capital markets liquidity. Private equity managers found the year challenging however; they weathered the storm better than many expected.

Fund finances and membership
This is a summary of the financial statements contained in the Trustee Annual Report for the year ended 31 March 2010. The full financial statements from which these figures have been taken have been independently audited by Deloitte LLP.

<table>
<thead>
<tr>
<th>Category</th>
<th>Change 2010</th>
<th>Change 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension members</td>
<td>134,242</td>
<td>131,268</td>
</tr>
<tr>
<td>Active members</td>
<td>112,736</td>
<td>110,076</td>
</tr>
<tr>
<td>Deferred members</td>
<td>21,506</td>
<td>11,192</td>
</tr>
<tr>
<td>Employee members</td>
<td>54,469</td>
<td>62,553</td>
</tr>
<tr>
<td>Pensioners</td>
<td>56,263</td>
<td>52,748</td>
</tr>
</tbody>
</table>

> Funding report as at 31 March 2009
Every year, the Trustee is required to send you an annual Summary Funding Statement to keep you fully informed about the financial health of the Group Fund.

Information in the statement is provided by the Group Fund’s Actuary, based independently audited by Deloitte LLP.

> Distribution of assets
As at 31 March 2010 (clockwise from the top)
The change has been introduced by the Group in order to control costs and to enhance the stability of the Fund in the future.

Minimum retirement age increased

In last year's newsletter we mentioned that the Government was planning to increase the minimum age of pension benefits can be claimed to 55. This legislation came into effect from 6 April 2010. It is important to take this into account when planning your retirement. There are some exceptions, including retirement on the grounds of ill-health and in most cases retirement from the Group as a result of redundancy over age 50.

Taxation for high earners

In April 2009, it was announced that steps would be taken to restrict the rate of tax relief available on pension contributions for people earning over £150,000 a year. This year's emergency budget was announced that the previously proposed changes would not apply. However, alternative measures to restrict tax relief will be introduced from April 2011 and these may potentially affect a larger number of employees. We will give you more information once the Government has confirmed its proposals. In the meantime, employees earning over £130,000 a year who are considering any changes to their pension arrangements may wish to take financial advice before taking any action.

The State pension

The way in which State pensions will increase in payment is changing. With effect from April 2011, the Basic State Pension will increase by the highest of the rise in average earnings; the rate of price inflation; or 2.5%. The phased increase in State pensions started in 2005 with a rise of 2%. On 6 April 2009, it was announced that steps would be taken to restrict the rate of tax relief available on pension contributions for people earning over £150,000 a year. This year's emergency budget was announced that the previously proposed changes would not apply. However, alternative measures to restrict tax relief will be introduced from April 2011 and these may potentially affect a larger number of employees. We will give you more information once the Government has confirmed its proposals. In the meantime, employees earning over £130,000 a year who are considering any changes to their pension arrangements may wish to take financial advice before taking any action.

The change means the maximum yearly increase in pensionable salary will be limited to 2% or the rate of CPI inflation, whichever is lower in addition any changes to pensionable salary will only take effect from 1 April each year. As CPI inflation, which was 1.9% in September 2009, the maximum increase at 1 April 2010 was 1.7%.

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Changes to pensionable salary

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The State pension

The way in which State pensions will increase in payment is changing. With effect from April 2011, the Basic State Pension will increase by the highest of the increase in average earnings, the rate of price inflation, or 2%. The phased increase in State Pension age for women from 60 to 65 is now underway and will be complete by 2020. Further increases in State Pension age are likely but the exact timing is still to be decided.

For more information on the State pension, including details on the age you can claim your State pension, visit: www.direct.gov.uk/en/pensionsandretirementplanning/statepension

pension forecast and how to claim your pension, visit:

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In the meantime, employees earning over £110,000 a year who are considering any changes to their retirement arrangements may wish to take financial advice before taking any action.

The State pension

To find out more

In addition to the various communications issued during the year, the newsletter is a chance for us to update you on how the Fund is performing and to reassure you that the Trustees are setting on behalf of all members to protect your interests. The Fund is one of the UK’s biggest pension schemes with over 223,000 members and during the year it paid £780 million in benefits to retired members and dependents.

The Trustees keep the financial health of the Fund under constant review, to ensure we can continue to meet our long term obligations and provide the benefits promised that the value of the net assets increased by £4.1 billion to £17.8 billion at 31 March 2010. Although the Group continues to contribute £100 million to the fund each year, we are currently in work effectively with the Group to maintain the funding strategy for the fund, and on 1 July 2010 the Group increased its level of contributions by 25% of salary. A formal valuation of the Fund as at 31 March 2010 is currently in progress and we will report on this in next year’s newsletter. Further details are contained in the Funding Report.

In August 2009, the Group advised employees that providing future pension benefits in their current form was not sustainable and a cap for future increases in pensionable salary for current members was introduced. The impact of this restriction in reducing the liabilities of the Fund will be reflected in the results of the current valuation. Further details are contained in the Funding Report.

There have been a number of developments that have the potential to impact the performance of the Trustee’s investment policy.

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