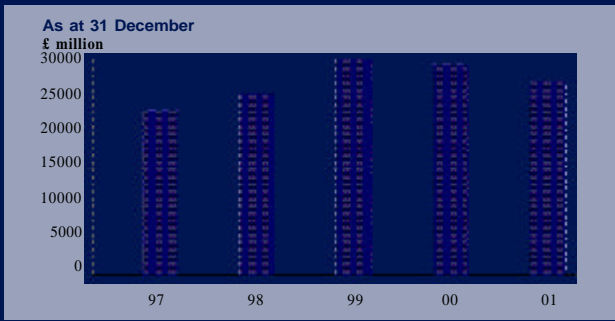


# Report to Members 2001





## Value of Fund

### The Year's Results: 2001

£ million

**Value of Fund at start of year** 28,931

#### Contributions & Benefits:-

Employers' contributions	1,023
Members' contributions	207
Benefits	(1,309)

Net Withdrawals (79)

#### Returns on Investments:-

Investment Income	822
Management expenses & interest paid	(112)
Decrease in market values of investments during year	(2,960)
Minority interests	(5)

Net Return on Investments (2,255)

**Resulting in a net decrease in the Fund of** (2,334)

**Value of Fund at end of year** 26,597

The Scheme's financial results for 2001 are summarised in the table alongside.

In 2001 £1.3 billion was payable to Scheme members and other beneficiaries. At the end of 2001 the assets of the BT Pension Scheme (BTPS) totalled almost £26.6 billion.

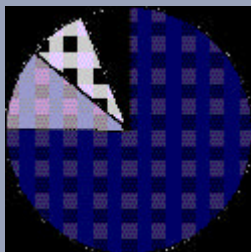
### Financial Security

The Trustees review annually the effect of redundancy costs and the financial health of the Scheme. This is done in conjunction with the Company. In recognition of redundancy costs to 31 December 2000, BT has made additional special payments to the Scheme during 2001 of £500 million.

BT is also continuing to make additional annual payments of £200 million into the Scheme to restore the ratio of assets to liabilities to 100% from the level at the end of 1999 of 96.8%.

The actuarial basis for calculating the Minimum Funding Requirement (MFR) funding level is set out in Regulations and mandatory actuarial guidance which do not permit any discretion. By reference to market conditions as at 31 December 1999, the BTPS assets represented 112.7% of the MFR liabilities (i.e. the cost of future benefits) at that date.

		£ m
■ Equities	UK	12,265
	Overseas	7,831
□ Property		2,914
□ Fixed Interest		2,072
□ Index Linked		1,684
Cash etc		(169)
		<u>26,597</u>



## Investment of

### Investment Returns

After a number of years of good investment performance, 2001 was another disappointing year for equity markets. Even though total return on the Scheme assets was -7.9% this was above the weighted average return of -8.3% for the 50 largest UK pension schemes, as measured by The World Markets Company (WM).

The Trustees have set a demanding target for the total return over three years (from capital appreciation and investment income) on the assets of the Scheme. This requires that the Scheme return exceeds a return that would theoretically be available if the Scheme assets had been invested according to the Trustees' long-term target distribution, and the returns in each asset class had been the average return for the 50 largest UK pension funds, as calculated by WM. This is the investment performance benchmark shown below.

	(Benchmark)	Actual	Average for
		BTPS	WM50
1 Year	(-9.0%)	-7.9%	-8.3%
3 Years	(3.0%)	3.7%	3.3%
10 Years	(10.8%)	11.0%	10.9%

### Investment Policy

At the end of 2001 a review of institutional investment in the UK by Paul Myners concluded with a set of 10 Principles, endorsed by the Government, that trustees of schemes such as BTPS could use on a voluntary basis when looking at their investment policy. The BTPS Trustees were already virtually fully compliant, and applying the new Principles has required very little change to existing procedures. The BTPS Trustees' Statement of Investment Principles is available by sending a self-addressed envelope to the Scheme Address at the end of this Report.

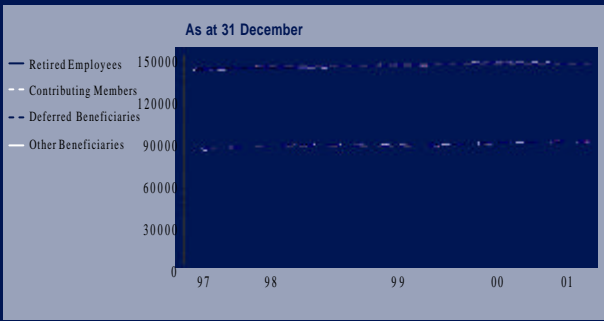
### Distribution of Investments

The distribution of the Scheme's investments at 31 December 2001 between the main type of assets is shown in the chart of investments.

This distribution is a key factor in our investment policy which is to seek good investment returns at relatively low risk.

### Membership

The graph above shows changes in the composition of the membership of the Scheme over the last 5 years. These trends



## Membership

are taken into account in all our financial planning.

At 31 December 2001 BTPS had a total of 376,177 members and beneficiaries (comprising 109,747 employees; 89,020 with deferred benefits that had not yet commenced payment; and 177,410 in receipt of a pension).

Existing employees contributing to BTPS may continue to do so and accrue benefits, but from 1 April 2001 new employees in the BT Group have only been able to contribute to a new "defined contribution" arrangement - the BT Retirement Plan.

The fact that BTPS is now closed to new members will mean that the age profile of the Scheme will gradually increase and the investment strategy will, over time, change to reflect this. Meanwhile, BTPS still remains the largest (in terms of its value) company pension scheme in the UK, even after allowing for the likely transfer out of assets and liabilities following the separation from BT of Yell and mm02.

### Interpretation of Rules

With the full co-operation of the BT Unions, the Trustees and BT have sought the guidance of the Court on the correct

interpretation of the BTPS Rules in respect of redundancy payments for Section A members of the Scheme. The possibility of an appeal has delayed progress but on 15 February 2002 all the legal hurdles were completed. All those affected will be contacted and each individual case is being re-examined. However, for a significant number of the cases identified it is expected that no additional payments will be due. The judgment affects about 5,300 former managers who joined the Post Office before 1 December 1971, who were members of the BTPS Section A, and who volunteered to leave BT on redundancy terms from 1990 onwards when aged between 40 and 49.

### Benefits Administration

The Pensions Centre at Chesterfield continues to undertake the essential work of keeping membership records and calculating and paying benefits. A Service Level Agreement defines the standards of service to be provided and the Trustees are grateful for the continuing high level of service to Scheme members.



**Sir Tim  
Chessells**



**Brian  
Birkenhead**



**David  
Davies**



**Colin  
Green** (resigned 8.4.02)



**Andrew  
Longden**

## The Trustees

**At 31 December 2001 the Trustees were:**

**Sir Tim Chessells**  
*Chairman*  
Formerly Chairman,  
Legal Aid Board

**Brian Birkenhead**  
Formerly Group Finance  
Director, National Power  
plc and Chairman of The  
Hundred Group of  
Finance Directors

**David Davies FIA**  
Chief Executive, Royal  
National Pension Fund  
for Nurses (RNPFN).  
Formerly Deputy  
Managing Director, Pearl  
Group.

**Colin Green**  
Group Commercial  
Director and Secretary,  
BT Group plc

**Chris Long**  
Formerly Chairman,  
Union of  
Communication Workers

**Andrew Longden**  
Group Treasurer, BT  
Group plc

**Donald MacDonald**  
Telecom Recruitment  
Officer, Communication  
Workers Union.

**Howard Marchant**  
Formerly Deputy  
General Secretary,  
Society of Telecom  
Executives

**Bill McClory**  
Assistant Secretary,  
Communication Workers  
Union.

Colin Hartridge-Price  
is Secretary to the  
Trustees and  
Ian Knight is Deputy  
Secretary.

## The Trustees

There have been no changes to the BTPS Trustees during 2001. On 8 April 2002, Colin Green resigned as a Trustee, having taken early retirement from BT. He was replaced by Larry Stone, who also took over Colin's role as Company Secretary in BT. We are extremely grateful for the very valuable contribution Colin Green has made during his eight years as a BTPS Trustee.

## Pensions Increases

The Scheme Rules currently result in the rates of increase for Section A/B and Section C pensions being based on the annual rise in the Retail Prices Index (RPI) to each September and December respectively.

Accordingly, from April 2001 Section A/B pensions in payment and deferred pensions (i.e. pensions that have not yet started to be paid) were increased by 3.3%. The increase for Section C pensions was 2.9% as the annual rise in RPI to December 2000 was lower than for September 2000.

The Trustees do not have discretion to pay pension increases above the level required by the Scheme rules.

## Changes in Scheme Rules

There were no changes last year.



**Howard  
Marchant**



**Bill  
McClory**



**Donald  
MacDonald**



**Chris  
Long**



**Larry  
Stone**  
(appointed  
9.4.02)

## **Hermes Pensions Management Limited**

Hermes Pensions Management Limited is wholly owned by BTPS and at 31 December 2001 was directly responsible for the investment of 91% of the £26.6 billion assets of the Scheme. The high regard in which Hermes is held by the industry was exemplified by Hermes winning awards from separate industry organisations in 2001 as both "Property Fund Manager of the Year" and "Fund Manager of the Year".

## **Action as Shareholders**

We believe that well directed and controlled companies are likely to achieve better investment returns than those companies with low standards of 'corporate governance', which is the term for the system by which companies are directed and controlled.

We have accordingly agreed with the management of Hermes the main principles of corporate governance to which we wish to encourage companies to adhere. We have authorised Hermes to pursue this on our behalf by the lodging of proxies, attendance at AGMs and regular communication with companies in which the Scheme is a shareholder. The Scheme's voting rights in UK and most overseas companies are nearly always exercised.

## **Scheme Address**

The address of the Trustees and the Secretariat of the Scheme is BT Pension Scheme, Lloyds Chambers, 1 Portsoken Street, London E1 8HZ. You should contact the Secretariat if you have any queries concerning the general management of the Scheme.

## **Members' Queries**

Anyone with queries about their Scheme benefits should contact the Pensions Centre, Pioneer House, Chesterfield, Derbyshire S42 6NT. (Telephone 0800 731 4747 if you are a BT employee, or 0800 731 1919 if you are no longer employed by BT. Alternatively, email [e-peopleserve.pensions.services.01@e-peopleserve.com](mailto:e-peopleserve.pensions.services.01@e-peopleserve.com)).

This Report to Members is a shortened version of the Annual Report and Accounts for BTPS which is available from the Pensions Centre at the above address. The full Report can also be accessed on the internet at [www.btpensions.net](http://www.btpensions.net), or BT employees can access it on the intranet at <http://humanresources.intra.bt.com>.