



# Report and Accounts

for the year ended 30 June **2015**

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# Management and advisers

## **Scheme registration number**

10085003

## **Trustee**

BT Pension Scheme Trustees Limited

## **Trustee Directors**

Paul Spencer CBE (Chairman)

Catherine Claydon (Deputy Chair)

Adrian Askew

Law Debenture Pension Trust Corporation plc  
(represented by David Felder)

Donald MacDonald

Billy McClory

Jim McInally

Beryl Shepherd

John Wroe

## **Scheme secretary**

Susan Welch

## **Actuary**

Michael Pardoe FIA, Towers Watson Limited

## **Auditor**

Deloitte LLP

## **Pensions administrator**

Accenture

Venture House

Venture Way

Chesterfield S41 8NR

## **Banker**

The Northern Trust Company

## **Executive arm of the Trustee and principal investment adviser**

BT Pension Scheme Management Limited (BTPSM)

## **Primary investment managers**

Hermes Fund Managers Limited:

- Hermes Investment Management Limited
- Hermes Real Estate Investment Management Limited
- Hermes GPE LLP

Ashmore Investment Management Limited

BlackRock Investment Management (UK) Limited

M&G Investment Management Limited

Magellan Asset Management Limited

Wellington Management International Limited

## **Custodian of assets**

The Northern Trust Company

## **Principal sponsoring employer**

British Telecommunications plc (BT)

81 Newgate Street

London EC1A 7AJ

## **If you require further information regarding this report, please contact:**

Scheme secretary

BT Pension Scheme Management Limited

Lloyds Chambers

1 Portsoken Street

London E1 8HZ

# Chairman's statement

## Introduction

On behalf of the Trustee of the BT Pension Scheme (the Scheme) I am pleased to present the Report and Accounts of the Scheme for the year ended 30 June 2015.

The Scheme is a pension scheme for employees, former employees, and their dependants, of BT and some of its associated companies. The Scheme was closed to new members on 31 March 2001. There were 308,183 members of the Scheme at 30 June 2015.

## Investment performance

The twelve months to 30 June 2015 were characterised by positive returns across the major asset classes, including equities, bonds and property. Economic activity remained in a positive, albeit weak, trend both globally and in the UK whilst central banks maintained low interest rates on the back of subdued inflation and regional uncertainties. The continuing downward trend of low interest rates has negatively impacted Scheme funding (see below).

The Scheme produced an investment return of 8.3% for the twelve months to 30 June 2015; this brings the return over the past three years to a rate of 7.8% per annum (5.5% ahead of the Retail Prices Index and 6.2% ahead of the Consumer Prices Index). A more detailed analysis of the performance of investments is given in the Investment report on page 25.

## Crown Guarantee update

Members will be aware that on privatisation of BT in 1984, the Government provided a guarantee of BT's obligations to the Scheme. Following the Court of Appeal Judgment on 14 July 2014, the "Crown Guarantee" (as it has come to be known) is only relevant in the unlikely event of a winding up of BT and, would cover BT's obligations under the Trust Deed to ensure the Scheme has sufficient funds to pay the accrued benefits (other than some relatively minor exclusions in relation to certain aspects of the Scheme's liabilities). It is important to stress that the Crown Guarantee does not cover the liabilities of the Scheme itself and/or the benefits of particular members.



Rather it relates only to the obligations of BT to the Scheme and consequently, the Crown Guarantee only remains in place for as long as, and to the extent that, BT itself continues to have the obligation to support the Scheme.

The Crown Guarantee is only applicable on a winding up of BT and its existence is not taken into account in assessing the funding position of the Scheme from time to time or in agreeing any recovery plan that might be needed to address any shortfall in the Scheme. Nevertheless the Crown Guarantee is, without doubt, a significant protection for members of the Scheme in the event of the insolvency of BT. Maintaining its full scope, effectiveness and applicability is therefore of critical importance to the Trustee.

## Funding update

The triennial valuation as at 30 June 2014 was formally completed earlier this year, concluding with a funding deficit of £7,044 million. Details of the valuation results were provided in the last Summary Funding Statement which was issued to all members in Spring 2015. Since that date, due to market conditions, it is highly likely that Scheme funding will have worsened and the Scheme is undertaking an interim valuation as at 30 June 2015, the results of which will be provided in the next Summary Funding Statement which is expected to be published in 2016.

## Chairman's statement

### Sponsor update

We regularly engage with BT and other relevant stakeholders on initiatives and other market or industry developments. Of particular note, are Ofcom's Strategic Review of Digital Communications and BT's planned acquisition of EE. We are liaising with BT and regulators on both matters and will continue to monitor progress.

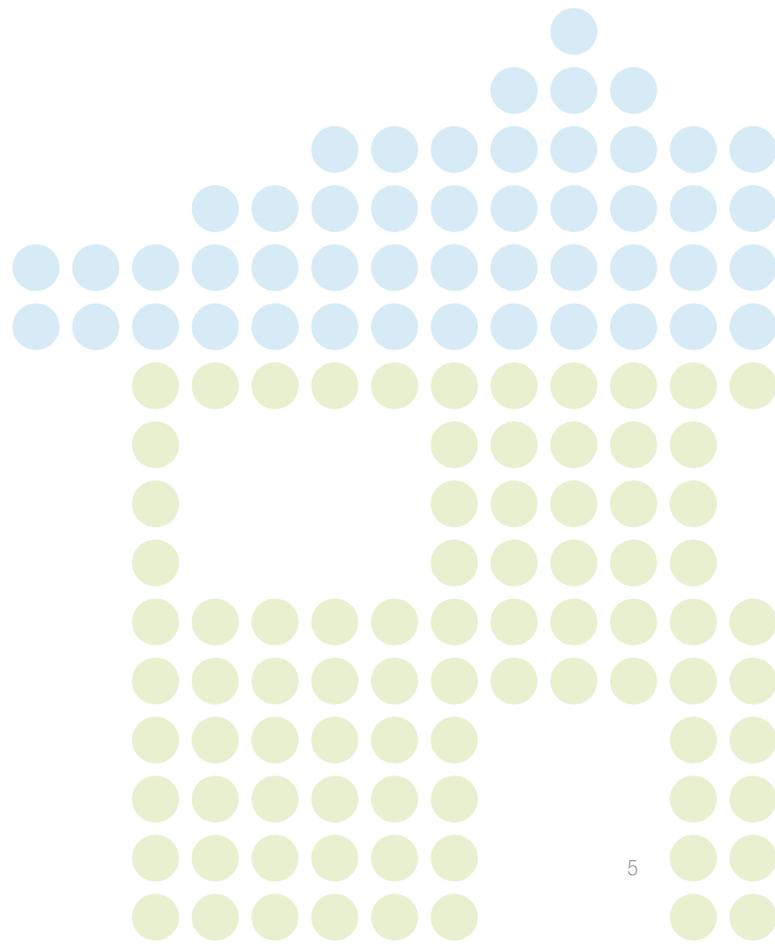
### People changes

I am delighted to advise that in May 2015, Catherine Claydon was appointed as Deputy Chair to the Trustee Board. Catherine has been a Trustee Director since January 2013.

### Paul Spencer CBE

Chairman

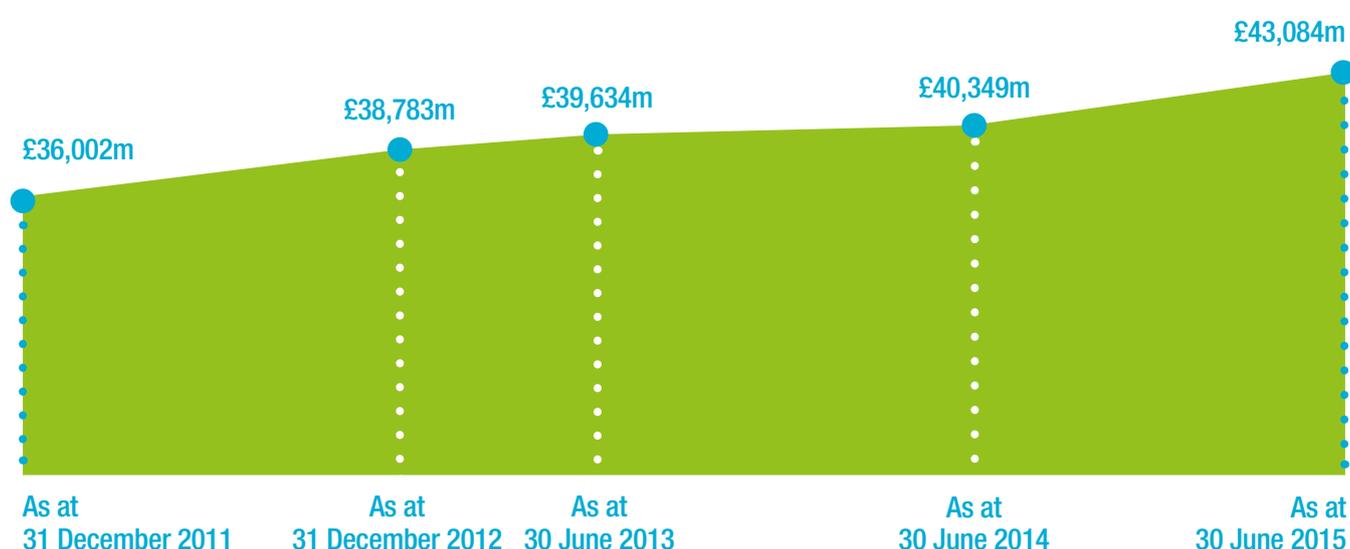
16 December 2015



# Key facts as at 30 June 2015

“ The overall investment return on the Scheme’s assets was 8.3% over the year to 30 June 2015. This represents a real return of 8.4% above inflation, measured by CPI. ”

## Net assets of the Scheme



## Allocation of investments

	30 June 2015
Equities	32.6%
Property	10.5%
Alternatives	10.8%
Fixed interest	16.9%
Inflation-linked	25.9%
Cash	3.3%

Information about the asset allocation of the Scheme as at 30 June 2015 is given in Understanding the financial statements on page 29.

## Key facts as at 30 June 2015

### Annualised investment returns

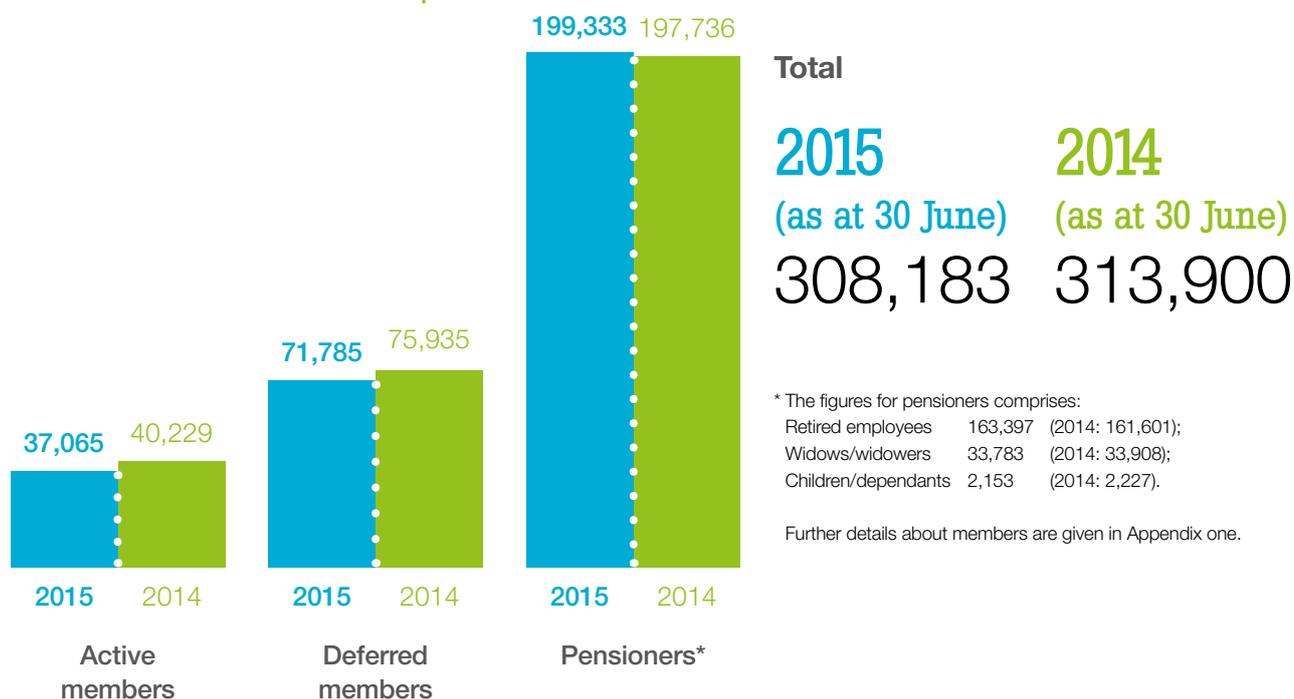
	2015	2014	2013 <sup>1</sup>	3 years	5 years	10 years	15 years
Scheme actual	8.3%	6.2%	3.7%	7.8%	7.4%	6.1%	5.2%
Benchmark	6.9%	6.2%	3.4%	7.2%	6.9%	5.6%	4.5%
Scheme real – adjusted <sup>2</sup> RPI <sup>3</sup>	7.3%	3.5%	2.5%	5.5%	4.4%	3.1%	2.4%
Scheme real – adjusted <sup>2</sup> CPI <sup>3</sup>	8.4%	4.3%	3.0%	6.2%	5.1%	3.6%	3.0%

<sup>1</sup> Investment returns for the six months to 30 June

<sup>3</sup> Retail Prices Index (RPI) and Consumer Prices Index (CPI) are measures of UK inflation

<sup>2</sup> Scheme real adjusted equals Scheme actual less RPI and CPI respectively

### Scheme membership



# Report by the Trustee

## Scheme funding

A full actuarial valuation of the Scheme is undertaken at least once every three years based on a range of assumptions including future inflation, pension increases, salary increases, investment returns and life expectancy.

The most recently completed full actuarial valuation was carried out as at 30 June 2014. The valuation concluded that the funding level of the Scheme (i.e. the ratio of assets to the estimate of accrued liabilities as at the date of the valuation) was 85.1%. The corresponding past service deficit was £7,044 million.

The Trustee and BT have agreed a recovery plan such that BT will pay additional contributions in order to return the Scheme to a fully funded position by 31 March 2030. Under this recovery plan, BT paid deficit funding contributions of £1,500 million over March and April 2015 and is obliged to make contributions of £250 million in each of the years to 31 March 2016 and 31 March 2017. Thereafter, BT will make a series of further contributions averaging over £580 million each year until 31 March 2030. There is no additional schedule of contingent payments agreed under this recovery plan.

The deficit funding contributions are in addition to BT's normal contributions required to fund future benefits for current employees. As a result of the 2014 valuation, BT's regular contributions were increased from 13.5% to 16.0% of members' pensionable pay (less members' mandatory contributions) from April 2015. Furthermore, they are set to increase to 16.9% of members' pensionable pay (less members' mandatory contributions) from July 2017.

Legally binding agreements between the Trustee and BT, reached in 2011 to improve the security of the members' benefits, have been retained or improved as part of the 2014 agreement. These include:

- The 'negative pledge' provided by BT in 2010. This provides comfort to the Scheme that, within certain limits, future creditors will not be granted superior security. The negative pledge has been extended to cover BT, BT Group and their subsidiaries, including any new companies that may be acquired and applies until the deficit reduces to below £2,000 million at any subsequent funding valuation.

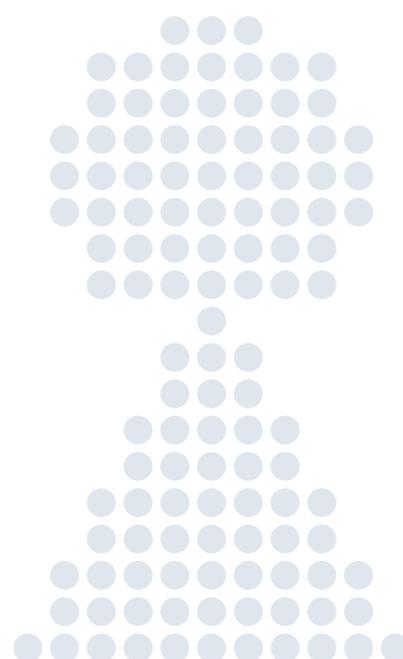
- BT has agreed that in the event that shareholder distributions exceed a threshold, then BT will make matching payments to the Scheme. The threshold allows for dividends per share to increase by 15% per annum and allows for share buybacks of £300 million per annum on a cumulative basis.

- BT has agreed that if it generates net cash proceeds greater than £1,000 million from disposals, net of acquisitions, in any twelve month period and certain conditions apply, then BT will make additional contributions to the Scheme equal to one third of those net cash proceeds.

- BT has also agreed to advise the Trustee should there be other material corporate events which may impact BT's covenant to the Scheme.

No account was taken of the Crown Guarantee in the actuarial valuation.

The Scheme is currently undertaking an interim valuation as at 30 June 2015, the results of which are expected to be finalised in 2016.



## Report by the Trustee

### Scheme investment

#### Scheme investment strategy

The Trustee takes an integrated approach to the management of risk and return in the Scheme. The investment of the Scheme's assets is set to be consistent with funding a defined level of benefits within an acceptable level of risk, having regard to the affordability of both the immediate and longer term cash cost to BT, and the funding requirements in the Scheme Rules and relevant legislation.

Investment risk and return is monitored by BTPSM on an ongoing basis and reviewed regularly by the Trustee. The Trustee also analyses the sensitivity of the Scheme to a wide range of factors including, amongst others, inflation, interest rates, longevity and asset returns in order to assess the potential impact on funding and the risks associated with different asset allocations.

The Trustee is targeting a ratio of interest rate and inflation hedging of around 40% (on a solvency basis) to reduce the Scheme's exposure to these risks and consequently the volatility of the Scheme's funding position. The pace at which the Scheme increases the level of hedging will have regard to market conditions.

Over the life of the Scheme, and as the Scheme matures, the Trustee expects to reduce the level of return-seeking assets and increase the level of liability-matching assets. The Trustee actively monitors the assets and liabilities, with the assistance of BTPSM, and is well positioned to respond quickly to changes in markets and/or funding levels.

#### Statement of Investment Principles

A Statement of Investment Principles has been agreed by the Trustee following written advice from BTPSM and consultation with BT. The preparation of this statement complies with the requirements of Section 35 of the Pensions Act 1995 and sets out in general terms the policy of the Trustee on a number of investment issues. This statement is reviewed regularly and was updated in April 2015. A copy of the current Statement of Investment Principles is reproduced in Appendix five on page 66.

#### Measuring investment performance

The Trustee monitors investment performance against the Scheme's strategic investment objectives. Reports are provided regularly by BTPSM to the Trustee and include detail on Scheme level risks, Scheme level cash flows and the performance of underlying mandates against their respective benchmarks. Details of the annualised investment returns are given on page 7.

For the Trustee

#### Paul Spencer CBE

Chairman

16 December 2015

# Trustee Board

The following are the Trustee Directors



## 1. Paul Spencer CBE, Chairman <sup>a</sup>

### Appointment

Paul was appointed as Chairman of the Trustee Board on 1 March 2011, having been a Trustee Director since 1 September 2009. He is chair of the Investment Committee and a member of the Audit Committee. He is also non-executive chair of BTPSM, and a member of its remuneration committee. Paul is non-executive chair of Hermes Fund Managers Limited.

### Biography

Paul is an independent trustee of the Rolls-Royce Pension Fund, chair of the trustees and chair of the investment committee. In addition he is a governor of Motability.

Paul was formerly a non-executive director of WPP, NipponKoa Europe Insurance and TR Property Investment Trust and a former chair of State Street Managed Pension Funds. He is a past president of the Association of Corporate Treasurers and past chair of NS&I (National Savings & Investments) and two British Airways pension funds.

Paul was appointed CBE in the 2010 New Year's Honours 'for services to financial services'.

## 2. Catherine Claydon, Deputy Chair <sup>c</sup>

### Appointment

Catherine was appointed to the Trustee Board on 1 January 2013 and was appointed Deputy Chair to the Trustee Board in May 2015. Catherine is a member of the Administration and Communications Committee and the Investment Committee.

### Biography

Catherine has over 25 years of experience in the City. She was a managing director at Goldman Sachs and Lehman Brothers in their pension advisory groups. She is currently a non-executive director of Witan Investment Trust plc and Dunedin Income Growth Investment Trust Limited. Catherine is also an independent member of the board of the Barclays UK Retirement Fund and an independent member of the investment committee of the Unilever UK Pension Fund.

## 3. Adrian Askew <sup>b</sup>

### Appointment

Adrian was appointed to the Trustee Board on 11 January 2011. He is chair of the Administration and Communications Committee, and was a member of the Responsible Investment Oversight Committee during the year. Adrian is a non-executive director of BTPSM and chair of its remuneration committee.

### Biography

Adrian became a national official of the Society of Telecom Executives (now the Connect Sector of Prospect) in 1987 and retired as general secretary of Connect at the end of 2009. He was lead officer on pensions matters for the BT unions from 1997-2003 and was chair of the trustees for the Connect Pension and Life Assurance Scheme from 2003 to 2009. Adrian is a member of the National Federation of Occupational Pensioners (NFOP).

## Trustee Board

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### 4. David Felder <sup>c</sup>

#### Appointment

David represents and is a director of the Law Debenture Pension Trust Corporation plc, a professional independent trustee of pension schemes. The Law Debenture Pension Trust Corporation plc was appointed as a Trustee Director on 15 September 2011. David is a member of the Investment Committee, the Responsible Investment Oversight Committee and the AVC Committee. He is also a non-executive director of BTPSM.

#### Biography

David has over 30 years experience of working with pension funds in both the public and private sectors, first at Morgan Grenfell as a fixed income fund manager and then at Kleinwort Benson where he was head of fixed income between 1992 and 1998. David is a fellow of the Chartered Institute for Securities and Investment.

### 5. Donald MacDonald <sup>b</sup>

#### Appointment

Donald was appointed to the Trustee Board on 1 May 1998. He is chair of the Responsible Investment Oversight Committee and a member of the Investment Committee. Donald also is an independent adviser to the BTPSM remuneration committee.

#### Biography

Donald was a national officer for the Communication Workers Union (CWU) until his retirement in 2004. He was a Post Office and BT telecommunications technician for many years.

Donald is a member of the CWU and NFOP, is presently chair of the Institutional Investors' Group on Climate Change and a director of Inflection Point Capital Management. He was previously chair of United Nations Principles for Responsible Investment. Donald is a BT Pension Scheme pensioner.

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### 6. Billy McClory <sup>b</sup>

#### Appointment

Billy was appointed to the Trustee Board on 1 September 1997. He is a member of the Audit Committee. Billy is also the senior non-executive director of Hermes Fund Managers Limited.

#### Biography

Billy was employed by Post Office Telecommunications from 1968 to 1978, became a national officer of the Civil and Public Services Association, then the National Communications Union (NCU) in 1984 and the CWU in 1995. Responsible in the NCU for pension matters in the Post Office and BT, he was the lead officer on pension matters for the BT unions from 1990 to 1997. Billy is a member of NFOP. He is also a trustee of the NCU Staff Superannuation Scheme and was chair of its trustee board until May 2011.

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## Trustee Board

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### 7. Jim McNally <sup>c</sup>

#### Appointment

Jim was appointed to the Trustee Board on 26 November 2012. He is a member of the Administration and Communications Committee, a member of the Responsible Investment Oversight Committee, and a member of the AVC Committee.

#### Biography

Jim is HR director for reward and pensions for BT Group. He is responsible for the functional leadership of reward, pensions and benefits across BT Group's worldwide operations. He advises the BT remuneration committee and chairs BT's global pension & benefits management group (which covers all group arrangements except the Scheme). He is a member of BT's senior leadership team, a trustee of the BT Healthcare Trust and a trustee of the BT Rehabilitation Trust.

Jim has over 25 years experience in remuneration and benefits and has held senior remuneration director roles at four FTSE100 companies.

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### 8. Beryl Shepherd <sup>b</sup>

#### Appointment

Beryl was appointed to the Trustee Board on 1 June 2009. She is chair of the AVC Committee and a member of the Administration and Communications Committee.

#### Biography

Beryl has been employed by BT since 1978 and is currently a member of the National Executive Committee of the CWU, a position that she has held since 2002. Since 2011 Beryl has held the position of chair of the Telecoms & Financial Services Executive of the CWU. She is an active member of the BT Pension Scheme and a member of the NFOP.

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### 9. John Wroe <sup>c</sup>

#### Appointment

John was appointed to the Trustee Board on 1 July 2007. He is chair of the Audit Committee, a member of the Investment Committee, and a member of the Responsible Investment Oversight Committee.

#### Biography

John is group director of treasury for BT Group, responsible for BT's treasury and insurance activities. He is a member of BT's senior leadership team, a trustee of the BT Healthcare Trust and a trustee of the BT Rehabilitation Trust. He joined BT in 1992, prior to which he worked for Coopers & Lybrand (now part of PricewaterhouseCoopers). He is a Chartered Accountant.

John is an active member of the BT Pension Scheme.

<sup>a</sup> Chairman appointed by BT with the agreement of the recognised trade unions.

<sup>b</sup> Member-nominated Trustee Director selected by the recognised trade unions and NFOP.

<sup>c</sup> Employer-nominated Trustee Director.

# Governance of the Scheme

## Introduction

The Scheme is managed and administered by the Trustee, BT Pension Scheme Trustees Limited, on behalf of members and in accordance with the terms of the Scheme Rules and relevant legislation. Details of the Trustee Directors are given on pages 10 to 12.

The governance arrangements for the Scheme take account of the recommendations and Codes of Practice of The Pensions Regulator and best practice, and are kept under continuous review. The governance of the Scheme is described in the following sections:

- Appointment and removal of Trustee Directors
- Trustee Knowledge and Understanding
- Conflicts of interest
- Anti-corruption and bribery
- The Trustee Board
- Trustee Board Committees
  - Audit Committee
  - Investment Committee
  - Responsible Investment Oversight Committee
  - Administration and Communications Committee
  - AVC Committee
- Other Committees
- Attendance at Trustee Board and Committee meetings
- Role and governance of BTPSM
- Internal control and risk management
- Advisers to the Trustee
- Security of assets
- Recovery in the event of a disaster
- Membership
- Pensions increases
- Governance of Hermes Fund Managers Limited
  - The board
  - Board committees



### Appointment and removal of Trustee Directors

There is a robust procedure in place for the appointment, removal and ongoing appraisal of Trustee Directors.

Under the terms of the Scheme Rules there are nine Trustee Directors appointed by BT, recognised trade unions representing BT's employees and the National Federation of Occupational Pensioners (NFOP).

- The Chairman of the Trustee Board is appointed by BT with the agreement of the recognised trade unions.
- BT also appoints four employer-nominated Trustee Directors. Two of them will normally hold senior positions with BT.
- Two of the employer-nominated Trustee Directors normally hold (or have held) senior positions in commerce or industry.
- The Trustee's member-nominated Trustee Director procedure provides that four member-nominated Trustee Directors are selected by the recognised trade unions and NFOP. The recognised trade unions and NFOP have agreed arrangements whereby they will convene a selection panel to fill vacancies. They will consider candidates from each organisation. Existing member-nominated Trustee Directors will be re-nominated at the end of their term of office unless one of the constituent organisations represented on the selection panel disagrees. Additional nominations may be considered.

If a Trustee Director fails for a period of six months to attend meetings in person, the remaining Trustee Directors or a majority of them may request BT to remove that person from office.

Trustee Directors are expected to devote sufficient time as necessary to carry out their duties. This is expected to be around 25-30 days a year. The time commitment in the first year following their appointment may be higher as the Trustee Director requires time to familiarise themselves with the rules and operation of the Scheme.

The Chairman carries out an annual appraisal of performance of individual Trustee Directors. This includes an assessment of their role as Trustee Directors, their views on how well the Trustee Board is working and the need for any specific training. The Board also reviews the performance of the Chairman.



## Governance of the Scheme

### Trustee Knowledge and Understanding (TKU)

All the Trustee Directors have the skills and knowledge necessary to carry out their role effectively. In areas such as finance and investment, some Trustee Directors have more detailed knowledge than others.

On appointment, a new Trustee Director receives a full induction including meetings with senior managers of BTPSM, and an induction pack containing information regarding the Scheme. The pack includes governing documentation, key funding documents, an overview of the pensions legislative and regulatory regime and details of functions delegated to BTPSM. New Trustee Directors are also asked to identify any training needs which they think they require in order to fulfill their duties. Relevant initial and ongoing training is then provided and records of training are kept for each Trustee Director.

Trustee Directors also receive a monthly update of current issues relating to pensions and details of training opportunities, as well as forthcoming seminars.

During the year, internal training sessions were held for the Trustee Directors which included presentations on conflicts of interest, Trustee powers and responsibilities, the Scheme's investment approach, managing the Scheme's liquidity profile, liability hedging, and pensions accounting. Further training sessions are planned and tailored to meet the requirements of individual Trustee Directors.

### Conflicts of interest

A conflicts of interest policy is in place to assist Trustee Directors in identifying, managing and monitoring any conflicts of interest (actual or potential) which may arise in relation to the Scheme. The policy takes account of the guidance from The Pensions Regulator, the Scheme Rules, the articles of association and the Companies Act 2006. On appointment each Trustee Director completes a declaration of their conflicts of interests and these are recorded in a conflicts of interest register which is reviewed and approved at least annually by the Trustee Board. As an ongoing matter, conflicts of interest are also an agenda item at the beginning of each Trustee Board meeting and other Trustee Committee meetings to ensure that conflicts are noted, properly identified and managed as they arise.

### Anti-corruption and bribery

All Trustee Directors have received appropriate briefing in relation to the Bribery Act 2010 and a policy is in place in relation to gifts and hospitality. If a Trustee Director suspects that there may have been a potential breach of the Bribery Act, they will report the breach to the chair of the Audit Committee or via the whistle-blowing procedure to the Chairman of the Trustee Board.



## Governance of the Scheme

### The Trustee Board

The Trustee Board has ultimate authority for all aspects of the management and strategy of the Scheme, including audit, policy, investment, administration and communications. The Board discharges its responsibilities through an annual programme of meetings. During the year the Board met fourteen times.

The Board has a forward agenda for a rolling period of twelve months to ensure that it meets its statutory obligations and has adequate time to prepare and plan for milestones in the management and operation of the Scheme. The forward agenda also ensures that matters requiring future approval or input of the Board are dealt with in a timely manner.

The Board is required to consult with BT in certain circumstances. To facilitate this, joint meetings with the BT Pensions Committee take place once or twice a year. During the year, the Board had presentations from BT on its financial results and business strategy.

During the year, the Board considered a wide range of business which included a review of the three year strategic plan.

### Trustee Board Committees

The Trustee Board has delegated some powers and responsibility for certain matters to five Board Committees. Each Committee has terms of reference which are reviewed regularly to ensure that they remain relevant and fit for purpose.

A Committee will escalate to the Board any matter for approval that is outside of its delegated powers and responsibility or which requires special consideration by the Board. Regular reports from each Committee are submitted to the Board. Attendance by Trustee Directors at Board and Committee meetings is shown in the table on page 19.

### Audit Committee

#### Members

John Wroe – **Chair**

Billy McClory

Paul Spencer CBE

The Audit Committee is responsible for reviewing the Scheme's report and accounts and advising the Trustee Board on the discharge of its duties in respect to this and the maintenance of proper accounting records and financial controls.

The Committee provides oversight of the external audit, internal audit, the effectiveness of risk management processes and procedures and the internal controls framework. This includes ensuring the policy of auditor independence is maintained. The Committee also monitors Scheme governance to ensure that effective procedures are in place.

The Committee met four times during the year and subsequently two meetings were held up to the date of the approval of the report and accounts. The Committee reviewed the impact of FRS 102 and the Revised Pensions SORP, and approved the proposed accounting policies for the Scheme. In addition, the Committee reviewed the impact of the EU Audit Directive & Audit Regulations, tax services provided to the Scheme, the Scheme's 2015/2016 cost budget, reports on the operational due diligence of third party investment managers, and regular risk and compliance and internal audit reports.

A verification working group oversees the disclosure and verification of the information in the Scheme's report and accounts which does not form part of the audited financial statements. The chair of the working group reports its findings to the Audit Committee. The members of the working group are the management committee of BTPSM and senior members of the finance and secretariat functions.

## Governance of the Scheme

### Investment Committee

#### Members

Paul Spencer CBE – **Chair**  
Catherine Claydon  
David Felder  
Donald MacDonald  
John Wroe

The Investment Committee oversees the effectiveness of the investment strategy, including liability hedging set by the Trustee Board. This includes oversight of investment performance, including the performance of investment managers appointed by the Scheme and the investment activity delegated to BTPSM. The Committee met five times during the year and members also attended workshop and training sessions on specific issues.

In addition to regular reporting on investment performance and risk, the Committee considered a range of topics including the Scheme's liquidity policy, investment costs and the implementation of the credit and private equity allocations. The Committee also received presentations from a number of external parties on the economic and market outlook.

A sub-committee, the Implementation Oversight Committee, is used from time-to-time to oversee BTPSM's implementation of more complex investment activity. This sub-committee includes members of the Investment Committee with appropriate expertise in implementation issues and is also attended by relevant members from BTPSM.

### Responsible Investment Oversight Committee

#### Members

Donald MacDonald – **Chair**  
Adrian Askew\*  
David Felder\*\*  
Jim McNally  
John Wroe

\* A member of the Committee until June 2015

\*\*Joined as a member of the Committee in June 2015

The Responsible Investment Oversight Committee oversees the Scheme's responsible investment strategy with the objective of securing tangible long-term benefits. It is also responsible for overseeing BTPSM's implementation of the Scheme's responsible investment strategy and the consideration of financially relevant environmental, social and governance (ESG) factors in the Scheme's investment decision making and stewardship activities.

The Responsible Investment Oversight Committee met twice during the year and considered the Scheme's responsible investment mission statement and beliefs (approved by the Board in May 2015), received a presentation on regulation and resilience in the UK water sector and received updates on stewardship activities including engagement with oil and gas companies.

## Governance of the Scheme

### Administration and Communications Committee

#### Members

Adrian Askew – **Chair**

Catherine Claydon

Jim McNally

Beryl Shepherd

The Administration and Communications Committee is responsible for overseeing the Scheme's administration service provided to Scheme members. The Committee is also responsible for monitoring and overseeing casework arising from the application of Scheme Rules involving discretions, as well as monitoring the development and implementation of an effective member communications strategy. In addition, the Committee is responsible for making sure the Scheme's Trust Deed and Rules are up to date.

The Committee met eight times during the year, of which three meetings were special meetings held to consider specific aspects of the Scheme's administration, including the new Pensions Administration Services Agreement with Accenture. The Committee received and reviewed quarterly reports from Accenture on the administration of the Scheme and record keeping. The Committee also provided oversight over a number of projects relating to Scheme administration which included new administration practices set up in relation to the longevity insurance arrangement, and changes relating to the new pension flexibilities introduced in April 2015.

### AVC Committee

#### Members

Beryl Shepherd – **Chair**

David Felder

Jim McNally

The AVC Committee was established in January 2015 and is responsible for overseeing the Scheme's Additional Voluntary Contributions (AVC) arrangements. This includes assessing the Scheme's AVC arrangements against the standards and quality features set out by The Pensions Regulator (in particular Code of Practice 13), monitoring the overall effectiveness of the AVC arrangements and reviewing the appropriateness of the investment options.

The Committee met three times during the year and following consideration of the recommendations by an external adviser, it was agreed at the AVC Committee meeting held in June, to review ways in which to improve the overall operation of the Scheme's AVCs, and to carry out a market review of AVC providers to ensure members receive a value-for-money offering. This review is currently in progress.

### Other Committees

#### Discretions Committee

##### Members

Adrian Askew

Catherine Claydon

Beryl Shepherd

The Discretions Committee, a sub-committee of the Administration and Communications Committee, is responsible for considering and arriving at determinations where the Trustee is required by the Scheme Rules to exercise a member casework discretion, such as in the distribution of a lump sum death benefit or the payment of a pension to an adult dependant.

#### IDRP Stage 2 Appeals Panel

##### Panel members

Donald MacDonald

Billy McClory

Jim McNally

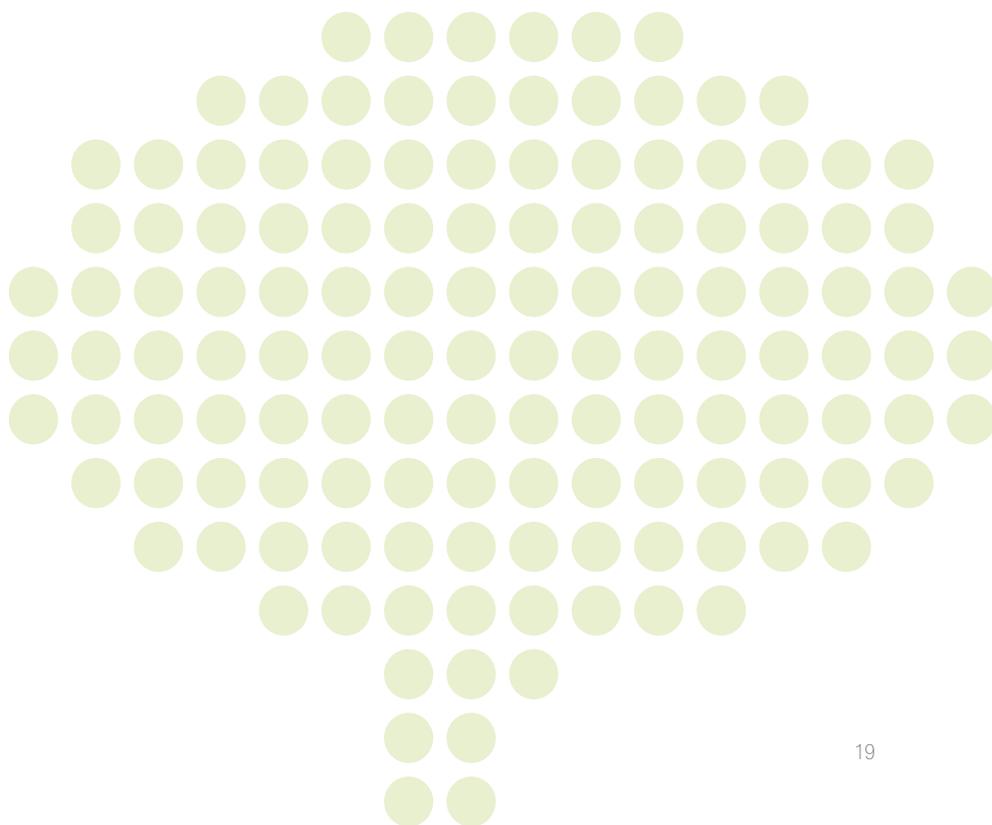
The Internal Disputes Resolution Procedure (IDRP) Stage 2 Appeals Panel is a sub-committee of the Administration and Communications Committee. It is responsible for considering and arriving at determinations in respect of appeals by Scheme members or beneficiaries against a decision under Stage 1 of the IDRP.

## Governance of the Scheme

### Attendance at Trustee Board and Committee meetings

The table below shows the attendance by Trustee Directors at Trustee Board and Committee meetings (where they are a member) during the year ended 30 June 2015.

Trustee Director	Trustee Board	Audit Committee	Investment Committee	Responsible Investment Oversight Committee	Administration and Communications Committee	AVC Committee
<b>Number of meetings</b>	<b>14</b>	<b>4</b>	<b>5</b>	<b>2</b>	<b>8</b>	<b>3</b>
P Spencer CBE	14	4	5	-	-	-
C Claydon	14	-	5	-	8	-
A Askew	11	-	-	1	8	-
D Felder	14	-	5	-	-	3
D MacDonald	14	-	5	2	-	-
B McClory	14	4	-	-	-	-
J McNally	14	-	-	2	8	3
B Shepherd	13	-	-	-	8	3
J Wroe	14	4	5	2	-	-



## Governance of the Scheme

### Role and governance of BTPSM

BTPSM is a wholly owned subsidiary of the Scheme. It is authorised by the Financial Conduct Authority (FCA), formerly the Financial Services Authority, with effect from 13 February 2009.

BTPSM is the executive arm of the Trustee. The relationship between the Trustee and BTPSM is governed by an executive services agreement dated 27 July 2011.

BTPSM provides investment and advisory services solely for the Scheme. This includes providing the Trustee with advice on asset allocation and risk management; advice on public policy issues and sustainability; acting as agent of the Trustee in appointing third parties to provide investment management; custodial, administration and operational services for the Scheme; monitoring the activities of third party service providers and reporting to the Trustee; and engaging in direct management of certain assets of the Scheme.

BTPSM has established its own operating and governance frameworks. The Chairman of the Trustee Board, Paul Spencer CBE, is also chair of BTPSM and two Trustee Directors, Adrian Askew and David Felder, are non-executive directors of the BTPSM board. The role of the board is to ensure that BTPSM implements the Trustee's strategy and objectives under the executive services agreement; BTPSM has the appropriate skills and capabilities to provide the services required by the Trustee; and the appropriate operating and risk control frameworks are in place.

BTPSM has two principal committees:

The management committee, comprising the Chief Executive Officer, Chief Operating Officer, Chief Investment Officer, Deputy Chief Investment Officer, Head of Legal, Risk and Compliance, and Head of Administration, implement the board's requirements and manage day to day operations.

The remuneration committee determines the policy and framework for the remuneration in BTPSM and the remuneration of the management committee of BTPSM.

Secretariat support to the Trustee is provided by BTPSM. The secretariat is responsible for agreeing agendas for Trustee Board and Committee meetings and the provision of agendas and supporting papers at least one week before the meetings. In addition, the secretariat is responsible for ensuring the Trustee is kept fully informed on pension consultation documents, legislation and general good practice, as well as on issues concerning Scheme governance, communications and administration.

The performance of BTPSM is reviewed by the Trustee Board on an annual basis.

## Governance of the Scheme

### Internal control and risk management

The Trustee Board is responsible for the Scheme's systems of internal control and risk management and for reviewing the effectiveness of those systems. Such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives; any system can provide only reasonable, and not absolute, assurance against material misstatement or loss.

BTPSM has a dedicated legal, risk and compliance function which reports to the Head of Legal, Risk and Compliance with responsibility for providing advice to BTPSM and the Scheme, monitoring compliance with regulations and the internal control environment. This is in relation to both investment advisory and administration services provided by BTPSM to the Scheme.

The compliance function is responsible for providing advice on FCA regulations and requirements, the pensions regulations as well as other relevant regulations. BTPSM and the Scheme have approved compliance monitoring plans which set out the key regulatory risks and the testing which will take place during the year.

The operational risk function provides challenge and advice on all aspects of the internal control environment and maintains a register of significant current risks. There is a rolling programme of risk and control self assessments facilitated by operational risk and carried out by the business for reviewing the effectiveness of the control environment. The process is designed to manage rather than eliminate the risk of financial loss and failure to comply with regulations or to achieve business objectives. The operational risk function also investigates and records operating events and breaches that occur within BTPSM or at outsourced service providers.

The internal audit function, under an outsourcing agreement with Hermes Fund Managers Limited, conducts a rolling programme of independent control reviews and investigations where necessary. It may use external professional firms to provide additional technical support on certain audits. In addition, the internal audit function reviews audited internal control reports such as the ISAE 3402, SSAE 16 and SOC 1 reports from the Scheme's investment managers and administrators.

BTPSM is also responsible for monitoring investment and counterparty risk and recommending counterparties and limits for approval.

The Trustee Board has delegated oversight and monitoring of risk, compliance and the internal control framework to the Scheme's Audit Committee. The Committee receives regular reports from internal audit, compliance and operational risk.

For day to day management, the BTPSM management committee has delegated authority to the risk and compliance working group to review and oversee risk governance and management.

### Advisers to the Trustee

BTPSM is the principal investment adviser to the Trustee.

The Trustee has appointed a number of professional advisers and investment managers, as listed on page 3.

Actuarial advice to the Trustee is provided by the Scheme Actuary, Michael Pardoe, a senior employee of Towers Watson Limited.

## Governance of the Scheme

### Security of assets

The Scheme's assets are registered in the name of the Scheme or are held in safe-keeping with an independent professional custodian, appointed by the Trustee. The Trustee's policy is to separate management and custody, which minimises the risk of misuse of Scheme assets. Custody arrangements are reviewed regularly by the Trustee, with the assistance of BTPSM, to ensure the custodians perform their duties and continue to maintain an appropriate risk management and control environment.

The Northern Trust Company has been master custodian since 18 November 2008.

### Recovery in the event of a disaster

BTPSM, The Northern Trust Company (the Scheme custodian) and Accenture (the Scheme pension administrator), have documented plans for recovering from a disaster. This includes the use of alternative disaster recovery sites to which key staff can be relocated. All the main suppliers of services to the Scheme, including Hermes Fund Managers Limited, the external investment managers and bankers also have disaster recovery plans that are regularly reviewed and tested.

### Membership

On 31 March 2001, the Scheme was closed to new entrants.

In the year to 30 June 2015, the number of active members fell from 40,229 to 37,065 while the number of pensions being paid rose from 197,736 to 199,333. The number of members with deferred rights fell from 75,935 to 71,785. A detailed analysis is given in Appendix one on page 62.

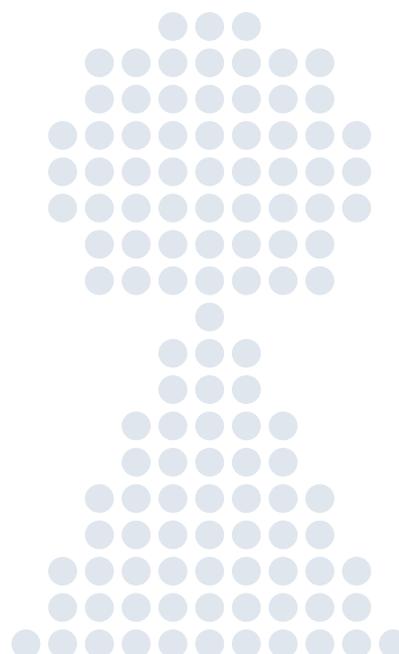
Membership of the Scheme falls into one of three 'sections': Section A, Section B and Section C. Details of these can be found on the website: [www.btpensions.net/40/member-booklets](http://www.btpensions.net/40/member-booklets).

### Pensions increases

The rate of pension increase for Section A/B is determined by reference to the Consumer Prices Index (CPI). For Section C, the rate of pension increase reflects the annual rise in the Retail Prices Index (RPI) up to 5%.

In April 2015, the increase for Section A/B pensions in payment was 1.2% and the increase for Section C pensions was 1.6%. The Trustee does not have the power to pay pension increases above the level required by the Scheme Rules without the agreement of BT.

For deferred beneficiaries for all sections, each member's pension is revalued for the period between the date of leaving service and the date the pension commences. Revaluation for each year the benefit was deferred before 2011 is calculated by reference to RPI, and for revaluation from 2011 onwards is calculated by reference to CPI.



## Governance of the Scheme

### Governance of Hermes Fund Managers Limited

The Scheme has, through Britel Fund Trustees Limited, wholly owned Hermes Fund Managers Limited (Hermes) since 1995. Hermes manages 52% of the Scheme's assets as at 30 June 2015.

Hermes' governance arrangements are as follows.

#### The board

Paul Spencer CBE is non-executive chair of the board. During the year, the board comprised the chair, one non-executive director (who is also a Trustee Director), three independent non-executive directors (during the period Jim Pettigrew resigned on 31 October 2014 and David Stewart was appointed on 1 April 2015) and two executive directors.

The appointment of certain key roles on the Hermes board requires formal consultation with the Trustee and, where appropriate, approval from BT.

#### Board committees

Hermes has its own audit committee, nomination committee, remuneration committee and a risk and compliance committee.

The audit committee is responsible for reviewing the risk management framework, systems, processes, procedures and controls in relation to all investment management activity and administration services that Hermes has contracted to provide to its clients. The committee also reviews the Hermes financial statements, business review and any related formal statements before approval by the board.

The committee provides reports to the Scheme's Audit Committee on its work and would report any major failures of internal controls. The committee comprises four non-executive directors and is chaired by a non-executive director.

The nomination committee is responsible for identifying and nominating candidates to fill Hermes board vacancies and for approving the appointment of a director to the board of a subsidiary operating company. The committee comprises the chair and other members who are non-executive directors.

The remuneration committee is responsible for remuneration matters relating to Hermes. The committee comprises the chair, who is a non-executive director of Hermes, and all other non-executive directors.

The risk and compliance committee has primary responsibility for oversight of the risk management framework of Hermes and specifically the effectiveness of risk management, governance and compliance activity within Hermes. The board retains responsibility for approval of the risk appetite. The committee is chaired by a non-executive director of Hermes, and comprises four non-executive directors.

# Statement of Trustee's responsibilities

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 Scheme members, beneficiaries and certain other parties, audited financial statements for each Scheme year which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme 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 Scheme 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 any estimates and judgements on a prudent and reasonable basis.

The Trustee is responsible for making available certain other information about the Scheme in the form of an annual report.

The Trustee is also responsible under pensions legislation for ensuring that there is prepared, maintained and, from time to time, revised, a schedule of contributions showing the rates of contributions payable towards the Scheme by or on behalf of the employer and active members of the Scheme, and the dates on or before which such contributions are to be paid. The Trustee is responsible for keeping records in respect of contributions received in respect of any active member of the Scheme and for monitoring whether contributions are made to the Scheme by the sponsor in accordance with the schedule of contributions. Where breaches of the schedule occur, the Trustee is required by the Pensions Acts 1995 and 2004 to consider making reports to The Pensions Regulator and the members.

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

# Investment report

## Review of the year to 30 June 2015

Over the past year, the positive trend behind the global economic recovery remained intact, though investors' risk attitudes were heavily shaped by growing differences across regional economic fundamentals. In particular, the major themes of the year were related to diverging expectations of monetary policy between developed economies and the emergence of fault lines across developing markets.

In the US and UK, a strong labour market underpinned the ongoing economic recovery and fuelled an active debate over the appropriate level of interest rates over the medium term. In Europe and Japan, on the other hand, stagnating economic activity prompted central banks to inject further liquidity in an effort to boost their respective economies. At the same time, growing uncertainties over the sustainability of the Chinese economy and plunging oil prices led investors to reassess the risks facing emerging markets.

Geopolitical concerns were also a predominant feature of the investment landscape during the year. Nearer to home, a closely fought Scottish independence referendum worried investors. Developments further afield were also a concern with ongoing tensions between Russia and the Ukraine; there was political instability in Brazil and Greece; and the relentless advance of ISIS further exacerbated the instability across the Middle East.

Overall, the trend in the global economy was for a slow but fragile recovery, still strong enough to provide support for markets as highlighted by positive local currency returns in equity, property and bonds. Growing global uncertainties generated bouts of volatility across assets; as a result, the future course of monetary policy remains uncertain for the foreseeable future keeping expectations for long-term interest rates 'lower for longer'.

## Investment performance

The investment return for the year to 30 June 2015 was 8.3% outperforming the 6.9% performance of the Scheme's strategic benchmark. Scheme returns over the longer time periods were 7.8% per annum over three years, 7.4% per annum over five years, 6.1% per annum over 10 years and 5.2% per annum over 15 years.

Over the longer term, the Scheme outperformed RPI over all time periods: including 4.4% per annum over five years, 3.1% per annum over 10 years and 2.4% per annum over 15 years. Further performance information is provided on page 7.

During the year to 30 June 2015, the Scheme's assets, delivering a 8.3% return (7.3% real return with reference to RPI; 8.4% real return with reference to CPI) outperformed the minimum return underpinning the most recent actuarial valuation as at 30 June 2014. The return was largely driven by the strong contribution from the main asset classes. The largest contributor was inflation linked assets with a performance of 13.2% which contributed 3.4% to the Scheme's overall return. Equity, up 8.4% for the year, added 2.5% to the Scheme and property, up 16.2%, contributed an additional 1.8%. Fixed income assets returned 3.2%, a 0.5% contribution to the Scheme's return. Alternative assets and currency loses, net of hedging, detracted 0.6% and 0.3% respectively from the overall Scheme return.

In addition, the individual managers appointed by the Scheme performed ahead of their benchmarks across the asset classes adding 1.8% to the Scheme's overall return.

## Distribution of investments

The Trustee takes an integrated approach to the management of risk in the Scheme, setting an investment strategy that is consistent with funding a defined level of benefits within an acceptable level of risk while having regard to the quality of the covenant and the affordability to BT. The allocation of assets between different classes of investments is a key factor in delivering this investment strategy and is reviewed regularly by the Trustee.

The actual distribution of investments as at 30 June 2015, with a comparison against 30 June 2014, is shown in the table on page 26. Pooled investment vehicles, loans, derivatives, cash and borrowings have been re-allocated to the appropriate asset class to reflect the underlying exposures. Further explanation of these re-allocations is on pages 29 to 30.

## Investment report

Asset class	30 June 2015	30 June 2014
Equities	32.6%	30.6%
Property	10.5%	11.2%
Alternatives	10.8%	15.8%
Fixed interest	16.9%	17.5%
Inflation-linked	25.9%	25.0%
Cash	3.3%	(0.1)%

### Equities

As at 30 June 2015, the Scheme's equities allocation was invested approximately 90% in publicly listed equities and 10% in private equities. Approximately half of the listed equities exposure is allocated to a blend of "factor-weighted" mandates providing exposure to quality, low risk companies, companies which are assessed as offering good value based on quantifiable measures and smaller companies. The quality, low risk and value mandates are passively managed. The other half of the listed equities exposure is allocated to a number of active managers whose objectives are to outperform their respective listed equity benchmark. For example, Hermes manages approximately £2.7 billion for the Scheme in an active global equity strategy with the objective of outperforming the MSCI World Index by 1%-2% per annum net of fees. The majority of the Scheme's private equity allocation is managed by Hermes GPE LLP with a global strategy deployed through a combination of private equity funds and co-investments. The objective of this allocation is to outperform listed equities by 2%-3% per annum net of fees.

### Property

The Scheme's property portfolio is managed by Hermes Real Estate Investment Management Limited and, as at 30 June 2015 was invested approximately 85% in the UK and 15% overseas. The portfolio is managed according to a strategy that balances exposure to growth with a consistent income return and prudent level of risk.

### Alternatives

There are four different asset classes under the Alternatives umbrella: absolute return, commodities, credit opportunities and emerging market debt. As at 30 June 2015, the Scheme had 4.3% invested in absolute return with the majority allocated to four global macro hedge fund managers. The credit opportunities portfolio, which was established in 2009 to exploit specific dislocations arising across credit markets, had 4.1% invested as of 30 June 2015. The Scheme's investments in emerging market debt, first invested in December 2010, amounted to 2.4%. The Scheme had no commodities allocation as at 30 June 2015.

### Fixed Interest

As of 30 June 2015, approximately 90% of the Scheme's fixed interest allocation was allocated to investment grade corporate bonds, with approximately £3.6 billion managed in a UK portfolio by M&G Investment Management Limited and £2.0 billion managed in a global portfolio by Wellington Management International Limited. The Scheme also had smaller allocations to government and high yield bonds, equivalent to approximately 2.5% of Scheme assets in aggregate.

### Inflation-linked

Approximately 85% of the inflation linked allocation was invested in index linked gilts as at 30 June 2015. In addition, approximately £0.5 billion was allocated to UK index linked corporate bonds in a portfolio managed by M&G Investment Management Limited and a further £1.1 billion in UK infrastructure assets under the management of Hermes GPE LLP.

### Cash

The Scheme had a net cash position of 3.3% as at 30 June 2015. Although the Scheme holds a minimum level of physical cash at all times to cover near term pension payments, the cash allocation at 30 June 2015 was temporarily elevated due to the receipt of deficit funding contributions from BT.

### Derivatives and other financial instruments

The Trustee has set objectives and constraints for the Scheme overall and for the Scheme's investment managers containing restrictions on the use of derivatives and other financial instruments. The Trustee authorises the use of derivatives by BTPSM and certain investment managers.

BTPSM uses derivatives to manage the Scheme's risk profile; this includes their use to mitigate the impact on Scheme funding of changes in inflation and interest rates. Furthermore, derivatives are used to rebalance the Scheme's asset allocation regularly to keep within guidelines agreed by the Trustee and for reducing the risks associated with the Scheme's foreign currency exposure.

The Scheme's investment managers, where applicable, use derivatives for the efficient management of the portfolios they manage on behalf of the Scheme. The Scheme's subsidiary undertakings also use derivatives and other financial instruments to finance their operations and to manage interest rate and currency risks arising from their operations and from their sources of finance.

Further details are given in note 15 to the financial statements.

### Self investment

Regulations require that the Scheme's investment in BT should not be more than 5% of net assets. As at 30 June 2015, the total amount of self investment was £9 million (2014: £9 million), representing 0.02% (2014: 0.02%) of the net assets of the Scheme. There were no properties occupied by BT owned by the Scheme as at 30 June 2015 and as at 30 June 2014.



# Responsible investment

On behalf of the Trustee, BTPSM's responsible investment efforts are focused on three core areas:

## Understanding the Scheme's current and potential exposure to both short and long-term environmental, social and governance (ESG) risks and opportunities.

In 2014/15, along with a number of other partners, the Scheme sponsored the investment consultant Mercer to help build the Scheme's understanding of the potential impact of climate change risks on its portfolio<sup>1</sup>. This study builds on an emerging body of research in this area including the 2011 Mercer climate change study which the Scheme also sponsored.

## Integrating ESG factors into the Scheme's investment processes including designing investment mandates, new manager searches and ongoing manager monitoring.

During the year BTPSM developed a framework to assess the quality of investment manager's approach to ESG integration and stewardship which will be used as part of its due diligence on new investment managers and ongoing monitoring.

To help improve the quality of asset managers reporting on responsible investment, in January 2015, having successfully managed to gain support of over 16 asset owners with over £200 billion AUM, BTPSM authored and launched a landmark 'Guide on Responsible Investment Reporting in Public Equity'<sup>2</sup>.

## Ensuring the Scheme's stewardship activities deliver long-term value.

Day to day stewardship activities, including holding portfolio companies' management to account and proxy voting, are delegated to agents including Hermes Equity Ownership Services (HEOS) and the Scheme's active managers where appropriate. During the year HEOS engaged with 289 companies in the Scheme's portfolios on a range of 855 environmental, social and ethical, governance, strategy and risk issues. A record of the Scheme's voting and engagement activities for the year can be found at:

**[www.btpensions.net/151/voting-disclosure](http://www.btpensions.net/151/voting-disclosure) and [www.btpensions.net/152/engagement-reports](http://www.btpensions.net/152/engagement-reports).**

<sup>1</sup> <http://www.mercer.com/services/investments/investment-opportunities/responsible-investment/investing-in-a-time-of-climate-change-report-2015.html>

<sup>2</sup> A copy of the Guide is available under relevant links on the Scheme's responsible investment homepage <http://www.btpensions.net/156/264/responsible-investment>

# Understanding the financial statements

The disclosures in the financial statements are determined by pensions legislation, UK GAAP and the guidelines in the Statement of Recommended Practice (SORP) revised May 2007 (2007 SORP). These set out how the assets of the Scheme are to be presented in the consolidated net assets statement and the relevant notes on pages 32 to 33, and 37 to 56 respectively. The Scheme can gain exposure to different asset classes by investing in pooled investment vehicles (PIVs), or by using derivatives as well as segregated mandates.

Investments in PIVs and derivatives are shown separately at fair value in the consolidated net assets statement. The presentation of these investments, as guided by the 2007 SORP, differs to the asset allocation of the Scheme as managed by the Trustee as at 30 June 2015. The tables on pages 29 to 30 reclassify assets such as PIVs, derivatives and loans into their appropriate asset classes so the asset allocation as at 30 June 2015 can be observed.

Asset class	Value per consolidated net assets statement £ million	Reclassification				Managed value £ million	Managed allocation %
		PIVs £ million	Footnote	Other £ million	Footnote		
UK	1,415	-		(1,415)	5, 7	-	-
Overseas	8,960	-		(8,960)	5, 7	-	-
Actively managed	-	1,200	1	5,147	4, 5, 7	6,347	14.7
Passively managed	-	360	1	5,908	4, 5, 7	6,268	14.6
Private equity	-	1,295	1	113	5	1,408	3.3
<b>Equities</b>	<b>10,375</b>	<b>2,855</b>		<b>793</b>		<b>14,023</b>	<b>32.6</b>
UK public sector	268	-		(155)	5	113	0.2
Overseas public sector	992	-		(992)	5	-	-
UK corporate	2,279	-		1,428	3, 5	3,707	8.6
Overseas corporate	3,841	539	1	(1,592)	3, 5	2,788	6.5
Emerging market debt	-	-		676	5	676	1.6
<b>Fixed interest</b>	<b>7,380</b>	<b>539</b>		<b>(635)</b>		<b>7,284</b>	<b>16.9</b>
<b>Cash</b>	<b>-</b>	<b>1</b>	<b>1</b>	<b>1,436</b>	<b>4, 6</b>	<b>1,437</b>	<b>3.3</b>
UK public sector	8,863	126	1	607	5	9,596	22.2
Overseas public sector	244	-		(211)	5	33	0.1
UK corporate	789	-		(240)	5	549	1.3
Overseas corporate	27	-		(27)	5	-	-
Mature infrastructure	-	-		978	5	978	2.3
<b>Inflation-linked</b>	<b>9,923</b>	<b>126</b>		<b>1,107</b>		<b>11,156</b>	<b>25.9</b>

## Understanding the financial statements

Asset class	Value per consolidated net assets statement £ million	Reclassification				Managed value £ million	Managed allocation %
		PIVs £ million	Footnote	Other £ million	Footnote		
UK	2,746	291	1	788	5	3,825	8.9
Overseas	434	442	1	(173)	5	703	1.6
<b>Property</b>	<b>3,180</b>	<b>733</b>		<b>615</b>		<b>4,528</b>	<b>10.5</b>
Absolute return	-	1,726	1	157	5	1,883	4.3
Credit opportunities	-	464	1	1,295	3, 5	1,759	4.1
Emerging market debt	-	66	1	948	5	1,014	2.4
<b>Alternatives</b>	<b>-</b>	<b>2,256</b>		<b>2,400</b>		<b>4,656</b>	<b>10.8</b>
<b>Other Categories</b>							
Pooled investment vehicles	6,510	(6,510)	1	-		-	-
Loans	883	-		(883)	3, 5	-	-
Other net assets	4,833	-		(4,833)	2, 4, 5	-	-
<b>Net assets</b>	<b>43,084</b>	<b>-</b>		<b>-</b>		<b>43,084</b>	<b>100.0</b>

- <sup>1</sup> Investments in pooled investment vehicles (PIVs) have been reclassified into the appropriate asset class.
- <sup>2</sup> Other net assets include deposit and short-term investments, derivative contracts, investments in joint ventures, AVC investments, other investment assets and liabilities, investment borrowings, other liabilities and net current assets. These have been reclassified to their appropriate asset exposures.
- <sup>3</sup> Loans include investments in debt instruments and have been reclassified to the credit opportunities category within the alternatives asset class and UK and overseas corporate categories within the fixed interest asset class.
- <sup>4</sup> Exposures to equities are obtained in part through the use of derivatives. It is therefore the notional amount of the derivative that will determine the Scheme's exposure.
- <sup>5</sup> The Scheme consolidates entities it controls and thus the underlying assets and liabilities of those entities are presented in the appropriate line in the consolidated net assets statement as guided by the 2007 SORP. For example, unlisted equity investments relating to an exposure to private equity or absolute return (within alternatives asset class) would be included within UK and overseas equities. Reclassifications between asset classes have therefore been applied so the managed asset exposure is adequately reflected.
- <sup>6</sup> The cash balance represents the value of cash and cash equivalents, net of the amount required to back open derivative contracts.
- <sup>7</sup> UK and Overseas equities have been reclassified between those that are actively and passively managed.

# Consolidated fund account

For the year ended 30 June 2015

	Notes	Year ended 30 June 2015 £ million	Year ended 30 June 2014 £ million
<b>Contributions and benefits</b>			
Contributions	1	1,785	583
Benefits	2	(2,230)	(2,162)
Payments to and on account of leavers	3	(28)	(16)
Administration expenses	4	(51)	(47)
<b>Net withdrawals from dealing with members</b>		<b>(524)</b>	<b>(1,642)</b>
<b>Returns on investments</b>			
Net investment income	5	994	1,016
Change in market value of investments	6	2,463	1,672
Interest payable		(14)	(24)
Investment management expenses	7	(173)	(182)
Minority interests		(11)	(125)
<b>Returns on investments</b>		<b>3,259</b>	<b>2,357</b>
<b>Increase in the Scheme during the year</b>		<b>2,735</b>	<b>715</b>
<b>Net assets of the Scheme</b>			
At start of year		40,349	39,634
At end of year		<b>43,084</b>	<b>40,349</b>

The notes on pages 37 to 56 form an integral part of the financial statements.

# Consolidated net assets statement

At 30 June 2015

	Notes	30 June 2015 £ million	30 June 2014 £ million
<b>Investment assets</b>			
UK equities	8	1,415	1,570
Overseas equities	9	8,960	8,774
Fixed interest investments	10	7,380	7,628
Index linked investments	11	9,923	9,035
Property	12	3,180	3,226
Pooled investment vehicles	13	6,510	5,853
Loans	14	883	515
Derivative contracts – assets	15	555	180
Deposits and short-term investments	16	3,914	2,298
		<b>42,720</b>	<b>39,079</b>
Share of gross assets of joint ventures		804	1,276
Share of gross liabilities of joint ventures		(27)	(180)
<b>Investments in joint ventures</b>	<b>17</b>	<b>777</b>	<b>1,096</b>
AVC investments	18	149	125
Other investment assets	19	1,061	1,615
<b>Total investment assets</b>		<b>44,707</b>	<b>41,915</b>
<b>Investment liabilities</b>			
Derivative contracts – liabilities	15	(747)	(237)
Other investment liabilities	20	(515)	(477)
Investment borrowings	21	(263)	(450)
<b>Total investment liabilities</b>		<b>(1,525)</b>	<b>(1,164)</b>
<b>Net investment assets</b>		<b>43,182</b>	<b>40,751</b>
Minority interests	22	(153)	(418)
Pension liability of subsidiary	23	-	(11)
<b>Other liabilities</b>		<b>(153)</b>	<b>(429)</b>
Current assets	24	294	238
Current liabilities	25	(239)	(211)
<b>Net current assets</b>		<b>55</b>	<b>27</b>
<b>Net assets of the Scheme</b>		<b>43,084</b>	<b>40,349</b>

The notes on pages 37 to 56 form an integral part of the financial statements.

## Consolidated net assets statement

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Trustee. They do not take into account obligations to pay pensions and benefits which fall due after the Scheme year end. The actuarial position of the Scheme, which does take into account such obligations, is dealt with in the Report by the Trustee and actuarial certificates included in the report and these financial statements should be read in conjunction with them. These financial statements were approved by the Trustee Board on 16 December 2015.

### **Signed on behalf of the Trustee Board**

**Paul Spencer CBE**  
Chairman

**John Wroe**  
Trustee Director

# Accounting policies

## ● **Basis of preparation**

The financial statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under sections 41(1) and (6) of the Pension Act 1995 and the guidelines set out in the Statement of Recommended Practice (Revised May 2007), Financial Reports of Pension Schemes (2007 SORP). The accounting policies have been consistently applied in both the current and prior years.

## ● **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. Where the Scheme has significant influence, a direct or indirect interest in an undertaking, and takes an active involvement in the management of the business then that interest is accounted for using the gross equity method in the case of joint ventures. The Scheme holds a number of property investments through interests in partnerships. Such investments are consolidated by including the Scheme's share of assets, liabilities, revenues and expenses.

Consolidation and equity accounting are based on the latest available accounts for those undertakings with a year end up to three months prior to that of the Scheme. In the case where an undertaking has a year end more than three months prior to that of the Scheme, unaudited management information is used. Adjustments are made to align the accounting policies of the relevant undertaking with those of the Scheme.

## ● **Contributions**

Normal contributions and employers' augmentation, deficit and other funding contributions are accounted for on an accruals basis in accordance with the schedule of contributions certified by the Actuary. Additional voluntary contributions are accounted for on an accruals basis.

## ● **Benefits**

Benefits payable represent all valid benefit claims notified to the Trustee during the Scheme year. Retirement pensions benefits include the realised gain/(loss) on the longevity insurance contract during the year.

## ● **Transfers**

Individual transfers in and out of the Scheme are accounted for on a cash basis. Group transfers are accounted for on a cash basis, unless the terms of the agreements signed by the Trustee relating to such transfers state otherwise.

## ● **Investment income**

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

## ● **Change in market value of investments**

This includes profits and losses on investments sold during the year and the change in market value of investments held during the year.

## ● **Foreign currencies**

The financial statements of consolidated overseas entities have been translated into Sterling at the exchange rate ruling at the year end. Exchange differences arising therefrom have been dealt with in the consolidated fund account within change in market value of investments. Assets and liabilities in foreign currencies are translated into Sterling at the rate ruling at the year end. Exchange differences arising from translation are dealt with in the consolidated fund account within change in market value of investments.

## ● **Investments**

Purchases and sales of securities are accounted for on a trade date basis. Property purchases are accounted for on exchange of unconditional contracts, otherwise on completion. Sales are accounted for on completion.

## Accounting policies

### ● Valuation of investments

Securities listed on order-driven exchanges are valued at closing bid prices at the year end. Other securities listed on recognised stock exchanges are valued at closing bid prices. For fixed interest and index linked securities this valuation is reduced by the accrued interest thereon. Such accrued interest is included in other investment assets.

Open derivative contracts are included in the consolidated net assets statement at fair value. For exchange traded derivatives that are assets, fair value will be based on closing bid prices. For exchange traded derivatives that are liabilities, fair value will be based on closing offer prices.

Futures are exchange traded and fair value is determined using the exchange price for closing out the futures contract at the year end.

Options can be exchange traded or over the counter contracts. For exchange traded options, fair value is determined using the exchange price for closing out the options contract at the year end. For over the counter options, the fair value is determined using pricing models that consider the time value of money, volatility and the current market and contractual prices of the underlying instruments.

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. Fair value is calculated using discounted cash flows and using market data at the year end.

Open forward foreign currency contracts are over the counter contracts and are valued using forward currency rates at the year end. The unrealised appreciation or depreciation of open forward foreign currency contracts is calculated based on the discounted net present value of the difference between the contracted rate and the rate to close out the contract.

The longevity insurance contract is valued based on the future expected net cash flows, taking into account the time value of money, and using market data at the year end.

Unlisted securities consist of equities, fixed interest and index linked securities and pooled investment vehicles.

Unlisted equities are valued in accordance with International Private Equity and Venture Capital (IPEVC) guidelines based on the latest available information from investment managers.

Unlisted fixed interest and index linked securities are valued using the latest market prices or using discounted cash flow models that consider credit risk.

Holdings in pooled investment vehicles are valued at the year end published or available net asset valuation. Fair value provisions may be applied following a review by the Scheme's investment manager.

Corporate loans are carried at fair value using the latest available prices in the market. Loans advanced for other investment activities are carried at cost less any provision for impairment.

Properties are valued on the basis of market value. The UK properties are independently valued at year end by CBRE Limited and Knight Frank LLP, chartered surveyors, on the basis of market value in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. Overseas properties are valued by local professional valuers or by the Scheme's local property agents.

## Accounting policies

### ● Sale and repurchase agreements

Securities sold subject to repurchase agreements are included in the financial statements within their respective investment classes at the year end fair value of the securities to be repurchased. Securities purchased subject to reverse repurchase agreements are included in the financial statements within other investment assets at the year end fair value of the securities to be repurchased. Collateral received for reverse repurchase agreements is excluded from the financial statements.

### ● Commitments

Commitments for property investments are stated at the amount authorised by the Trustee to provide development finance and to purchase properties. Commitments for securities investments are stated at the amount which may be called on partially paid and unpaid shares or which may be due on sub-underwriting contracts or which remains undrawn in commitments to pooled investment vehicles.

### ● Collateral

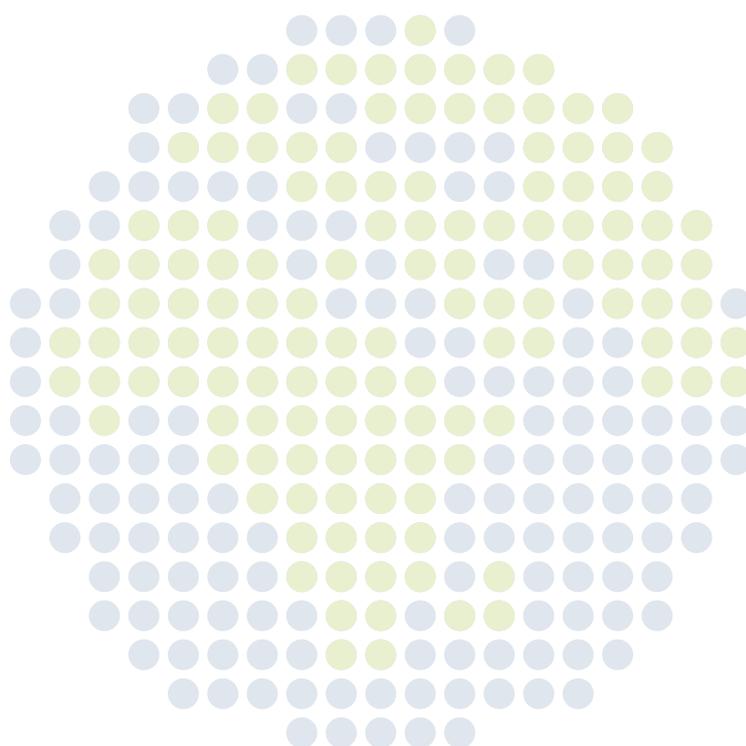
Cash collateral is recognised in the financial statements within deposits and short term investments. Cash collateral balances due from and due to brokers are included in the financial statements within other investment assets and liabilities. Non cash collateral that is pledged by the Scheme continues to be recognised in the financial statements. Non cash collateral posted by way of title transfer by the Scheme is derecognised in the financial statements.

### ● Pension benefits

A subsidiary undertaking of the Scheme operates a defined benefit pension scheme. The pension scheme's assets and liabilities are measured using fair values, and the pension scheme's deficit is recognised in full and presented on the face of the consolidated net assets statement. The movement in the pension scheme's deficit is included within the change in market value of investments.

### ● FRS 102 & The Revised Pensions SORP (2015)

Effective for accounting periods beginning on or after 1 January 2015, existing UK GAAP is being rescinded and replaced with the new Financial Reporting Standard FRS 102 "The Financial Reporting Standard applicable in the UK". In conjunction with this, the 2007 SORP has been revised for accounting periods beginning on or after 1 January 2015 (2015 SORP). The Scheme intends to adopt FRS 102 and the 2015 SORP effective 1 July 2015.



# Notes to the accounts

## 1. Contributions

On 29 January 2015, the Trustee and the sponsor announced the agreement on the 30 June 2014 actuarial valuation and recovery plan. A sixteen year recovery plan had been agreed, and the sponsor was obliged to make a deficit funding contribution of £1,500 million by 30 April 2015, followed by £250 million in each of the years to 31 March 2016 and 31 March 2017. For the seven years from 2018 to 2024 the sponsor will make payments in line with the 30 June 2011 agreement between the Trustee and the sponsor. This will be followed by five annual payments of £495 million through to 2029 and a final payment of £289 million in 2030.

The deficit funding contribution of £1,500 million was paid by the sponsor in March and April 2015, in accordance with the recovery plan. As a result of the 30 June 2014 actuarial valuation, the sponsor's regular contribution rate was increased from 13.5% to 16.0% effective from 1 April 2015 to 30 June 2017, and then increases to 16.9% from 1 July 2017.

	Year ended 30 June 2015 £ million	Year ended 30 June 2014 £ million
Employers' normal contributions <sup>1</sup>	248	223
Employers' deficit funding contributions	1,500	325
Employers' other contributions <sup>2</sup> (refer to note 4)	21	19
	<b>1,769</b>	<b>567</b>
Members' normal contributions <sup>3</sup>	8	9
	<b>1,777</b>	<b>576</b>
Members' additional voluntary contributions	7	6
Members' purchase of added years	1	1
	<b>1,785</b>	<b>583</b>

<sup>1</sup> The employers' normal contributions include an allowance for any administrative expenses directly met by the Scheme.

<sup>2</sup> The employers' other contributions relate to the reimbursement of the Pension Protection Fund levy in accordance with the schedule of contributions certified on 29 January 2015.

<sup>3</sup> In 2004, the sponsor introduced a Salary Sacrifice scheme, Smart Pensions, whereby some Scheme members have taken a reduction in their salary in return for ceasing their contributions. The majority of members have decided to participate in Smart Pensions which results in all such members' contributions being reported as employers' rather than members' contributions.

## 2. Benefits

	Year ended 30 June 2015 £ million	Year ended 30 June 2014 £ million
Retirement pensions <sup>4</sup>	1,901	1,861
Commutations and lump sum retirement benefits	329	288
Lump sum death benefits	-	13
	<b>2,230</b>	<b>2,162</b>

<sup>4</sup> In July 2014 a longevity insurance arrangement was entered into to protect the Scheme against costs associated with potential increases in life expectancy. This arrangement covers 50% of the longevity risk related to pensions in payment at the retroactive inception date of 1 October 2013. Under this arrangement there is an exchange of payments with an insurer based on expected longevity and actual longevity. Retirement pensions include a realised loss of £3 million on the arrangement during the period.

### 3. Payments to and on account of leavers

	Year ended 30 June 2015 £ million	Year ended 30 June 2014 £ million
Individual transfers out	28	16
	<b>28</b>	<b>16</b>

### 4. Administration expenses

	Year ended 30 June 2015 £ million	Year ended 30 June 2014 £ million
PPF levy and associated costs <sup>5</sup> (refer to note 1)	24	19
Administration expenses <sup>6</sup>	27	28
	<b>51</b>	<b>47</b>

<sup>5</sup> The PPF levy comprised of £21 million for the 2014/2015 levy and £3 million on PPF levies and interest for 2005/2006 to 2008/2009 following the conclusion of State Aid proceedings.

<sup>6</sup> Administration expenses include pension administration expenses, actuary fees, custody fees, legal fees, and other professional fees.

Administration expenses include the auditor's remuneration for the audit of the Scheme's financial statements as disclosed in the table below. The auditors' remuneration for the audits of subsidiaries that the Scheme controls are disclosed below and included in "Investment management expenses" in note 7.

	Year ended 30 June 2015 £ thousand	Year ended 30 June 2014 £ thousand
<b>Auditor's remuneration</b>		
Fees payable to the Scheme's auditor (Deloitte LLP) for the audit of the Scheme's financial statements	310	240
Fees payable to the Scheme's auditor for the audit of the Scheme's subsidiaries pursuant to legislation	1,219	1,425
<b>Total audit fees</b>	<b>1,529</b>	<b>1,665</b>
Other services pursuant to legislation	146	149
Tax services	55	122
Further assurance	267	222
Management consultancy	228	255
<b>Total non-audit fees</b>	<b>696</b>	<b>748</b>
Fees payable to the Scheme's auditor in respect of associated pension scheme	17	15
<b>Total remuneration to the Scheme's auditor</b>	<b>2,242</b>	<b>2,428</b>
<b>Auditors' remuneration payable to other audit firms</b>		
Audit fees	701	788
Non-audit fees	1,874	2,626
<b>Total remuneration to other audit firms</b>	<b>2,575</b>	<b>3,414</b>

#### 4. Administration expenses (continued)

Trustee director fees	Year ended 30 June 2015 £ thousand	Year ended 30 June 2014 £ thousand
P Spencer CBE	188	188
C Claydon	70	67
A Askew	28	28
D Felder	55	55
D MacDonald	38	38
W McClory	28	28
B Shepherd	28	28
	<b>435</b>	<b>432</b>

P Spencer CBE served as non-executive director and chair of Hermes Fund Managers Limited during the year and received £12,500 (2014: £12,500) and £75,000 (2014: £75,000) respectively. P Spencer CBE served as non-executive director and chair of BTPSM Limited during the year and received £12,500 (2014: £12,500) and £75,000 (2014: £75,000) respectively. A Askew served as a non-executive director and chair of the remuneration committee of BTPSM Limited and received £12,500 (2014: £12,500) and £5,000 (2014: £5,000) respectively. D Felder served as a non-executive director of BTPSM Limited and received £28,798 (2014: £28,596). W McClory served as a non-executive director of Hermes Fund Managers Limited during the year and received £25,000 (2014: £18,750). J Wroe and J McNally as employer-nominated Trustee Directors receive no fees.

#### 5. Net investment income

	Year ended 30 June 2015 £ million	Year ended 30 June 2014 £ million
UK equities	42	23
Overseas equities	173	128
Fixed interest investments	415	411
Index linked investments	97	90
Property, net of expenses <sup>7</sup>	219	219
Pooled investment vehicles	39	45
Deposits and short term investments	34	33
Share of net operating income in joint ventures	28	67
Other investment assets/(liabilities)	(53)	-
	<b>994</b>	<b>1,016</b>

<sup>7</sup> Income from property is net of property related expenses of £25 million (2014: £53 million).

## 6. Change in market value of investments

For the year from 1 July 2014 to 30 June 2015	Market value at 30 June 2014 £ million	Net investment/ (disinvestment) £ million	Change in market value £ million	Market value at 30 June 2015 £ million
<b>Investment assets</b>				
UK equities	1,570	(204)	49	1,415
Overseas equities	8,774	(748)	934	8,960
Fixed interest investments	7,628	(235)	(13)	7,380
Index linked investments	9,035	(443)	1,331	9,923
Property	3,226	(334)	288	3,180
Pooled investment vehicles	5,853	(93)	750	6,510
Loans	515	287	81	883
Derivative contracts <sup>8</sup>	(57)	963	(1,098)	(192)
Investments in joint ventures	1,096	(410)	91	777
Deposits and short-term investments	2,298	1,548	68	3,914
AVC investments	125	20	4	149
Other investment related assets/(liabilities)	688	(346)	(59)	283
<b>Net investment assets</b>	<b>40,751</b>	<b>5</b>	<b>2,426</b>	<b>43,182</b>
Other assets/(liabilities)	(402)	267	37	(98)
<b>Net assets of the Scheme</b>	<b>40,349</b>	<b>272</b>	<b>2,463</b>	<b>43,084</b>

<sup>8</sup> Derivative contracts include both the derivative assets and liabilities which are shown separately in the consolidated net assets statement.

## 6. Change in market value of investments (continued)

For the year from 1 July 2014 to 30 June 2015	Purchases at cost and derivative payments £ million	Sales proceeds and derivative receipts £ million	Net investment/ (disinvestment) £ million
<b>Investment assets</b>			
UK equities	1,029	(1,233)	(204)
Overseas equities	4,919	(5,667)	(748)
Fixed interest investments	4,179	(4,414)	(235)
Index linked investments	6,066	(6,509)	(443)
Property	376	(710)	(334)
Pooled investment vehicles	3,238	(3,331)	(93)
Loans	650	(363)	287
Derivative contracts	4,040	(3,077)	963
Investments in joint ventures	1	(411)	(410)
Deposits and short-term investments	1,548	-	1,548
AVC investments	20	-	20
Other investment related assets/(liabilities)	-	(346)	(346)
	<b>26,066</b>	<b>(26,061)</b>	<b>5</b>
Other assets/(liabilities)	267	-	267
	<b>26,333</b>	<b>(26,061)</b>	<b>272</b>

Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of an investment and are included in the cost of purchases and in sale proceeds. Transaction costs incurred during the year amounted to £3 million (2014: £2 million). In addition to these transaction costs, indirect costs are incurred through the bid-offer spread on investments in pooled investment vehicles. The amount of indirect costs is not separately provided to the Scheme.

## 7. Investment management expenses

	Year ended 30 June 2015 £ million	Year ended 30 June 2014 £ million
Investment management expenses <sup>9</sup>	156	165
Investment management performance fees	17	17
	<b>173</b>	<b>182</b>

<sup>9</sup> These fees include £18 million of consolidated expenses in property subsidiaries (2014: £25 million), £102 million of consolidated costs to operate Hermes Fund Managers Limited (2014: £89 million) and £18 million of consolidated costs to operate BT Pension Scheme Management Limited (2014: £19 million).

## 8. UK equities

	30 June 2015 £ million	30 June 2014 £ million
Listed UK equities	645	815
Unlisted UK equities	770	755
	<b>1,415</b>	<b>1,570</b>

## 9. Overseas equities

	30 June 2015 £ million	30 June 2014 £ million
Listed overseas equities	8,348	8,127
Unlisted overseas equities	612	647
	<b>8,960</b>	<b>8,774</b>

## 10. Fixed interest investments

	30 June 2015 £ million	30 June 2014 £ million
UK public sector listed	268	138
UK corporate listed	2,050	2,187
UK corporate unlisted	229	213
Overseas public sector listed	992	1,131
Overseas corporate listed	3,321	3,460
Overseas corporate unlisted	520	499
	<b>7,380</b>	<b>7,628</b>

## 11. Index linked investments

	30 June 2015 £ million	30 June 2014 £ million
UK public sector listed <sup>10</sup>	8,863	7,810
UK corporate listed	788	734
UK corporate unlisted	1	1
Overseas public sector listed	244	461
Overseas corporate listed	27	29
	<b>9,923</b>	<b>9,035</b>

<sup>10</sup> UK public sector listed investments of £812 million (2014: £nil) were pledged as collateral including £170 million on OTC derivative transactions (2014: £nil) and £642 million on the longevity insurance arrangement (2014: £nil).

## 12. Property

	30 June 2015 £ million	30 June 2014 £ million
<b>UK</b>		
Offices	1,366	1,429
Retail	1,202	1,181
Industrial	178	133
<b>Overseas</b>		
Offices	112	73
Retail	178	288
Industrial	-	33
Residential	144	89
	<b>3,180</b>	<b>3,226</b>

## 13. Pooled investment vehicles

	30 June 2015 £ million	30 June 2014 £ million
<b>Managed funds</b>		
Property – UK	272	65
Property – overseas	407	424
Hedge funds – UK	-	397
Other – UK	99	308
Hedge funds – overseas	779	1,493
Other – overseas	4,541	2,781
<b>Unlisted insurance policies</b>		
Legal & General pooled funds	338	329
<b>Unit trusts</b>		
Property – UK	19	3
Property – overseas	55	53
	<b>6,510</b>	<b>5,853</b>

Geographical analysis of pooled investment vehicles is disclosed in Appendix three on page 64.

Included within pooled investment vehicles are certain investments where legal or contractual restrictions can limit the timing of redemptions. This is a characteristic of the investments which is considered as part of the initial investment decision making process, and these restrictions are actively monitored on an ongoing basis.

## 14. Loans

Loans consist of £263 million (2014: £250 million) predominantly in corporate loan investments by Strategic Investment Portfolio L.P. which is a 100% subsidiary of the Scheme and £193 million (2014: £90 million) of funds loaned to support external investment activities. Additionally, there was £427 million (2014: £175 million) of loans as a result of the consolidation of entities that the Scheme controls.

## 15. Derivative contracts

	30 June 2015 £ million	30 June 2014 £ million
<b>Assets</b>		
Futures contracts		
UK equities	8	-
Overseas equities	1	7
UK fixed interest	-	-
Overseas fixed interest	2	1
Commodities	-	3
Currency	-	-
Options	2	4
Swaps	463	59
Foreign exchange forward contracts	78	106
Contract for difference	1	-
	<b>555</b>	<b>180</b>

	30 June 2015 £ million	30 June 2014 £ million
<b>Liabilities</b>		
Futures contracts		
UK equities	(1)	(2)
Overseas equities	(26)	(14)
UK fixed interest	-	-
Overseas fixed interest	(2)	(2)
Commodities	-	(1)
Currency	-	-
Options	(1)	(2)
Swaps	(644)	(153)
Foreign exchange forward contracts	(73)	(54)
Contract for difference	-	(9)
	<b>(747)</b>	<b>(237)</b>

## 15. Derivative contracts (continued)

### Objectives and policies

The Trustee has authorised the use of derivatives by the investment managers as part of the overall investment strategy for the Scheme. The main objectives for the use of derivatives are summarised as follows:

#### Futures

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

#### Options

Equity option contracts are acquired or sold in order to take a tactical or strategic position on an underlying equity index or to protect against a fall in value in the main markets in which the Scheme invests. Currency option contracts are entered into to hedge against adverse foreign exchange rate movements on investments denominated in non-Sterling currencies. Interest rate swaption contracts are entered into to hedge the Scheme's interest exposure and to protect against lower interest rates.

#### Swaps

Swaps are used to modify the Scheme's exposure to various asset classes. Interest rate swaps are held to decrease the Scheme's risk to the impact of interest rate fluctuations. Inflation swaps are held to decrease the Scheme's inflation rate risk exposure.

#### 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.

#### Contract for difference

A contract for difference is used to hedge exposure to an underlying financial instrument.

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

Futures – exchange traded	30 June 2015				30 June 2014			
	Economic exposure				Economic exposure			
Type of future	Long £ million	Short £ million	Asset £ million	Liability £ million	Long £ million	Short £ million	Asset £ million	Liability £ million
UK equities	48	(266)	8	(1)	756	-	-	(2)
Overseas equities	1,741	(105)	1	(26)	2,304	(2,428)	7	(14)
UK fixed interest	34	(46)	-	-	75	(2)	-	-
Overseas fixed interest	362	(401)	2	(2)	388	(622)	1	(2)
Commodities	-	-	-	-	299	(15)	3	(1)
Currency	-	(5)	-	-	-	-	-	-
			11	(29)			11	(19)

The economic exposure represents the notional value of securities purchased or sold under the futures contracts. All of the contracts settle in less than one year (2014: All contracts settle in less than one year).

## 15. Derivative contracts (continued)

Options	30 June 2015				30 June 2014			
	Notional amount of outstanding contracts		Asset £ million	Liability £ million	Notional amount of outstanding contracts		Asset £ million	Liability £ million
Type of option	Long £ million	Short £ million			Long £ million	Short £ million		
<b>Exchange traded</b>								
UK equities – call	2	-	-	-	-	-	-	-
Overseas equities – call	12	(2)	2	(1)	13	(21)	3	(2)
Overseas equities – put	1	-	-	-	4	-	-	-
Fixed interest – call	339	-	-	-	83	-	-	-
Currency – call	6	(37)	-	-	-	-	-	-
Currency – put	-	-	-	-	106	-	-	-
Index – put	-	-	-	-	10	-	-	-
			<b>2</b>	<b>(1)</b>			<b>3</b>	<b>(2)</b>
<b>Over the counter</b>								
Overseas equities – put	1	-	-	-	-	-	-	-
Currency – call	43	-	-	-	25	-	1	-
Currency – put	52	-	-	-	35	-	-	-
Interest rate swaptions	776	-	-	-	-	-	-	-
			<b>-</b>	<b>-</b>			<b>1</b>	<b>-</b>
			<b>2</b>	<b>(1)</b>			<b>4</b>	<b>(2)</b>

Notional amount of outstanding contracts represents the value of underlying securities protected by the purchased options. All of the contracts settle in less than one year except for:

- Currency call options with a notional amount of £0.3 million and market value of £0.3 million that settle in less than two years.
  - Interest rate swaptions with a notional amount of £776.0 million and market value of £0.2 million that settle in less than twenty three years.
- (2014: All contracts settle in less than one year except for fixed interest call options with a notional amount of £83.0 million and market value of £0.1 million that settle in less than eleven years, and overseas equity call options with a notional amount of £13.0 million and market value of £3.0 million that settle in less than two years).

Swaps	30 June 2015					
	Expiration	Nature of swap	Notional principal		Asset £ million	Liability £ million
Long £ million			Short £ million			
Credit default	< 30 years	Itraxx Europe	57	(106)	2	(5)
Interest rate	< 54 years	Fixed for floating and floating for fixed	9,716	(1,888)	460	(216)
Inflation	< 54 years	Coupon for floating	4,740	-	1	(392)
Bond total return	< 4 years	UK Government bonds	121	-	-	(12)
Equity total return	< 3 years	Common stock	586	-	-	(19)
Currency	< 30 years	Foreign currency	-	-	-	-
					<b>463</b>	<b>(644)</b>

## 15. Derivative contracts (continued)

Swaps		30 June 2014				
		Notional principal				
Type of contract	Expiration	Nature of swap	Long £ million	Short £ million	Asset £ million	Liability £ million
Credit default	< 48 years	Itraxx Europe	148	(67)	10	(16)
Interest rate	< 54 years	Fixed for floating and floating for fixed	8,333	(1,987)	39	(70)
Inflation	< 54 years	Coupon for floating	4,266	-	10	(60)
Commodity	< 1 year	GSLE for floating	292	-	-	(3)
Equity total return	< 1 year	Common stock	500	-	-	(4)
					<b>59</b>	<b>(153)</b>

### Foreign exchange forward contracts – over the counter

		30 June 2015			30 June 2014		
Currency bought	Currency sold	Notional principal £ million	Asset £ million	Liability £ million	Notional principal £ million	Asset £ million	Liability £ million
EUR	GBP	3	-	-	272	-	-
AUD	USD	754	-	(5)	932	9	-
CAD	USD	164	-	(5)	368	8	-
USD	GBP	524	-	(5)	1,334	-	(6)
USD	OTHER	1,403	8	(5)	2,288	1	(16)
GBP	EUR	415	13	-	1,102	8	(1)
GBP	JPY	276	2	-	131	-	-
GBP	OTHER	64	2	-	1,516	5	(1)
GBP	USD	5,837	38	(13)	6,356	52	-
JPY	GBP	-	-	-	474	-	-
NOK	USD	701	-	(10)	694	-	(15)
SEK	EUR	206	-	(1)	238	-	(2)
SEK	USD	671	4	(8)	670	1	(2)
OTHER	OTHER	2,315	11	(21)	3,823	22	(11)
			<b>78</b>	<b>(73)</b>		<b>106</b>	<b>(54)</b>

All of the contracts settle in less than one year except for:

- Contracts to buy GBP and sell DKK with a notional principal of £2.0 million and market value of £0.2 million that settle in less than four years.
- Contracts to buy GBP and sell EUR with a notional principal of £45.0 million and market value of £4.0 million that settle in less than five years.
- Contracts to buy GBP and sell SEK with a notional principal of £15.0 million and market value of £2.0 million that settle in less than four years.

(2014: All of the contracts settle in less than one year except for contracts to buy USD and sell CNY with a notional principal of £20.0 million and market value of £0.2 million that settle in less than three years, and contracts to buy GBP and sell EUR with a notional principal of £17.0 million and market value of £0.2 million that settle in less than three years).

## 16. Deposits & short-term investments

	30 June 2015 £ million	30 June 2014 £ million
Sterling	1,832	1,017
Foreign currency	1,814	587
Certificate of deposits	-	611
Floating rate notes	-	2
Commercial paper	268	81
	<b>3,914</b>	<b>2,298</b>

Cash collateral of £306m (2014: £300m) in respect to OTC derivative transactions is included within deposits and short term investments.

## 17. Investments in joint ventures

The Scheme's most significant joint ventures are set out below:

	30 June 2015 %	30 June 2014 %	Place of business	Principal activity
Argent Projects No 3 Partnership (AP 3)	95%	95%	United Kingdom	Property investment and development
Hermes GPE LLP	77.5%	77.5%	United Kingdom	Investment manager in global private markets
CMK Britel LP	50%	50%	United Kingdom	Property investment and development
Hermes Central London LP	50%	50%	United Kingdom	Property investment and development
Hermes Wellington Place LP	50%	-	United Kingdom	Property investment and development
NOMA LP	50%	50%	United Kingdom	Property investment and development
Paradise Circus LP	50%	-	United Kingdom	Property investment and development

## 18. Additional Voluntary Contributions (AVC)

Members' AVCs are invested separately from the principal Scheme on a money purchase basis with Equitable Life Assurance Society, Standard Life Assurance Company and Legal & General. These assets are in the form of cash deposits and insurance policies securing additional benefits on a money purchase basis for those members electing to pay AVCs.

The aggregate amount of AVC investments is as follows:

	Insurance policies £ million	Cash deposits £ million	30 June 2015 £ million	30 June 2014 £ million
At start of year	20	105	125	106
Net contributions by members	2	18	20	10
Change in market value of investments	1	3	4	9
<b>At end of year</b>	<b>23</b>	<b>126</b>	<b>149</b>	<b>125</b>

## 19. Other investment assets

	30 June 2015 £ million	30 June 2014 £ million
Accrued investment income	232	221
Amounts due from brokers	564	634
Margin deposits – initial	110	286
Margin deposits – variation	155	129
Receivable on sale of investments	-	345
	<b>1,061</b>	<b>1,615</b>

## 20. Other investment liabilities

	30 June 2015 £ million	30 June 2014 £ million
Amounts due to brokers	346	424
Deferred income	26	32
Margin deposits – initial	9	11
Margin deposits – variation	89	10
Longevity insurance arrangement <sup>11</sup>	36	-
Repurchase agreements	9	-
	<b>515</b>	<b>477</b>

<sup>11</sup> Includes an unrealised loss of £33 million on the longevity insurance arrangement involving the exchange of future payments based on expected longevity with future payments based on actual longevity.

## 21. Investment borrowings

	30 June 2015 £ million	30 June 2014 £ million
<b>Repayment analysis</b>		
Within 1 year on demand	10	1
In more than 1 year but less than 2 years	-	109
In more than 2 years but less than 5 years	232	310
In more than 5 years	21	30
	<b>263</b>	<b>450</b>
<b>Analysis of borrowings between fixed and floating rates</b>		
Fixed rates	49	59
Floating rates	214	391
	<b>263</b>	<b>450</b>
<b>Security analysis</b>		
Secured <sup>12</sup>	253	447
Unsecured	10	3
	<b>263</b>	<b>450</b>
<b>Interest rate profile</b>		
Up to 5%	49	59
At variable rates of interest	214	391
	<b>263</b>	<b>450</b>

<sup>12</sup> Investment borrowings consist of loans secured against properties.

At 30 June 2015, the weighted average time for which fixed rate borrowings were fixed was five years (2014: six years).

### Interest rate contracts

At 30 June 2015, the Scheme had interest rate swaps with a notional amount of £206 million (2014: £393 million) at a weighted average interest rate of 2.7% (2014: 2.5%) and for a weighted average period of four years (2014: four years).

### Cost of borrowings

The weighted average rate of interest on Scheme borrowings was as follows:

	Year ended 30 June 2015 %	Year ended 30 June 2014 %
On fixed rate borrowings	3.3	2.8
On all borrowings	2.7	2.7

Variable rate borrowings bear interest rates fixed in advance for periods of three months by reference to LIBOR.

### Available facilities

At 30 June 2015, subsidiaries of the Scheme had no undrawn committed facilities (2014: £24 million in undrawn facilities expiring within two years).

## 22. Minority interests

	30 June 2015 £ million	30 June 2014 £ million
Minority interests	(153)	(418)
	<b>(153)</b>	<b>(418)</b>

Minority interests relate to equity interests in companies or partnerships.

## 23. Pension liability of subsidiary undertaking

The Scheme consolidates a subsidiary undertaking that has a defined benefit pension scheme. In accordance with Financial Reporting Standard FRS 17, actuarial valuations are carried out to determine the deficit or surplus that the Scheme recognises in the consolidated net assets statement.

Hermes Fund Managers Limited operates a defined benefit pension scheme, the Hermes Group Pension Scheme, funded by the payment of contributions to a separately administered trust fund. The defined benefit pension scheme was closed to new members on 1 June 2008 and a defined contribution pension scheme was opened for new members. Hermes Fund Managers Limited closed its defined benefit pension scheme to future benefit accrual with effect from 31 October 2011. The contributions to this pension scheme are determined with the advice of independent qualified actuaries on the basis of valuations using the Projected Unit method. The latest valuation was undertaken as at 30 June 2015 by a qualified actuary using assumptions that are consistent with FRS 17.

### Assumptions

The major assumptions used for the actuarial valuation:

	30 June 2015 %	30 June 2014 %	30 June 2013 %	31 December 2012 %	31 December 2011 %
Rate of increase in salaries	2.1	2.3	2.5	2.0	2.2
Pensions increases	3.1	3.0	3.2	2.8	3.1
Discount rate	3.9	4.3	4.7	4.6	5.0
Inflation assumption	3.2	3.3	3.5	3.2	3.2
Rate of return on equities	6.5	6.6	6.8	6.9	7.2
Rate of return on UK Government bonds	2.4	3.3	3.5	3.0	3.0
Rate of return on bonds and other investments	3.4 – 6.0	4.2 – 5.6	4.1 – 6.2	4.1 – 6.2	4.7 – 6.4

## 23. Pension liability of subsidiary undertaking (continued)

Market value of pension scheme assets and liabilities:

	30 June 2015 £ million	30 June 2014 £ million	30 June 2013 £ million	31 December 2012 £ million	31 December 2011 £ million
Total fair value of equities	62	59	56	53	42
Total fair value of bonds	27	30	27	26	14
Total fair value of other investments	61	39	33	33	40
<b>Total fair value of pension scheme assets</b>	<b>150</b>	<b>128</b>	<b>116</b>	<b>112</b>	<b>96</b>
Present value of pension scheme liabilities	(150)	(139)	(129)	(118)	(108)
<b>Pension scheme deficit</b>	<b>-</b>	<b>(11)</b>	<b>(13)</b>	<b>(6)</b>	<b>(12)</b>

Change in pension scheme assets and liabilities in the year

	2015 £ million
<b>Change in pension scheme liabilities</b>	
Benefit obligation at the beginning of the year	(139)
Interest cost	(7)
Actuarial losses	(8)
Experience	(1)
Benefits paid	5
<b>Present value of pension scheme liabilities</b>	<b>(150)</b>
<b>Change in pension scheme assets</b>	
Fair value of plan assets at the beginning of the year	128
Return on plan assets	7
Contributions	9
Benefits paid	(5)
Actuarial gains	13
Movement in deferred tax asset	(2)
<b>Fair value of pension scheme assets</b>	<b>150</b>
Pension scheme deficit	-

### 23. Pension liability of subsidiary undertaking (continued)

	30 June 2015	30 June 2014	30 June 2013	31 December 2012	31 December 2011
<b>Experience gains/(losses) on pension scheme liabilities</b>					
Amount (£ million)	(1.0)	3.4	1.0	-	(7.0)
Percentage (%)	0.7	2.4	1.0	-	6.5
<b>Actuarial gains/(losses) on pension scheme liabilities</b>					
Amount (£ million)	4.9	(5.9)	(10.0)	(6.0)	7.0
Percentage (%)	3.3	4.2	7.8	5.0	6.5

### 24. Current assets

	30 June 2015 £ million	30 June 2014 £ million
Members' contributions due	1	1
Employers' contributions due	21	16
Other debtors	101	78
Bank balances	171	143
	<b>294</b>	<b>238</b>

All contributions due to the Scheme relate to the month of June 2015 and were paid in full to the Scheme within the timescale required by the schedule of contributions in force at the year end.

### 25. Current liabilities

	30 June 2015 £ million	30 June 2014 £ million
Accrued benefits	45	44
Other creditors	194	167
	<b>239</b>	<b>211</b>

## 26. Securities lending

Securities lending has been suspended since 2008 and no securities were on loan as at 30 June 2015 or 30 June 2014.

## 27. Related party transactions

Three Trustee Directors were members of the Scheme at 30 June 2015 (2014: Three). One of these Trustee directors received a pension from the Scheme during the year in accordance with the Scheme Rules (2014: One). Trustee Director remuneration is disclosed in note 4.

Hermes GPE FRWL Holdco Limited (Holdco) is a subsidiary undertaking of the Scheme and it invests in Fallago Rig Windfarm Limited (FRWL). FRWL owns a wind farm that is generating electricity from renewable sources in Great Britain. Effective 1 April 2014 to 31 March 2034 FRWL and BT entered into a power purchase agreement. BT agreed to purchase 50% of the metered output generated by the wind farm and certain associated benefits, including Renewable Obligation Certificates (ROCs) and Levy Exemption Certificates (LECs). In addition, effective 1 April 2014 to 31 March 2034 the Holdco and BT have agreed to make certain payments based upon the difference between the price payable under the power purchase agreement for electrical output and a price specified in the agreement.

## 28. Commitments and contingent liabilities

	30 June 2015 £ million	30 June 2014 £ million
Property	327	190
Calls on partly paid shares and underwriting commitments	1,275	1,196
	<b>1,602</b>	<b>1,386</b>

## 29. Principal subsidiary undertakings

Subsidiary	Principal activity	Holding	30 June 2015 %	30 June 2014 %
Argent Group plc <sup>16</sup>	Property investment and development	Ordinary shares	100	100
MEPC Fund Unit Trust <sup>16</sup>	Property investment and development	Units	100	100
Hermes Factory Outlets No. 2 LP <sup>16</sup>	Property investment and development	Partnership capital	90	90
BT Pension Scheme Management Limited <sup>16</sup>	Executive arm of the Trustee	Ordinary shares	100	100
Hermes Fund Managers Limited <sup>16</sup>	Investment management	Ordinary shares	100	100
Hermes Alternative Funds plc <sup>17</sup>	Investment management	Ordinary shares	98	98
Hermes Real Estate Senior Debt Fund LP <sup>16</sup>	Investment management	Partnership capital	100	100
Hermes Private Equity Investments Holding 2004 LP <sup>14</sup>	Investment in private equity funds	Partnership capital	100	100
Hermes Private Equity Investments Holding 2005 LP <sup>14</sup>	Investment in private equity funds	Partnership capital	100	100
Hermes Private Equity Investments Holding 2006 LP <sup>14</sup>	Investment in private equity funds	Partnership capital	100	100
Hermes Private Equity Investments Holding 2007 LP <sup>15</sup>	Investment in private equity funds	Partnership capital	100	100
Hermes Private Equity Investments Holding 2008 LP <sup>15</sup>	Investment in private equity funds	Partnership capital	100	100
Hermes Private Equity Investments Holding 2009 LP <sup>15</sup>	Investment in private equity funds	Partnership capital	100	100
Hermes GPE PEC 2011-2013 LP <sup>15</sup>	Investment in private equity	Partnership capital	100	100
Hermes GPE PEF 2011-2013 LP <sup>15</sup>	Investment in private equity funds	Partnership capital	100	100
Hermes GPE FRWL Holdco Limited <sup>16</sup>	Investment in private equity	Ordinary shares	93	97
Strategic Investment Portfolio LP <sup>13</sup>	Investment management	Partnership capital	100	100
BTPS Insurance ICC Limited <sup>14</sup>	Longevity insurance	Ordinary shares	100	100
BTPSI (No 1) IC Limited <sup>14</sup>	Longevity insurance	Ordinary shares	100	100
Ares European Credit Strategies Fund II (B) LP <sup>18</sup>	Investment management	Partnership capital	100	100
HCN LP <sup>18</sup>	Investment management	Partnership capital	100	100

<sup>13</sup> Registered in Jersey. <sup>14</sup> Registered in Guernsey. <sup>15</sup> Registered in Scotland. <sup>16</sup> Registered in England. <sup>17</sup> Registered in Ireland. <sup>18</sup> Registered in Cayman Islands.

### 30. Self investment

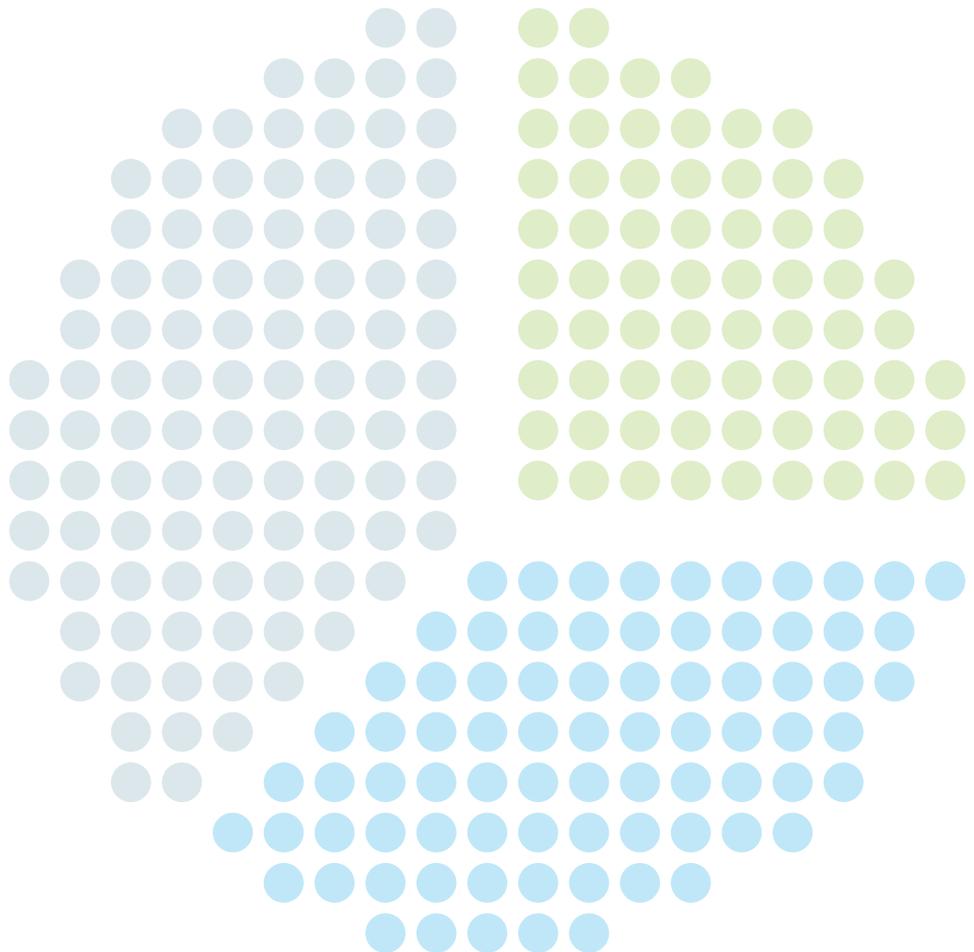
At 30 June 2015, the Scheme did not directly hold any ordinary shares of BT (2014: £nil), however it held £9 million of index-linked investments (2014: £9 million). The total amount of self investment represents 0.02% of the net assets of the Scheme (2014: 0.02%).

At 30 June 2015, there were no properties occupied by BT owned by the Scheme (2014: None).

Rent paid to the Scheme by BT during the year amounted to £nil (2014: £nil).

### 31. Taxation

The Scheme is a registered pension scheme under the provisions of the Finance Act 2004 for taxation purposes.



# Independent auditor's report

## To the Trustee of the BT Pension Scheme

We have audited the financial statements of BT Pension Scheme for the year ended 30 June 2015 which comprise the Consolidated Fund Account, the Consolidated Net Assets Statement, and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Trustee, as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996 made under the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Trustee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Trustee and the auditor

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

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Trustee; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Scheme during the year ended 30 June 2015, and of the amount and disposition at that date of its assets and liabilities, other than the liabilities to pay pensions and benefits after the end of the year;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- contain the information specified in Regulation 3 of, and the Schedule to, the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

### Deloitte LLP

Chartered Accountants and Statutory Auditor  
London, United Kingdom

16 December 2015

# Independent auditor's statement about contributions

## To the Trustee of the BT Pension Scheme

We have examined the summary of contributions to the BT Pension Scheme for the Scheme year ended 30 June 2015 on page 59.

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

### Respective responsibilities of the Trustee and the auditor

As explained more fully in the Statement of Trustee's Responsibilities, the Scheme's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of contributions showing the rates and due dates of certain contributions payable towards the Scheme by or on behalf of the employer and the active members of the Scheme. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Scheme and for monitoring whether contributions are made to the Scheme by the employer in accordance with the Schedules of contributions.

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

### Scope of work on statement about contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported in the summary of contributions on page 59 have in all material respects been paid at least in accordance with the Schedules of contributions. This includes an examination, on a test basis, of evidence relevant to the amounts of contributions payable to the Scheme and the timing of those payments under the Schedules of contributions.

### Statement about contributions payable under the Schedules of contributions

In our opinion, contributions for the Scheme year ended 30 June 2015 as reported in the summary of contributions and payable under the Schedules of contributions have in all material respects been paid for the period from 1 July 2014 to 28 January 2015 at least in accordance with the Schedules of contributions certified by the Scheme actuary on 9 May 2012; and for the period from 29 January 2015 to 30 June 2015 at least in accordance with the Schedules of contributions certified by the Scheme actuary on 29 January 2015.

### Deloitte LLP

Chartered Accountants and Statutory Auditor  
London, United Kingdom

16 December 2015

# Summary of contributions

This summary has been prepared on behalf of, and is the responsibility of, the Trustee. It sets out the employer and member contributions payable to the Scheme under the Schedules of contributions for the year ended 30 June 2015. The Scheme auditor reports on contributions payable under the Schedules, as shown in the "2015 Per Schedules" column below, in their auditor's statement about contributions on page 58.

	2015 Per Schedules £ million	2015 Additional £ million	2015 Total £ million
Employers' normal contributions	204	44	248
Members' normal contributions	8	-	8
Employers' deficit funding contributions	1,500	-	1,500
Employers' other contributions	21	-	21
Members' additional voluntary contributions	-	7	7
Members' added years contributions	-	1	1
<b>Total contributions (see note 1 to the financial statements)</b>	<b>1,733</b>	<b>52</b>	<b>1,785</b>

Approved on behalf of the Trustee Board

**Paul Spencer CBE**  
Chairman

16 December 2015

# Actuary's statement

## The most recent actuarial valuation of the Scheme was made as at 30 June 2014

The main purposes of an actuarial valuation include:

- determining whether or not the assets already held by the Trustee are sufficient to finance the prospective benefit entitlements of current and former members, to the extent that they relate to pensionable service completed prior to the valuation date; and
- assessing the future level of contributions required, having regard to both the cost of the benefits which will accrue to members after the valuation date and to any past service surplus or shortfall revealed by the valuation.

The valuation of the Scheme as a continuing scheme revealed a past service deficiency of £7,044 million. In light of this deficit, BT agreed to make lump sum payments over the period to 31 March 2030. Payments amounting to £1,500 million were paid in March and April 2015 and payments of £250 million are due prior to each of 31 March 2016 and 31 March 2017. Details of the other deficit contributions due after 31 March 2017 are documented in the Schedule of Contributions.

In addition to these deficit contributions, BT agreed to pay contributions in respect of service from 29 January 2015, at the following rates of pay deemed to be pensionable, less mandatory contributions paid by those members who have opted out of the Smart Pensions arrangements:

- from 29 January 2015 to 31 March 2015: 13.5%;
- from 1 April 2015 to 30 June 2017: 16.0%;
- from 1 July 2017: 16.9%.

BT has also agreed to make further special contributions to meet any strains which may arise on account of redundancies while there is a funding shortfall.

BT has also agreed that it will pay additional contributions to the Scheme in certain other circumstances. Full details of these arrangements are set out in a funding agreement between the Trustee and BT.

A copy of the certificate to the most recent agreed Schedule of Contributions is included following this statement.

All of the results summarised above are given on the assumption that the Scheme will continue, with members in service accruing further benefits each year. In the unlikely event that the employer ceased paying contributions to the Scheme ("discontinuance"), the Trustee could seek to meet benefit payments by continuing it as a closed fund.

Given the large size of the Scheme and the present capacity of the insurance market it is unlikely to be practicable for the Trustee to secure members' accrued rights by the purchase of appropriate annuities in the event of the Scheme being discontinued.

The terms currently available from life assurance companies are in any event such that the premiums charged to secure accrued rights in full would significantly exceed the realisable value of the Scheme's present assets.

The Scheme's financial position and the level of BT's contributions will formally be reviewed in full as part of an actuarial valuation as at 30 June 2017. Prior to that valuation, the Trustee will receive Actuarial Reports that provide my update of the funding position as at 30 June 2015 and 30 June 2016.

**M J Pardoe FIA**  
Towers Watson Limited

16 December 2015

### Form of Actuary's certification of schedule of contributions

**Name of scheme:** BT Pension Scheme

#### **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 30 June 2014 to be met by the end of the period specified in the Recovery Plan.

#### **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 29 January 2015.
3. I also certify that any rates of contributions forming part of this schedule which the Scheme requires me to determine are not lower than I would have provided for had I had responsibility for preparing or revising the schedule, the Statement of Funding Principles and any recovery plan.

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.

**Date:** 29 January 2015  
**Name:** M J Pardoe  
**Qualification:** Fellow of the Institute and Faculty of Actuaries  
**Address:** Watson House, London Road, Reigate Surrey RH2 9PQ

**Name of employer:** Towers Watson Limited

# Appendix one

## Membership statistics

	30 June 2015	30 June 2014	30 June 2013
<b>Membership</b>			
Active members	37,065	40,229	42,458
Deferred members	71,785	75,935	80,220
Current pensioners of whom:	199,333	197,736	196,073
Retired employees	163,397	161,601	159,813
Widows/widowers	33,783	33,908	33,980
Children/dependants	2,153	2,227	2,280

	Year ended 30 June 2015	Year ended 30 June 2014	6 months to 30 June 2013
<b>Changes to membership</b>			
Normal age retirements from active status	65	49	18
Ill health early retirements	80	95	42
Early retirement	3,558	3,157	2,044
Deferred benefits set up	1,096	755	1,100
Normal age retirements from deferred status	3,260	2,953	1,422
Benefits transferred out and trivially commuted	290	167	86
Optants out	-	14	-
Death in service	48	48	28
Death in retirement	7,303	6,341	3,535
Death in deferment	97	80	51
Late retirement	-	1	1
<b>New records set up</b>			
Section B rejoiners	27	36	4
Widows, spouse, widowers and dependants	1,923	1,666	939
Children	71	78	34
Benefits transferred in	-	-	-

# Appendix two

## 30 largest investment exposures as at 30 June 2015

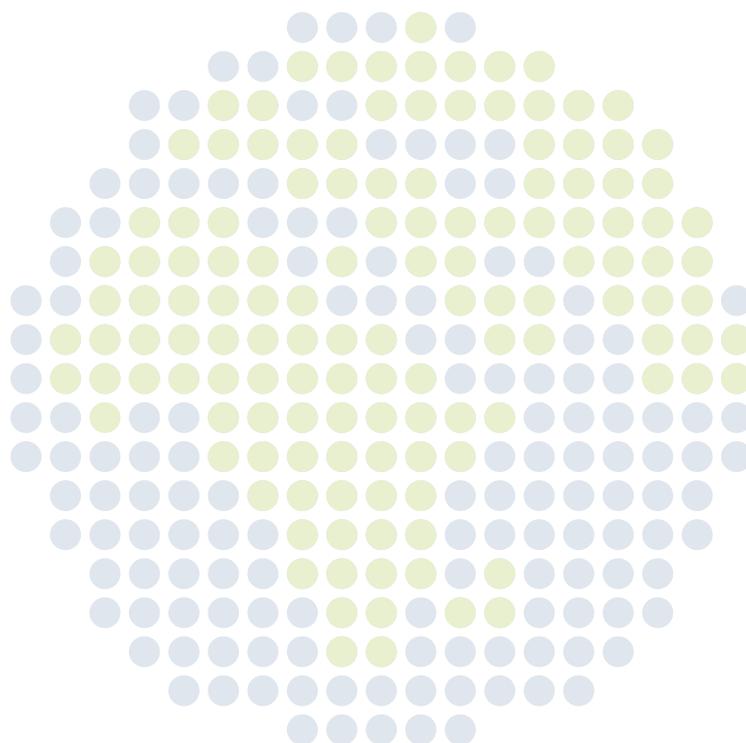
The table below shows the 30 largest investment exposures held by the Scheme expressed as a percentage of the net assets of the Scheme. The exposures are gained through direct holdings of the Scheme or through pooled investment vehicles and subsidiary undertakings.

Investment exposure	Asset class	Market value £ million	% of net assets
UK Treasury	Index linked/fixed interest	9,131	21.3
Hermes Investment Funds plc	Pooled Investment Vehicle	1,591	3.8
Kemble Water Holdings Ltd	UK equities/fixed interest	535	1.3
Brevan Howard Fund Limited	Pooled Investment Vehicle	449	1.0
Milton Park	Property	435	1.0
Bridgewater Pure Alpha Fund II, Ltd	Pooled Investment Vehicle	386	0.9
MKP Partners funds	Pooled Investment Vehicle	385	0.9
Goldman Sachs Group Inc and funds	Overseas equities/fixed interest/Pooled Investment Vehicle	356	0.8
Lone Star funds	Pooled Investment Vehicle	336	0.8
Hermes GPE Infrastructure Fund LP	Pooled Investment Vehicle	334	0.8
Network Rail Ltd	Index linked	303	0.7
Fallago Rig Windfarm Limited	UK equities/fixed interest	271	0.6
Kings Cross Central LP	Pooled Investment Vehicle	199	0.4
Commercial Mortgage Investments Limited	Loans	192	0.4
Riverstone/Carlyle Renewable & Alternative Energy Fund II LP	Pooled Investment Vehicle	192	0.4
US Treasury	Index linked/fixed interest	184	0.4
Bluewater	Property	159	0.4
Hermes GPE PEC II LP	Pooled Investment Vehicle	147	0.3
Lloyds Bank plc	UK equities/fixed interest	146	0.3
26/28 Hammersmith Grove	Property	130	0.3
Microsoft Corporation Inc	Overseas equities/fixed interest	130	0.3
Clarks Village	Property	123	0.3
Castlecourt	Property	122	0.3
Visa Inc	Overseas equities	122	0.3
Merck & Company Inc	Overseas equities/fixed interest	121	0.3
Wells Fargo & Company Inc	Overseas equities/fixed interest	112	0.3
Wal-Mart Stores Inc	Overseas equities/fixed interest	111	0.3
Crystal Peaks	Property	105	0.2
Intel Corporation	Overseas equities/fixed interest	104	0.2
Royal Victoria Place	Property	103	0.2
<b>Total</b>		<b>17,014</b>	<b>39.5</b>

# Appendix three

## Geographical analysis of securities as at 30 June 2015

Geographical analysis	Equities £ million	Fixed interest £ million	Index linked £ million	Pooled Investment Vehicles £ million	Total market value £ million	%
United Kingdom	1,415	2,547	9,652	728	14,342	42
<b>Overseas</b>						
Europe	1,526	1,697	39	2,735	5,997	17
North America	5,451	1,708	188	2,228	9,575	28
Japan	502	23	-	14	539	2
Pacific Basin (Ex-Japan)	726	348	5	178	1,257	4
Emerging markets	755	1,057	39	627	2,478	7
<b>Total</b>	<b>10,375</b>	<b>7,380</b>	<b>9,923</b>	<b>6,510</b>	<b>34,188</b>	<b>100</b>



# Appendix four

## Property investments as at 30 June 2015

Geographical analysis	Market value £ million				
	Offices	Retail	Industrial	Residential	Total
<b>United Kingdom</b>					
London and South East	714	558	130	-	1,402
Other	652	644	48	-	1,344
<b>Overseas</b>					
Europe	-	178	-	-	178
North America	112	-	-	144	256
<b>Total</b>	<b>1,478</b>	<b>1,380</b>	<b>178</b>	<b>144</b>	<b>3,180</b>

The above table includes the Scheme's direct ownership or shared ownership in properties. The Scheme also has additional exposure to overseas property via managed funds and unit trusts as disclosed in note 13.

The combined value of the 30 highest value properties was £2,473 million (2014: £2,407 million) which amounted to 78% (2014: 75%) of the total value of the property portfolio.

At 30 June 2015, there were no properties occupied by BT owned by the Scheme (2014: None). Rent paid to the Scheme by BT during the year amounted to £nil (2014: £nil).

# Appendix five

## Statement of Investment Principles

### Introduction

This Statement of Investment Principles (SIP) has been agreed by the Trustee of the Scheme to comply with the requirements of the Pensions Act 1995, as amended, and the Occupational Pension Schemes (Investment) Regulations 2005. It has been prepared following written advice from BTPSM and consultation with the principal sponsoring employer of the Scheme, BT. The SIP is reviewed each year or following any significant change in investment policy of the Scheme. No amendment to this Statement will be made without written advice from a suitably qualified person and after consultation with BT.

### Objectives

The main objectives of the Trustee are to ensure that there are sufficient assets to meet the Scheme's liabilities as they fall due and that all beneficiaries receive the benefits to which they are entitled under the Rules of the Scheme.

The Trustee takes an integrated approach to the management of risk in the Scheme. The Trustee therefore invests the assets of the Scheme consistent with funding a defined level of benefits within an acceptable level of risk, having regard to the affordability of both the immediate and longer term cash cost to BT, and the funding requirements in the Trust Deed and the relevant legislation. The Trustee acknowledges that, in particular, the level of investment in risky assets might, over the short to medium-term, influence the volatility of the funding level of the Scheme, and hence may influence the size of the contributions from BT. The Trustee considers that a strong employer is the best support for the Scheme and takes independent advice on the quality of the covenant of BT and thus its ability to meet its obligations. The estimated relative values of the Scheme's assets and liabilities are regularly monitored.

## Appendix five

### Investment risk and return

Given the ongoing commitment of BT to the Scheme, the Trustee considers that a degree of investment risk can be taken in the expectation of generating higher returns, particularly in the short to medium-term when it has clearer visibility over the covenant provided to the Scheme by BT. In setting the appropriate level of investment risk and return the Trustee considers a range of factors, including the impact and probability of a worsening of the funding position, the financial strength or covenant of BT and the financial strength of the Scheme.

Overall risk in the Scheme is diversified across a range of different types of risk, asset classes, geographical areas, sectors and industries. Assets held by the Scheme from time to time reflect the Trustee's views on the appropriate balance between risk and return and the outcomes it expects should be available from the assets. Investments are made on the expectation that greater long term returns will be made through a prudent exposure to real assets, including equities and property. In addition, investments are allocated across a range of investment managers to further spread risk. The Trustee also takes into account the liquidity profile of the Scheme's investments. The Trustee's liquidity policy is that there will be sufficient investments in liquid or readily realisable assets to meet cashflow requirements in foreseeable circumstances so that, where possible, the realisation of assets will not disrupt achievement of the Scheme's investment objectives, and that the Scheme will hold sufficient cash to meet anticipated benefit and other payment obligations.

Over the period to 30 June 2019 the Trustee considers it appropriate broadly to maintain the current level of asset risk in the Scheme, having regard to the nature of the liabilities, the overall funding position of the Scheme and the Trustee's assessment of the covenant provided by BT (at the time of writing the Scheme had a 60% allocation to a diversified portfolio of return seeking assets and a 40% allocation to assets which provide a closer match to the Scheme's liabilities). The Trustee will consult with BT on strategic changes in its approach to asset risk.

In light of the expected development of the Scheme's liabilities as the number of retired members increases, the Trustee has set an objective to reduce the level of investment risk gradually over time, and to increase the level of matching between the assets and liabilities.

The Trustee's current intention is to move to a substantially lower risk investment strategy over the next 20 years, when it is expected that the vast majority of liabilities will relate to pensions in payment. The long term investment strategy will have regard to the nature of the liabilities, the overall funding position of the Scheme and the Trustee's assessment of the covenant provided by BT.

The Trustee is targeting a ratio of interest rate and inflation hedging of around 40% (on a gilts basis; on a funding basis at the time of writing this is equivalent to a hedge ratio of c60%) to reduce the Scheme's exposure to these risks and consequently the volatility of the Scheme's funding position. The pace at which the Scheme increases the level of hedging will have regard to market conditions.

Over the longer term, the Trustee expects the aggregate investment returns delivered by the Scheme's assets to exceed the discount rate assumptions set out in the Scheme's Statement of Funding Principles.

In seeking to meet the investment objectives, the Trustee will invest in a range of asset classes and instruments as permitted in the Scheme Rules. The Trustee will consider a range of asset classes, including:

- Equity instruments
- Bonds and other debt instruments
- Private equity and infrastructure
- Property and land
- Commodities
- Hedge funds
- Currencies
- Cash
- Derivatives
- Insurance contracts

The Trustee recognises that different asset classes are likely to produce different risk and return profiles, and the balance between the various types of investment will be kept under periodic review with the aim of investing in a diversified way to achieve the Scheme's short-term and longer-term risk and return objectives.

The Trustee's policy is to have separate management and custody of assets, which minimises the risk of a misuse of Scheme assets. Custody arrangements are reviewed regularly to ensure that the custodians continue to have appropriate control and checking procedures in place.

## Appendix five

### Taking decisions

The Trustee is responsible for the stewardship of the assets of the Scheme. All of the Trustee Directors are therefore involved in decisions on the overall level and shape of the Scheme's risk profile and the preferred outcomes from the Scheme's assets. In making these decisions the Trustee is assisted by BTPSM and other advisers. Training is undertaken where appropriate so that all Trustee Directors have the necessary expertise to take the decisions required of them and to evaluate critically the advice received.

The Scheme's Investment Committee makes recommendations to the Trustee Board on strategic areas, including the outcomes targeted from the assets (including level of risk, returns, diversification, liquidity, hedging, and maturity profile), and the management of the Scheme's funding risk through the use of derivatives. The Committee has responsibility for the oversight of BTPSM's implementation of the Scheme's investment strategy delegating matters as appropriate to the Implementation Oversight Committee.

### Choosing investments

The Pensions Act distinguishes between investments where the management is delegated to a fund manager with a written contract and those where a product is purchased directly, eg the purchase of an insurance policy. The Trustee's approach is to review its direct investments and to obtain advice about them at regular intervals. When deciding whether or not to make any new direct investments the Trustee will obtain advice. The advice will consider whether the investment is satisfactory having regard to the requirements of the regulations, the Trust Deed and Rules and the suitability of the investment, and to the principles contained in this statement.

### Use of derivatives and insurance contracts to manage risk

The Trustee may use derivatives and insurance contracts for efficient portfolio management and to manage the Scheme's risk profile, including the Scheme's longevity, inflation and interest rate exposure. The Trustee consults with BT when assessing the strategic use of derivatives and insurance contracts to manage the Scheme's risk profile.

The Trustee authorises the use of derivatives within certain parameters by BTPSM, some of the Scheme's investment managers, and certain subsidiary undertakings. BTPSM is also authorised to use derivatives to rebalance the Scheme's asset allocation on such basis as may be required from time to time to keep within any guidelines set by the Trustee.

### Mandates for investment managers

The Trustee has appointed a number of investment managers to manage the Scheme's assets. All investment managers have agreed in writing with BTPSM, on behalf of the Trustee, the services to be provided and, where appropriate, the performance objective and how they will be measured.

The fees paid to investment managers for these active mandates may comprise a base fee plus, where appropriate, an additional fee calculated as a proportion of the amount by which the manager exceeds a performance target. Linking fees to performance in this way can help align the investment managers' interests with the interests of the Scheme.

Any managers demonstrating consistent or significant under performance or where there are other significant concerns will be subject to a detailed review, undertaken by BTPSM on behalf of the Trustee.

### Performance measurement

The Trustee receives regular reports, at least quarterly and usually more frequently, on investment performance from BTPSM, who monitor the position on an ongoing basis. These reports include an update on progress towards meeting the Scheme's strategic investment objectives and may include detail on Scheme level risks, assets by asset type, Scheme level cash flows, the performance of individual managers and such other matters as may be required by the Trustee from time to time.

## Appendix five

### Sustainable investment

The Trustee has a fiduciary responsibility to meet the Scheme's liabilities and as a long-term asset owner considers sustainable factors to improve long-term risk adjusted returns, including social, environmental and ethical issues and the exercise of ownership rights.

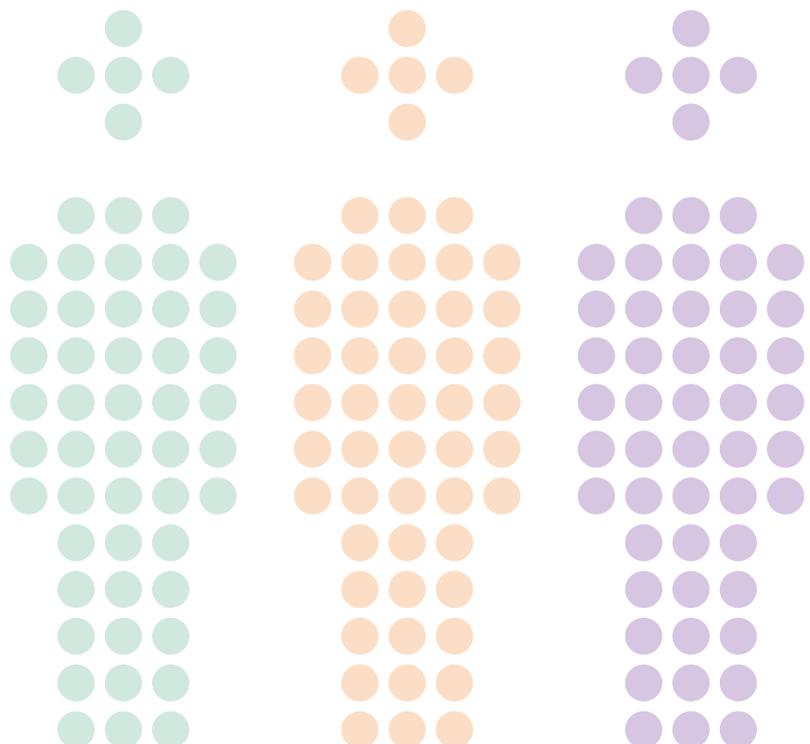
As a founder member of the United Nations-backed Principles for Responsible Investment (PRI), the Scheme's investment managers are expected to demonstrate good governance and are encouraged to consider long-term factors in their investment decision making where possible. These practices are taken into account when the Scheme reviews existing, or appoints new, investment managers.

Guided by the Financial Reporting Council's Stewardship Code, the Trustee endeavors to use all available methods to exercise its stewardship responsibilities by voting and engaging where possible either directly or via an appointed overlay service.

### Additional Voluntary Contributions

The Scheme's Additional Voluntary Contributions (AVC) arrangement provides for benefits to be accrued on a money purchase basis, with the value of members' funds being determined by the value of accumulated contributions adjusted for investment returns net of charges. In selecting and monitoring appropriate investments, the Trustee is aware of the need to provide a range of investment options, which broadly satisfy the varying risk profiles of members, given that members' benefits will be directly determined by the value of the underlying investments.

**April 2015**



# Technical provisions statement

Actuarial certification for the purposes of Regulation 7(4)a of The Occupational Pension Schemes (Scheme Funding) Regulations 2005.

**Name of scheme: BT Pension Scheme**

## **Calculation of technical provisions**

I certify that, in my opinion, the calculation of the Scheme's technical provisions as at 30 June 2014 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the Statement of Funding Principles dated 29 January 2015.

**M J Pardoe**

Fellow of the Institute and Faculty of Actuaries  
Towers Watson Limited

29 January 2015

Watson House  
London Road  
Reigate  
Surrey  
RH2 9PQ

# Glossary of terms

## Absolute return

This allocation seeks to generate returns irrespective of the direction of markets. Managers within this allocation will typically manage their portfolios without close regard to a specific market benchmark.

## Actively managed

Investments that are selected by investment managers with the aim of outperforming a particular benchmark index.

## Additional Voluntary Contribution (AVC)

A contribution paid by a member of an occupational pension scheme to secure additional benefits.

## Asset mix

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

## Corporate governance

The system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies.

## Credit default swap

A credit default swap is a contract which transfers the credit risk of an issuer from one party to another party.

## Deferred beneficiaries

All those who have a right to be paid benefits by the Scheme at a future date, but are not currently active members of the Scheme (mainly former employees).

## Derivative

A financial contract whose price is derived from the movements in an underlying asset, e.g. a single security or basket of securities, interest rates, inflation levels, exchange rates or index movements. Examples of derivative instruments are futures, forwards, options and swaps.

## Equities

Shares directly held 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 a quantity of securities at a future date; an option confers the right, but no obligation, to complete a similar transaction at a predetermined price. Both futures and options are used by the Scheme as a means to buy or sell with a single transaction the equivalent of a wide range of securities.

## Gilt

Sterling bond issued by the UK Government.

## Gilt repurchase agreement

A form of short-term borrowing by agreement to sell and repurchase government securities.

## Gross equity method

A method under which the Scheme accounts for its share of income and gains from joint ventures, and discloses its share of joint venture gross assets and gross liabilities.

## Index-linked securities

Securities on which the rate of interest and the capital value are linked to the rate of inflation.

## Long-term assets

Investments other than those in which funds are held on a temporary basis, e.g. interest-earning deposits and short-dated government securities.

## Longevity transaction

A contract with a third party which exchanges payments based on expected longevity with payments based on actual longevity of members.

## Market value

The best estimate of the price for which assets could be sold at a given date.

## Minority interests

The value of the net assets and the amount of net income and gains attributable to outside shareholders of subsidiaries of the Scheme.

## Glossary of terms

### Overlay

Tactical and strategic adjustments which modify the Scheme's asset and currency allocations.

### Passively managed

Where investments are held in the same proportions as a selected index (e.g. the FTSE All-Share Index) rather than managers being allowed to choose their own investments.

### Pension Protection Fund (PPF)

A fund established by the Government to pay compensation to members of eligible defined benefit pension schemes, where there is a qualifying insolvency event in relation to the employer and where there are insufficient assets in the scheme to cover PPF levels of compensation.

### Pensions Regulator

The Pensions Regulator was established under the Pensions Act 2004 with effect from 6 April 2005. Its main statutory objectives are to:

- protect the benefits of members of work based pension arrangements;
- keep calls on the Pension Protection Fund to a minimum; and,
- facilitate good pension administration.

### Pooled Investment Vehicles (PIVs)

Investment vehicles such as managed funds, limited partnerships and unit trusts that combine capital of many investors to allocate according to a particular investment strategy.

### Real rate of return

The difference between the level of return actually earned by investments, including increases in value, and the return necessary in order to keep pace with inflation as measured by the change in the Retail Prices Index (RPI) and the Consumer Prices Index (CPI).

### Realised gains

The net profit on investments sold during the year, 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 Scheme at its inception.

### Schedule of contributions

The schedule of contributions should set out the rates and due dates of contributions to a pension scheme from the participating employer and the members (including contributions due under a recovery plan and contributions to cover expenses). Normally, trustees will need to agree the schedule of contributions with the Scheme's principal employer.

The schedule of contributions must be certified by the scheme actuary and revised periodically by the trustees. The schedule of contributions must be submitted to The Pensions Regulator for approval within 10 working days after it has been prepared or revised.

### Sale and repurchase agreements

A transaction, carried out under an agreement, in which one party sells securities to another and, at the same time and as part of the same transaction, commits to repurchase equivalent securities on a specified future date at a specified price.

A reverse repo is a transaction, carried out under an agreement, in which one party purchases securities from another and, at the same time and as part of the same transaction, commits to resell equivalent securities on a specified future date at a specified price.

### The Scheme

The BT Pension Scheme.

## Glossary of terms

### **SORP**

The Statement of Recommended Practice applies to the accounts of occupational pension schemes. It is issued by the Pensions Research Accountants Group (PRAG).

### **Transfer value**

The capital sum available to purchase benefits from the new employer's scheme or from an insurance company when an employee changes employment and decides to transfer the pension benefits which he has earned with his previous employer

### **Trustee Directors**

Directors of BT Pension Scheme Trustees Limited, the corporate Trustee of the BT Pension Scheme (the Trustee). A director of the Trustee is also a member of the Trustee.

### **UK GAAP**

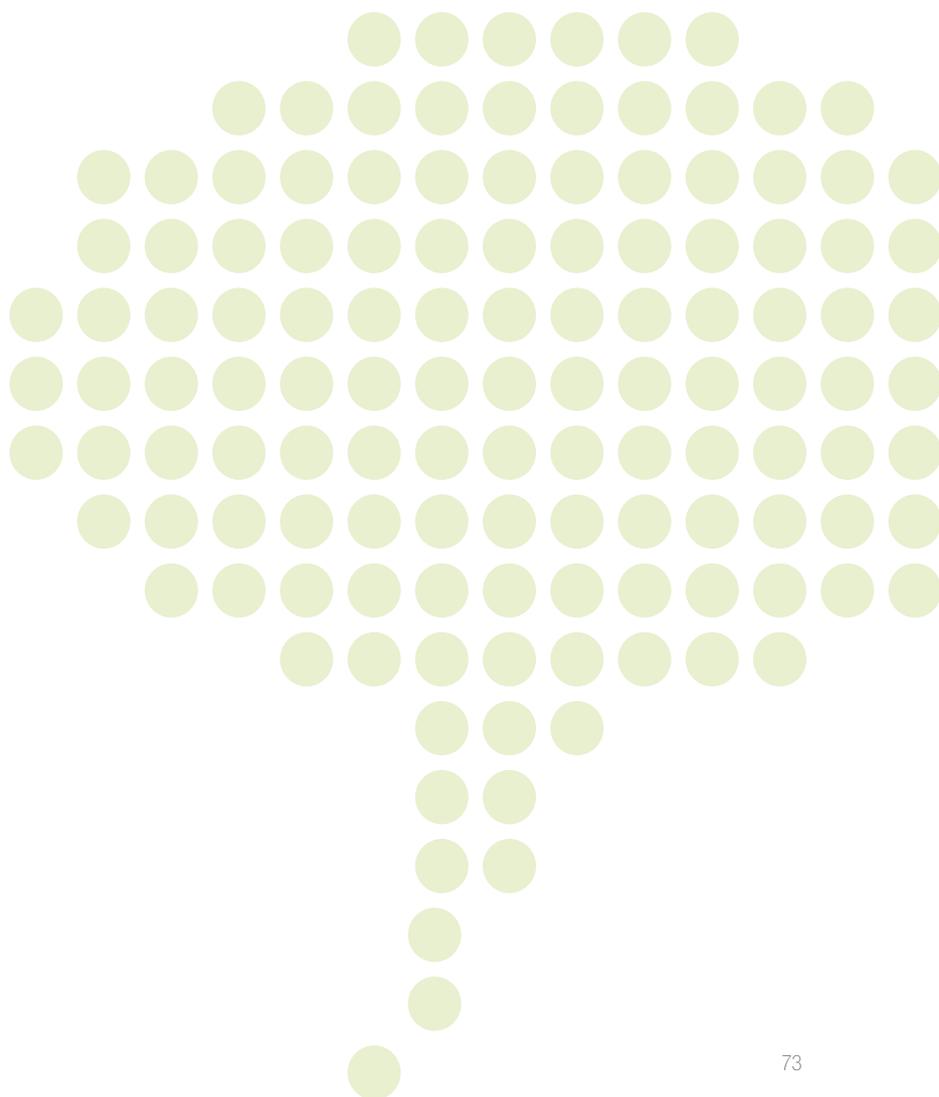
This refers to Generally Accepted Accounting Practice applied in the United Kingdom.

### **Unlisted investments**

Stocks and shares not dealt on a recognised stock exchange.

### **Unrealised gains**

The net increase during the year in the market value of investments held at year end.



# Contact details

## The Trustee of the BT Pension Scheme

The Scheme secretary  
BT Pension Scheme  
Lloyds Chambers  
1 Portsoken Street  
London E1 8HZ

Website: [www.btpensions.net](http://www.btpensions.net)

## Peopleline

Peopleline is the enquiries service provided by Accenture, the Scheme's administrator.

The Peopleline pensions team can be contacted between 8:30am and 5pm Monday to Friday, on **0800 731 1919**.

If resident overseas, the contact number is **+44 (0) 203 023 3420**.

Alternatively, please e-mail [Peopleline.pensions@accenture.com](mailto:Peopleline.pensions@accenture.com).

The address for correspondence is:  
Pension Services, Accenture, Venture House,  
Venture Way, Chesterfield S41 8NR

## The Pensions Advisory Service (TPAS)

TPAS is an independent voluntary organisation with local advisers who are experts in pension matters. TPAS can be contacted either through any local Citizens Advice Bureau or at the following address:

The Pensions Advisory Service, 11 Belgrave Road,  
London SW1V 1RB

## Pensions Ombudsman

If TPAS cannot resolve a complaint or dispute then the Pension Ombudsman should be contacted at the same address as TPAS, shown above.

## The Pensions Regulator

Pension schemes are regulated by The Pensions Regulator, which has power to impose civil penalties and to bring criminal prosecutions for serious breaches of the requirements of the legislation. The Pensions Regulator can be contacted at the following address:

The Pensions Regulator  
Napier House,  
Trafalgar Place,  
Brighton,  
East Sussex BN1 4DW

## Pension Tracing Service

Information about the Scheme (including a contact address) has been provided to the Pension Tracing Service as required by law. Because the Pension Tracing Service holds the same information for other pension schemes, it offers a service which enables members to trace benefits from previous employers' schemes. The Pension Tracing Service can be contacted at the following address:

The Pension Tracing Service,  
Tyneview Park,  
Whitley Road,  
Newcastle upon Tyne NE98 1BA

This Report and Accounts is available on the Scheme's website, [www.btpensions.net](http://www.btpensions.net).

We also send a short document in hard copy summarising the key developments and performance of the Scheme during the year to each member.