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Telefónica UK Pension Plan

Trustee's annual report and financial statements for the year ended 30 September 2019

Registered number 10261369

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Trustee, Principal Employer and its advisers

Trustee	Telefónica UK Pension Trustee Limited
Directors of the Trustee Company	Anthony Soothill – Chair Andrew Davies – Member Nominated Director Cheryl Black – (until 31 March 2019) Capital Cranfield Pension Trustees Ltd – represented by Martine Trouard-Riolle Jeannie Drake – Member Nominated Director Adrian Gorham Amanda Stokes-Waters – Member Nominated Director – (appointed 27 February 2019) Mark Leonard – (appointed 1 April 2019)
Secretary to the Trustee	Robert Harwood
Principal Employers	Telefónica UK Limited (from 14 December 2018) Telefónica Europe plc (until 14 December 2018)
Scheme Actuary	Bart Huby FIA, Lane Clark & Peacock LLP
Pension administrators	Defined Benefit section Lane Clark & Peacock LLP (for Sections 2, 2A, 3 and 3A) Defined Contribution section Aberdeen Standard Investments PLC (for Sections 1, 1A and 1B)
Independent auditors	Deloitte LLP (until 6 August 2019) RSM Audit LLP (appointed 14 August 2019)
Investment managers	Defined Benefit section BlackRock Investment Management (UK) Limited M&G Investment Management Limited Apollo Capital Management L.P. Partners Group Private Market Strategies 2 S.A. Defined Contribution section Aberdeen Standard Investments PLC (formerly Standard Life Investments Limited)

Trustee, Principal Employer and its advisers continued

AVC providers	Standard Life Investments Limited The Equitable Life Assurance Society (until 31 December 2019) Utmost Life and Pensions Limited (from 1 January 2020)
Investment adviser	KPMG LLP (until 2 March 2020) Isio LLP (appointed 2 March 2020)
Custodian	Defined Benefit section BNY Mellon Asset Servicing
Legal adviser	Sacker & Partners LLP
Covenant adviser	Trevor Civval, Penfida Limited
Banker	HSBC UK Bank plc
Enquiries	Defined Benefit section Lane Clark & Peacock LLP (For Sections 2, 2A, 3 and 3) St Paul's House St Paul's Hill Winchester SO22 5AB Email: TelefonicaAdmin@lcp.uk.com Defined Contribution section Aberdeen Standard Investments PLC (for Sections 1, 1A and 1B) Standard Life House 30 Lothian Road Edinburgh EH1 2DH Email: Corppen_service@standardlife.com
	Further information about the Telefónica UK Pension Plan can also be found at www.telefonicapensions.com

Trustee's report

The Trustee is pleased to present its annual report on the Telefónica UK Pension Plan ("the Plan"), together with the financial statements of the Plan for the year ended 30 September 2019.

Constitution of the Plan

The Plan provides pension or lump sum benefits payable to members on retirement from their employment or to their dependants on death before or after retirement in respect of both the Defined Benefit section ("DB") and the Defined Contribution section ("DC").

There are eight sections to the Plan:

Section 1 – A money purchase or DC section of the Plan open to all employees joining the Principal and Participating Employers on or after 1 April 2001.

Section 1A – A DC section of the Plan for employees who have opted out of one of the DB sections of the Plan since 1 July 2011 or who chose to join the section following the closure of sections 2, 2A, 3 and 3A to future accrual on 28 February 2013.

Section 1B – A DC section of the Plan for employees who were auto enrolled between 1 April 2013 and 31 December 2017. At that date, all section 1B members became Section 1 members and Section 1 became the receiving scheme for all auto-enrolments.

Section 2 – A final salary or DB section of the Plan which is closed to new entrants but was open to new employees between March 1986 and April 2001. This section of the Plan was closed to future accrual on 28 February 2013.

Section 2A – A DB section of the Plan for Section 2 members who chose Option 2 as part of the 2011 Pensions Review. This section of the Plan is closed to new entrants and was closed to future accrual on 28 February 2013.

Section 3 – A DB section of the Plan which is closed to new entrants, but was open to new employees before March 1986. This section of the Plan is closed to new entrants and was closed to future accrual on 28 February 2013.

Section 3A – A DB section of the Plan for Section 3 members who chose Option 2 as part of the 2011 Pensions Review. This section of the Plan is closed to new entrants and was closed to future accrual on 28 February 2013.

Life Assurance Only – Non-pension members are covered for life assurance only through the Plan.

**Trustee's annual report and financial statements
for the year ended 30 September 2019****Trustee's report continued****Constitution of the Plan continued**

The Plan is registered under the Finance Act 2004 and the Trustee knows of no reason why this status should be prejudiced or withdrawn.

Management of the Plan

The Trustee of the Plan is Telefónica UK Pension Trustee Limited and the Directors are listed on page 3. Under the Definitive Trust Deed, subject to the rules regarding Member Nominated Directors, the Trustee and Trustee Directors are appointed and removed by the Principal Employer. The board currently comprises six Trustee Directors, including three who are elected by the active and pensioner members of the Plan.

The Directors meet at quarterly intervals to conduct normal business and on such other occasions as are deemed to be necessary. The Directors have appointed committees in circumstances where it is felt that the conduct of its affairs would be facilitated by a committee structure.

Financial statements and financial development of the Plan

The financial statements have been prepared and audited in accordance with regulations made under sections 41(1) and (6) of the Pensions Act 1995.

The fund account and statement of net assets (available for benefits) on pages 27 to 29 show that the value of the Plan's assets increased by £349,514,000 to £2,129,886,000 during the year. The increase was comprised of net additions from dealings with members of £8,885,000 together with net returns on investments of £340,629,000.

Further details of the financial developments of the Plan may be found in the audited financial statements on pages 27 to 64.

Transfers

Cash equivalents paid during the year with respect to transfers have been calculated and verified in the manner prescribed by the Pension Schemes Act 1993 and in accordance with the regulations under the Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008, Pensions Act 2004.

No discretionary benefits were included in the calculation of the transfer values.

Trustee's report continued**Pension increases**

A bulk pension increase exchange (PIE) exercise was carried out during the year which permitted existing Plan pensioners to surrender their non-statutory pension increase in exchange for an additional fixed rate pension. In exercising the PIE option, a member would surrender the part of their entitlement to pension increases that related to pre 6 April 1997 pensionable service (in excess of GMP). 99 pensioner members opted to take this option.

In accordance with the Plan's Rules pensions in payment were increased as follows:

- The Guaranteed Minimum Pension (GMP) in respect of any contracted-out employment between 6 April 1988 and 5 April 1997 is increased each year by the Plan in line with the increase (if any) in the Consumer Prices Index (CPI) up to a maximum of 3%. This year the increase was 2.4%.
- The GMP in respect of any contracted-out employment prior to 6 April 1988 was not increased by the Plan.
- Pension in respect of pre 6 April 1997 service for members who opted for the pension increase exchange received no increases.
- Pension in excess of GMP increases each year in line with the increase (if any) in the Retail Price Index (RPI) capped for Section 2 and 2A members at 5.0%. This year the increase was 3.3%.

The deferred pensions in respect of members who have left the Plan with an entitlement to benefits at normal retirement date were also increased as follows:

Members of Sections 2 and 2A:

- GMP and deferred pensions were increased in accordance with legislative requirements.
- Excess – Statutory Section 52A Orders (CPI.) Post April 2009 revaluation is CPI capped at 2.5% pa.

Members of Sections 3 and 3A:

- Full benefit receives increases in accordance with the Pension (Increase) Act 1971 (CPI). There is a proportionate first increase. There is no cap but it is floored at zero each year.
- GMP and deferred pensions were increased in accordance with legislative requirements.

No discretionary increases were awarded during the year (2018: £Nil).

**Trustee's annual report and financial statements
for the year ended 30 September 2019****Trustee's report continued****Pension increases continued**

The Plan completed a GMP rectification project and a number of pensions in payment were adjusted to reflect the correct GMP. Where the pension in payment was overpaid, the Trustee decided not to re-claim any overpayment. Where the pension was underpaid, the Trustee made an additional payment to the member, together with interest.

Change of Principal Employer

The Board and the previous Principal Employer (Telefonica Europe plc now called Telefonica O2 Holdings Limited) entered into a deed on 14 December 2018 for the substitution of Telefonica UK Limited as the Principal Employer in recognition that Telefonica UK Limited is the main operating company and employs the majority of members.

Change of Plan auditor

During the year, the Trustee carried out a selection exercise to appoint a new auditor and decided to appoint RSM LLP to provide these services. Deloitte LLP resigned as auditors with effect from 6 August 2019. RSM LLP were appointed with effect from 14 August 2019 as auditors of the Plan. Deloitte made the following statement in their resignation letter: "there are no circumstances connected with our resignation which we consider significantly affect the interest of the members or prospective members of, or beneficiaries under, the Plan".

Report on actuarial liabilities (DB sections only)

As required by Financial Reporting Standard 102, "The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland" (FRS 102), the financial statements do not include liabilities in respect of promised retirement benefits.

Under section 222 of the Pensions Act 2004 every scheme is subject to the Statutory Funding Objective, which is to have sufficient and appropriate assets to cover its technical provisions, which represent the present value of benefits to which members are entitled based on pensionable service to the valuation date. This is assessed at least every 3 years using assumptions agreed between the Trustee and the Employer and set out in the Statement of Funding Principles.

**Trustee's annual report and financial statements
for the year ended 30 September 2019**

Trustee's report continued

Report on actuarial liabilities (DB sections only) continued

The latest actuarial valuation was completed by the Scheme Actuary as at 30 September 2017. The results of this valuation were presented in a report dated 29 November 2018. The results showed that the calculated technical provisions were £1,561.9m, the Plan's assets were £1,409.4m and the resulting deficit was £152.5m. The Plan was therefore 90% funded on a technical provisions basis as at 30 September 2017. It was agreed that the funding shortfall would be eliminated by the payment of the six deficit funding contributions of £25m each, payable by each 10 January from 2019 to 2024 inclusive.

The next full valuation is to be carried out as at 30 September 2020 and is due to be completed no later than 31 December 2021.

Assumptions

The 2017 valuation adopted the 'projected unit method', under which the technical provisions are calculated as the amount of assets required as at the valuation date to meet the projected benefit cashflows, based on benefits accrued to the valuation date and the various assumptions made.

The technical provisions were calculated on the following key assumptions;

Key financial assumptions	% pa
Rate of RPI price inflation	3.4
Rate of CPI price inflation	2.4
Rate of return from gilts	1.8
Rate of investment returns above gilts until 30 September 2029	1.8
Rate of investment returns above gilts from 1 October 2029	0.25
Rate of pension increases	
RPI price inflation capped at 5% pa	3.3
CPI price inflation capped at 3% pa	2.1

Financial assumptions shown are single equivalent average rates.

**Trustee's annual report and financial statements
for the year ended 30 September 2019**

Trustee's report continued

Report on actuarial liabilities (DB sections only) continued

Other assumptions

Other assumptions applied are as follows:

- The timing of retirement is allowed for having regard to the Plan's past experience. The following table describes the rate of retirements assumed at each age.

Age	Percentage of members retiring each year at each age
50-59	5%
60	100%

- Members over age 60 who have not yet retired are assumed to retire immediately at the valuation date.
- Non-pensioner members of section 2 are assumed to commute 20% of their pension on retirement. For non-pensioner members of section 3, it is assumed that they will commute 10% of their pension in addition to the standard amount they receive on retirement. Commutation is assumed to take place on the current terms offered by the Plan, with allowance made for the assumed rates of improvement in member mortality over time.
- There is insufficient experience within the Plan to determine bespoke mortality tables based on the Plan's membership. Standard tables have therefore been selected, adjusted appropriately for the demographics of the Plan membership, and allowance for future improvements in longevity, resulting in the following assumptions both pre and post retirement:
 - S2NA tables with:
 - the proportion of members dying at each age being 95% of the proportion in the standard tables; and
 - allowance being made for future improvements from 2007 according to the CMI_2017 projections based on each member's actual date of birth, with a long-term rate of improvement of 1.5% pa and a smoothing parameter $S_k=8$.
- 85% of current pensioners are assumed to have a spouse or civil partner as at the valuation date. 85% of other members assumed to be married or have a civil partner at retirement, or earlier death.

**Trustee's annual report and financial statements
for the year ended 30 September 2019****Trustee's report continued****Report on actuarial liabilities (DB sections only) continued****Other assumptions continued**

- Spouses/civil partners assumed to be three years younger than male members or three years older than female members.
- Allowance is made for the potential additional costs of rectifying inequalities in benefits due to GMPs, by including an additional reserve equivalent to increasing the Technical Provisions by 10% in respect of post-1988 GMP liabilities (resulting in a reserve of £5m for the 2017 valuation).
- Expenses are met from the Plan's assets and so an allowance is made with a reserve in the Technical Provisions of 2% of benefit payments.
- Pension Protection Fund levies are either met directly by the Company or paid as additional contributions.

Post year end event

During March 2020, subsequent to the Plan's year-end, the worldwide spread of Covid-19 (Coronavirus) caused increased volatility and significant falls in global equity markets. This has had an adverse impact on the funding level of the Plan, albeit the Plan's matching investments have mitigated the reduction in funding levels. The latest estimated position shows that the Plan has an increased deficit, however the investments have increased to some extent since the initial onset of Covid-19 and the Trustee continues to monitor this closely. The Trustee regards the impact of Covid-19 as a non-adjusting post balance sheet event and as a result no adjustments have been made to the financial statements as at 30 September 2019. The Trustee continues to monitor the situation and will respond to emerging issues as necessary. The impact on the Plan is currently unquantifiable at this stage in relation to the effects on the Principal Employer's business, future contributions and the value of the Plan's investments.

On 7 May 2020, Telefonica SA and Liberty Global announced the terms of a proposed merger of Telefonica UK with UK Virgin Media. This transaction will, if completed, have an impact on the covenant of the Plan; the Trustee is engaging with Telefonica in order to assess the materiality of that impact and to agree mitigation as appropriate. The Trustee understands that completion of the merger is expected to occur around the middle of 2021.

Trustee's report continued

Membership

The membership of the Plan at the beginning and end of the year and changes during the year are set out below.

DB sections (2, 2A, 3 and 3A)

Deferred members	2019
Deferred members at the start of the year	3,452
Retirements	(97)
Full commutation	(1)
Refund of contributions	(1)
Transfers out	(29)
Death	(10)
Deferred members at the end of the year	3,314

Pensioners	2019
Pensioners at the start of the year	1,004
New pensioners	97
New dependants	13
Deaths	(10)
Pension cessation	(3)
Pensioners at the end of the year	1,101

Pensioners include dependants 53 (2018: 56) receiving a pension following the death of a member.

**Trustee's annual report and financial statements
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Trustee's report continued

Membership continued

DC sections (1, 1A and 1B)

Active members	2019
Active members at the start of the year	5,686
New actives	1,338
Retirements	(8)
Transfers out	(50)
Deaths	(6)
Opt outs	(87)
Active to deferred	(812)
Active members at the end of the year	6,061

Deferred members	2019
Deferred members at the start of the year	6,506
Late notifications	(1)
New deferred members	812
Retirements	(18)
Transfer out	(177)
Opt outs	(2)
Deaths	(5)
Leaver	(1)
Deferred at the end of the year	7,114

Included within the new actives above are the Auto-enrolled members who have subsequently decided to opt out of the Plan. New actives are therefore shown gross of opt outs.

Trustee's report continued**Regulatory bodies**

The Pensions Ombudsman is appointed by the Secretary of State for the Department for Work and Pensions to investigate and determine any complaint or dispute of fact of law in relation to occupational pension schemes.

The Pensions Ombudsman can be contacted at:

10 South Colonnade
Canary Wharf
London
E14 4PU

Tel: 0800 917 4487

www.pensions-ombudsman.org.uk

The Pensions Regulator is responsible for occupational pension schemes and enforcing the law that relates to them. It has wide ranging powers which include the ability to:

- suspend, disqualify and remove trustees for consistently not carrying out their duties;
- wind up schemes where necessary;
- apply for information to prevent the misuse and misappropriation of scheme assets and apply for restitution where necessary; and
- take action to prevent schemes being left in deficit with nobody to meet the liability.

The Trustee, its advisers, the Employer and anyone connected with the administration of the Plan have a statutory duty to report in writing to The Pensions Regulator if there are any breaches of legislation which are deemed to be materially significant to The Pensions Regulator.

The Trustee also has certain responsibilities in respect of contributions which are set out in the statement of Trustee's responsibilities.

Trustee's report continued**Regulatory bodies continued**

The Pensions Regulator can be contacted at:

Napier House
Trafalgar Place
Brighton
BN1 4DW

Tel: 0345 600 0707

www.thepensionsregulator.gov.uk

The Pension Tracing Service is designed to help former members of pension schemes trace their benefits if they have lost contact with the pension scheme in question. The Pension Tracing Service can be contacted at:

The Pension Tracing Service
The Pension Service 9
Mail Handling Site A
Wolverhampton
WV98 1LU

Tel: 0800 731 0193

www.gov.uk/find-pension-contact-details

Further information

Any enquiries about the Plan or a member's own pension position should be addressed as follows:

DB sections (2, 2A, 3 and 3A)

Lane Clark & Peacock LLP, St Paul's House, St Paul's Hill, Winchester, SO22 5AB.

Email: TelefonicaAdmin@lcp.uk.com

DC sections (1,1A and 1B)

Aberdeen Standard Investments PLC, Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH.

Email: Corppen_service@standardlife.com

Trustee's report continued**Investment management**

The Trustee delegates the day-to-day management to professional external investment managers. The Trustee sets the investment strategy for the Plan after taking advice from the Plan's investment adviser. The Trustee has put in place investment mandates with their investment managers which implement this strategy. The Plan's investments are regarded as readily marketable.

The investments of the Plan are managed on behalf of the Trustee by the Plan's investment managers:

DB section

- BlackRock Investment Management (UK) Limited ("BlackRock") – Segregated portfolios
- M&G Investment Management Limited ("M&G") – Pooled Investment Vehicles
- Apollo Capital Management, L.P. ("Apollo") - Pooled Investment Vehicles
- Partners Group Private Market Strategies 2 S.A. ("Partners Group") - Pooled Investment Vehicles

DC section

- Aberdeen Standard Investments plc ("Aberdeen") - Pooled Investment Vehicles

Custodial arrangements

The assets managed by BlackRock are segregated portfolios, which are held by the Plan's global custodian, BNY Mellon Asset Servicing ("BNYM").

The DB section's other assets are invested in pooled funds and the respective Investment Managers are responsible for appointing a custodian. The custodians appointed by these managers are detailed below:

- M&G have appointed State Street as custodians.
- Partners Group have appointed BNYM as custodians.
- Apollo have appointed Citco as custodians.

The DC section assets are managed by Aberdeen and all assets are held by their custodian Citi.

The custodians are responsible for the safe keeping, monitoring and reconciliation of documentation relating to the ownership of investments. Investments are held in the name of the custodian's nominee companies, in line with common practice for pension scheme investments.

Trustee's report continued**Statement of Investment Principles**

In accordance with section 35 of the Pensions Act 1995, a Statement of Investment Principles ("SIP") has been prepared by the Trustee which incorporates the investment strategy. There were no significant departures from the SIP during the year. The deviation from the strategic weights are due to market movements. The relative positioning versus the benchmark is reviewed at least on a quarterly basis. The SIP was updated in August 2019.

Investment strategy – DB section

The Trustee has opted to follow a "spread-value investing" approach, which is designed to help close the deficit with a relatively high degree of certainty, alongside any other funding. It is expected that this approach will exhibit much less volatility than an equity-based investment strategy. The Trustee considers this a long-term strategy that is expected to remain in place until the Plan achieves its objective of becoming self-sufficient by 2029 – i.e. this approach is strategic in nature, rather than opportunistic / tactical.

Spread-value investing involves taking advantage of the legal protections (such as seniority in the case of liquidation) and contractual obligations (such as fixed temporal constraints regarding contractual lifetime and payments) of credit assets, which the Trustee believes are well suited to meeting the Plan's objectives with greater certainty than a strategy which utilises subordinate non-contractual income assets (e.g. equities).

Liability Driven Investing (LDI) is used to manage the re-investment and inflation risk of the credit assets – most credit assets have much shorter maturities than the Plan's liabilities and so must be re-invested when they mature. This significantly reduces the asset and liability mismatch risk.

The private market credit and the semi-liquid credit assets have been selected as the Trustee believes they offer an illiquidity and/or a complexity return premium which more than compensates for the loss of liquidity. However, the Trustee has limited the allocation to such assets to manage the potential liquidity risk.

During the year, Partners Group called c. £90m in the final Capital Call for this mandate. The BlackRock Buy and Maintain Fund was closed with residual cash transferred to the BlackRock Corporate Bond mandate.

**Trustee's annual report and financial statements
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Trustee's report continued

Investment strategy – DB section continued

The Plan's present investment strategy aims to achieve a net spread above LIBOR of 2.3% p.a. with the following diversified mix of credit assets:

Asset	Investment Manager	Exposure (% of total assets)	Net Spread ⁽¹⁾ (above LIBOR) (%)
Investment grade corporate bonds	BlackRock	20.0	1.3
Liquid credit	M&G	15.0	2.3
Semi-liquid credit	Apollo	10.0	3.5
Private market credit (illiquid)	Partners Group	25.0	3.7
Credit Default Swaps (CDS) overlay	BlackRock	30.0	1.3
LDI overlay	BlackRock	n/a	n/a
Collateral for CDS and LDI	BlackRock	30.0	-
Total		130.0	2.3

(1) Estimated spread as at 31 December 2016, net of expected default losses and fees

Investment performance – DB section

The tables below show the performance versus benchmarks (net of investment management fees) for the aggregate Plan:

	1 Year %	3 Years % pa ⁽¹⁾	5 Years % pa ⁽¹⁾
Plan	23.7	8.1	n/a
Benchmark	25.7	7.7	n/a

Source: LCP, KPMG, BlackRock, M&G, Apollo, Partners Group, BNYM.

Note: Performance is net of fees to 30 September 2019.

The Plan's benchmark is based on the performance of Gilts + 2.3%. ¹ (1) The return figure shown includes performance of the Plan's prior strategy which is markedly different from what is currently in place.

**Trustee's annual report and financial statements
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Trustee's report continued

Investment performance – DB section continued

The DB Section's benchmark composition is currently:

- 100% liability proxy returns
- An overall best estimate return of 2.3% pa over gilts.
- The reference Gilt rate used is the Total Return Index for the Over 15 Year Fixed UK.

Investment Grade Bonds performance was particularly strong, driven by dovish monetary policy signals across developed economies. This included a preference from the European Central Bank to implement further rounds of quantitative easing. Credit spreads fluctuated over the year as trade tensions between the US and China appeared to escalate and quell. Spreads finished the year broadly unchanged as the majority of total return across asset classes was driven by income.

Investment Grade Bond demand remains high from institutional investors in the UK which supported returns in the face of increasing Brexit uncertainty.

As at 30 September 2019, the Plan is invested solely in credit assets. It invests in such a way that these assets closely match the nature of the Plan's liabilities – both in respect to term and sensitivity to changes in interest rates or inflation expectations. The Plan invests in a range of credit assets of differing liquidity, with illiquid assets utilised in order to earn a return premium, whilst ensuring that it retains sufficient liquidity to meet any cash requirements.

	1 Year		3 Years		5 Years	
	Fund %	Index	Fund % p.a.	Index	Fund % p.a.	Index
BlackRock LDI	20.9	20.8	5.2	4.3	n/a	n/a
BlackRock (Corporate Bonds)	13.7	13.6	5.7	5.3	7.2	6.8
BlackRock Buy and Maintain Corporate Bonds	N/A	N/A	N/A	N/A	N/A	N/A
BlackRock Credit Default Swaps	1.6	1.7	N/A	N/A	N/A	N/A
M&G Liquid Credit	3.0	3.8	N/A	N/A	N/A	N/A
Apollo Semi-liquid Credit	4.5	7.4	N/A	N/A	N/A	N/A
Partners Group Private Market Credit	N/A	N/A	N/A	N/A	N/A	N/A

Source: LCP, KPMG, BlackRock, M&G, Apollo, Partners Group, BNYM.

Note: Performance is net of fees to 30 September 2019.

**Trustee's annual report and financial statements
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Trustee's report continued

Investment strategy – DC section

The Trustee aims to provide a range of investments that are suitable for meeting members' long and short-term investment objectives in a prudent manner. They have taken into account their understanding of members' circumstances, in particular members' attitudes to risk and term to crystallising their pension savings.

There are four lifestyle strategies offered by the Plan which gradually de-risk over time and a range of investment options for members who want to create a bespoke portfolio. If a member does not want to select an investment option themselves their investments will be directed into a default arrangement.

Market performance – DC section

Fund	1 Year		3 Years		5 Years	
	Fund	Index	Fund	Index	Fund	Index
	%		% p.a.		% p.a.	
Aberdeen Mobile Diversified Growth Fund*	2.2	3.7	4.0	4.4	N/A	N/A
Aberdeen Mobile Flexible Retirement Fund**	N/A	N/A	N/A	N/A	N/A	N/A
Aberdeen Veritas Global Focus Fund	9.9	10.8	12.9	15.2	14.0	16.2
BlackRock UK Focus Fund	4.7	6.7	8.0	10.8	8.7	10.8
BlackRock (50:50) Global Equity Fund	4.4	4.8	8.9	9.1	9.5	10.0
BlackRock UK Equity Fund	2.5	2.6	6.7	6.7	6.5	6.8
BlackRock Index Linked Gilt Fund	20.3	20.3	5.2	5.3	10.5	10.6
BlackRock Over 15 Year Corporate Bond	18.0	19.2	4.7	4.8	8.6	8.7
Aberdeen Deposit and Treasury Fund	0.5	0.7	0.2	0.5	0.2	0.5
Aberdeen HSBC Islamic Global Equity Index Fund	11.3	12.1	13.9	14.5	14.8	15.4

Note:

* SL Mobile Diversified Growth Fund inception date is August 2016 and therefore 5 year returns are not yet available for this fund.

** SL Mobile Flexible Retirement Fund inception date is February 2019 and therefore returns are not yet available for this fund over the periods stated.

Units of investments are purchased in a Standard Life wrapped fund which is then invested in the underlying funds (managed by BlackRock, iShares, HSBC, Standard Life or Veritas). Performance figures are quoted net of fees prior to any pricing basis swings being applied.

Source: Standard Life

**Trustee's annual report and financial statements
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Most decisions about the day-to-day management of the assets have been delegated to the investment managers via written agreements. This delegation includes decisions about:

- realisation of investments;
- social, environmental and ethical considerations in the selection, retention and realisation of investments; and
- the exercise of rights (including voting rights) attached to the investments.

The Trustee takes the Investment Managers' policies on the above items into account when selecting and monitoring them.

The Trustee has also undertaken an Impact Assessment of Plan assets in line with the DWP requirements and expect to review Plan assets with regard to Environmental, Social, and Governance factors on an annual basis.

Employer-related investment

The Plan was indirectly exposed to various employer-related investments of less than 0.1% of the assets of the Plan, as detailed below. There were no other employer-related investments within the meaning of section 40(2) of the Pensions Act 1995 and the Occupational Pension Schemes (Investment) Regulations 2005 during the year.

The percentage of employer-related investments as at 30 September 2019 is as follows:

DB Section

M&G Alpha Opportunities Fund 0.22% (2018: 0.33%).

**Trustee's annual report and financial statements
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The financial statements, which are prepared in accordance with UK Generally Accepted Accounting Practice, including the Financial Reporting Standard applicable in the UK (FRS 102) are the responsibility of the Trustee. Pension scheme regulations require, and the Trustee is responsible for ensuring, that those financial statements:

- show a true and fair view of the financial transactions of the Plan during the Plan year and of the amount and disposition at the end of the Plan year of its assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Plan year; and
- contain the information specified in Regulation 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, including making a statement whether the financial statements have been prepared in accordance with the relevant financial reporting framework applicable to occupational pension schemes.

In discharging the above responsibilities, the Trustee is responsible for selecting suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis, and for the preparation of the financial statements on a going concern basis unless it is inappropriate to presume that the Plan will not be wound up.

The Trustee is also responsible for making available certain other information about the Plan in the form of an annual report. The Trustee also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Plan and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

Trustee's responsibilities in respect of contributions

The Trustee is responsible under pensions legislation for preparing, maintaining and from time to time reviewing and if necessary revising a schedule of contributions showing the rates of contributions payable towards the Plan by or on behalf of the Employer and the active members of the Plan and the dates on or before which such contributions are to be paid.

**Trustee's annual report and financial statements
for the year ended 30 September 2019****Trustee's report continued****Statement of Trustee's responsibilities continued****Trustee's responsibilities in respect of contributions continued**

The Trustee is also responsible for keeping records in respect of contributions received in respect of any active member of the Plan and for adopting risk-based processes to monitor whether contributions are made to the Plan by the Employer 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.

Signed for and on behalf of the Trustee



Date: 19 June 2020

Anthony Soothill, Chair Telefónica UK Pension Trustee Limited

**Trustee's annual report and financial statements
for the year ended 30 September 2019****Independent Auditor's report to the Trustee of the Telefónica UK Pension Plan****Opinion**

We have audited the financial statements of the Telefonica UK Pension Plan for the year ended 30 September 2019 which comprise the fund account, statement of net assets and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion the financial statements:

- show a true and fair view of the financial transactions of the Plan during the year ended 30 September 2019 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 3A of the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, made under the Pensions Act 1995.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the Trustee's use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the Trustee has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Plan's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent Auditor's Report to the Trustee of Telefónica UK Pension Plan continued**Other information**

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Plan's Trustees is responsible for the other information. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement in the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Responsibilities of Trustee

As explained more fully in the statement of Trustee's responsibilities set out on pages 22 and 23, the Trustee is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Trustee determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, The Trustee is responsible for assessing the Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Trustee either intends to liquidate the Plan or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

**Trustee's annual report and financial statements
for the year ended 30 September 2019****Independent Auditor's Report to the Trustee of Telefónica UK Pension Plan continued****Auditor's responsibilities for the audit of the financial statements continued**

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the Plan's Trustee as a body, in accordance with Regulation 3 of the Occupational Pension Schemes (Requirements 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 Plan's 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 Plan and the Plan's Trustee as a body, for our audit work, for this report, or for the opinions we have formed.

**RSM UK Audit LLP**

Statutory Auditor

Chartered Accountants

Portland

25 High Street

Crawley

West Sussex

RH10 1BG

Date: 23 June 2020

Fund account

	Note	DB 2019 £'000	DC 2019 £'000	Total 2019 £'000	Total 2018 £'000
Employer contributions		25,000	38,728	63,728	35,074
Employee contributions		-	668	668	751
Total contributions	3	25,000	39,396	64,396	35,825
Transfers in	4	-	493	493	545
Other income	5	2,741	-	2,741	577
		<u>27,741</u>	<u>39,889</u>	<u>67,630</u>	<u>36,947</u>
Benefits paid or payable	6	(27,037)	(1,493)	(28,530)	(21,913)
Payments to and on account of leavers	7	(16,036)	(12,647)	(28,683)	(32,425)
Administrative expenses	8	(1,530)	-	(1,530)	(1,584)
Other payments	9	(2)	-	(2)	-
		<u>(44,605)</u>	<u>(14,140)</u>	<u>(58,745)</u>	<u>(55,922)</u>
Net (withdrawals)/additions from dealings with members		<u>(16,864)</u>	<u>25,749</u>	<u>8,885</u>	<u>(18,975)</u>
Returns on investments					
Investment income	10	36,712	-	36,712	45,533
Change in market value of investments	11	292,628	14,230	306,858	9,037
Investment management expenses	14	(2,941)	-	(2,941)	(2,132)
Net return on investments		<u>326,399</u>	<u>14,230</u>	<u>340,629</u>	<u>52,438</u>
Net increase in the fund during the year		309,535	39,979	349,514	33,463
Net assets of the Plan					
At 1 October		<u>1,414,377</u>	<u>365,995</u>	<u>1,780,372</u>	<u>1,746,909</u>
At 30 September		<u>1,723,912</u>	<u>405,974</u>	<u>2,129,886</u>	<u>1,780,372</u>

The notes on pages 30 to 64 form part of these financial statements.

Statement of net assets (available for benefits)

	Note	DB 2019 £'000	DC 2019 £'000	Total 2019 £'000	Total 2018 £'000
Investment assets					
Bonds	11	1,445,671	-	1,445,671	1,205,059
Cash instruments	11/17	16,942	-	16,942	48,200
Pooled investment vehicles	11/16	757,221	402,722	1,159,943	1,008,327
Derivatives	11/18	57,054	-	57,054	17,258
AVC investments	11/21	9,824	-	9,824	10,338
Cash	11	-	-	-	8,539
Other investment balances	11/19	1,538	-	1,538	6,899
		<u>2,288,250</u>	<u>402,722</u>	<u>2,690,972</u>	<u>2,304,620</u>
Investment liabilities					
Derivatives	11/18	(12,924)	-	(12,924)	(9,149)
Cash	11	(14,071)	-	(14,071)	-
Other investment balances	11/19	(538,639)	-	(538,639)	(520,448)
		<u>(565,634)</u>	<u>-</u>	<u>(565,634)</u>	<u>(529,597)</u>
Total net investments	11	<u>1,722,616</u>	<u>402,722</u>	<u>2,125,338</u>	<u>1,775,023</u>
Current assets	24	3,725	3,252	6,977	7,047
Current liabilities	25	(2,429)	-	(2,429)	(1,698)
Net assets of the Plan at 30 September		<u>1,723,912</u>	<u>405,974</u>	<u>2,129,886</u>	<u>1,780,372</u>

The notes on pages 30 to 64 form part of these financial statements.

**Trustee's annual report and financial statements
for the year ended 30 September 2019****Statement of Net Assets (available for benefits) continued**

The financial statements summarise the transactions of the Plan and deal with the net assets at the disposal of the Trustee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Plan year. The actuarial position of the Plan, which takes into account such obligations, is dealt with in the Report on actuarial liabilities on pages 8 to 11 of the Trustee's report and these financial statements should be read in conjunction with this Report.

These financial statements were approved for and on behalf of the Trustee by:



Anthony Soothill, Chair Telefónica UK Pension Trustee Limited

Date: 19 June 2020

Notes to the financial statements**1. Basis of preparation**

The individual 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, Financial Reporting Standard 102 – The Financial Reporting Standard applicable in the UK and Republic of Ireland issued by the Financial Reporting Council and the guidance set out in the Statement of Recommended Practice (SORP 2015).

The financial statements have been prepared on a going concern basis. As noted in the Trustee's report on page 11, the Trustee has assessed the impact of the COVID-19 pandemic in terms of the predicted effect on the Plan's assets, technical provisions and the employer covenant. At the date of signing these financial statements the Trustee believes that due to its investment structure and funding position, the Plan is able to comfortably cover its related outgoings until at least 12 months from signing. As a result, and together with the strong position of the Principal Employer, the Trustee considers the preparation of the financial statements on a going concern basis to be appropriate.

2. Accounting policies

The principal accounting policies of the Plan are as follows:

2.1 Currency

- The Plan's functional currency and presentational currency is pounds sterling (GBP). Assets and liabilities in foreign currencies are expressed in sterling at the rates of exchange ruling at the year-end. Foreign currency transactions are translated into sterling at the spot exchange rate at the date of the transaction. Gains and losses arising on conversion or translation are dealt with as part of the change in market value of investments.

2.2 Contributions

- Employer normal contributions and salary sacrifice contributions that are expressed as a rate of salary are accounted for on the same basis as the employees' contributions, in accordance with the Schedule of Contributions in force during the year.
- Employee contributions, including AVCs, are accounted for by the Trustee when they are deducted from pay by the Employer.
- Employer deficit funding contributions are accounted for on the due dates on which they are payable in accordance with the Schedule of Contributions and Recovery Plan under which they are being paid.
- Employer augmentation contributions are accounted for in accordance with the agreement under which they are paid.

Notes to the financial statements continued**2. Accounting policies continued****2.3 Transfer values**

- Individual transfers in or out of the Plan are accounted for on a cash basis which is when members' liability is accepted or discharged.

2.4 Other income

- Claims on term insurance policies and other forms of income are accounted for on an accruals basis.

2.5 Benefits paid or payable

- Pensions in payment are accounted for in the period to which they relate.
- Where members can choose whether to take their benefits as a full pension or as a lump sum with reduced pension, retirement benefits are accounted for on an accruals basis on the later of the date of retirement and the date the option is exercised.
- Other benefits are accounted for on an accruals basis on the date of retirement or death as appropriate.
- Where the Trustee agrees or is required to settle tax liabilities on behalf of a member (such as where lifetime or annual allowances are exceeded) with a consequent reduction in that member's benefits receivable from the Plan, any taxation due is accounted for on the same basis as the event giving rise to the tax liability and shown separately within 'Benefits Paid or Payable'.

2.6 Payments to and on account of leavers

- Refunds and opt-outs are accounted for on an accruals basis on the date on which the Trustee is notified of the member's decision to leave the Plan.

2.7 Administrative and other payments

- Administrative expenses are accounted for on an accruals basis.

2.8 Other Payments

- Other payments are accounted for on an accruals basis.

Notes to the financial statements continued**2. Accounting policies continued****2.9 Investment income and change in market value**

- Income from pooled investment vehicles which distribute income is accounted for on an accruals basis on the date stocks are quoted ex-dividend, or in the case of unquoted instruments, when the dividend is declared.
- Investment income arising from the underlying investments of the pooled investment vehicles which do not distribute income is rolled up and reinvested within the pooled investment vehicles. This is reflected in the unit price and reported within 'Change in market value'.
- Income from bonds is accounted for on an accruals basis and includes interest bought and sold on investment purchases and sales.
- Other interest on cash and short-term deposits and income from other investments are accounted for on an accruals basis.
- Receipts and payments under swap contracts, representing the difference between the swapped cash flows, are included in investment income. Receipts and payments of all other derivative contracts are reported with sales proceeds and purchases at cost respectively.
- Income and expenditure received and paid under repurchase contracts is accounted for on an accruals basis and included within investment income.
- All gains and losses arising on derivative contracts are reported within 'Change in market value' of investments.
- The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

2.10 Investment management expenses and transaction costs

- Investment management expenses are accounted for on an accruals basis and shown net within investment returns.
- Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the Plan such as fees, commissions, stamp duty and other fees.

Notes to the financial statements continued**2. Accounting policies continued****2.11 Investment assets/liabilities**

- Investment assets and liabilities are included in the financial statements at fair value. Where separate bid and offer prices are available, the bid price is used for investment assets and the offer price for investment liabilities. Otherwise, the closing price, single dealing price or most recent transaction price is used.
- Bonds are stated at their clean prices. Accrued income is accounted for within investment income. Bonds and certain pooled investment vehicles which are traded on an active market are included at the quoted price, which is normally the bid price.
- Accrued interest is excluded from the market value of fixed income securities and is included in investment income receivable. Unitised pooled investment vehicles have been valued at the latest available bid price or single price provided by the pooled investment manager. Shares in other pooled arrangements have been valued at the latest available net asset value ("NAV"), determined in accordance with fair value principles, provided by the pooled investment manager.
- Derivatives are stated at fair value.
- Exchange traded futures are valued as the sum of the daily mark-to-market, which is a calculated difference between the settlement prices at the reporting date and the inception date.
- Swaps are valued taking the current value of future cash flows arising from the swap determined using discounted cash flow models and market data at the reporting date.
- Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.
- Repurchase arrangements are recognised within the financial statements on the value of the securities that are delivered out as collateral. The cash received is recognised as an asset and the obligation to pay it back is recognised as a liability.
- With profits insurance policies (including those held as AVC investments) are reported at the policy value provided by the insurer based on cumulative reversionary bonuses declared and the current terminal bonus.

Notes to the financial statements continued

3. Contributions

	DB 2019 £'000	DC 2019 £'000	Total 2019 £'000
Employer contributions:			
Deficit funding	25,000	-	25,000
Normal	-	38,728	38,728
	<u>25,000</u>	<u>38,728</u>	<u>63,728</u>
Employee contributions:			
Normal	-	662	662
Additional voluntary contributions	-	6	6
	<u>-</u>	<u>668</u>	<u>668</u>
	<u>25,000</u>	<u>39,396</u>	<u>64,396</u>

	DB 2018 £'000	DC 2018 £'000	Total 2018 £'000
Employer contributions:			
Normal	-	35,074	35,074
	<u>-</u>	<u>35,074</u>	<u>35,074</u>
Employee contributions:			
Normal	-	702	702
Additional voluntary contributions	-	49	49
	<u>-</u>	<u>751</u>	<u>751</u>
	<u>-</u>	<u>35,825</u>	<u>35,825</u>

Notes to the financial statements continued

3. Contributions continued

Employer normal contributions include contributions in respect of salary sacrifice arrangements made available to members by the Employer.

Deficit funding contributions are payable by the Employers of £25m per annum by each 10 January from 2019 to 2024 inclusive.

4. Transfers in

	DB 2019 £'000	DC 2019 £'000	Total 2019 £'000
Individual transfers in from other schemes	-	493	493

	DB 2018 £'000	DC 2018 £'000	Total 2018 £'000
Individual transfers in from other schemes	-	545	545

Notes to the financial statements continued

5. Other Income

	DB 2019 £'000	DC 2019 £'000	Total 2019 £'000
Claims on term insurance policies	2,735	-	2,735
Sundry income	6	-	6
	<u>2,741</u>	<u>-</u>	<u>2,741</u>

	DB 2018 £'000	DC 2018 £'000	Total 2018 £'000
Claims on term insurance policies	573	-	573
Sundry income	4	-	4
	<u>577</u>	<u>-</u>	<u>577</u>

Notes to the financial statements continued

6. Benefits paid or payable

	DB 2019 £'000	DC 2019 £'000	Total 2019 £'000
Pensions	16,977	-	16,977
Commutation of pensions and lump sum retirement benefits	7,230	1,291	8,521
Lump sum death benefits	2,830	202	3,032
	<u>27,037</u>	<u>1,493</u>	<u>28,530</u>

	DB 2018 £'000	DC 2018 £'000	Total 2018 £'000
Pensions	15,255	-	15,255
Commutation of pensions and lump sum retirement benefits	5,003	651	5,654
Lump sum death benefits	594	400	994
Taxation where lifetime or annual allowance exceeded	10	-	10
	<u>20,862</u>	<u>1,051</u>	<u>21,913</u>

Taxation arising on benefits paid or payable is in respect of members whose benefits exceeded the lifetime or annual allowance and who elected to take lower benefits from the Plan in exchange for the Plan settling their tax liability.

Notes to the financial statements continued

7. Payments to and on account of leavers

	DB 2019 £'000	DC 2019 £'000	Total 2019 £'000
Refunds of contributions in respect of:			
Non-vested leavers	2	-	2
Individual transfers out to other schemes	16,034	12,647	28,681
	<u>16,036</u>	<u>12,647</u>	<u>28,683</u>

	DB 2018 £'000	DC 2018 £'000	Total 2018 £'000
Refunds of contributions in respect of:			
Non-vested leavers	3	-	3
Individual transfers out to other schemes	19,679	12,743	32,422
	<u>19,682</u>	<u>12,743</u>	<u>32,425</u>

Notes to the financial statements continued

8. Administrative expenses

	DB 2019 £'000	DC 2019 £'000	Total 2019 £'000
Actuarial, Administration and processing	973	-	973
Audit fees	50	-	50
Legal fees	331	-	331
Other professional fees	175	-	175
Bank and sundry charges	1	-	1
	<u>1,530</u>	<u>-</u>	<u>1,530</u>

	DB 2018 £'000	DC 2018 £'000	Total 2018 £'000
Actuarial, Administration and processing	984	-	984
Audit fees	79	-	79
Legal fees	296	-	296
Other professional fees	224	-	224
Bank and sundry charges	1	-	1
	<u>1,584</u>	<u>-</u>	<u>1,584</u>

Notes to the financial statements continued

9. Other payments

	DB 2019 £'000	DC 2019 £'000	Total 2019 £'000
Guaranteed Minimum Pension	<u>2</u>	<u>-</u>	<u>2</u>

	DB 2018 £'000	DC 2018 £'000	Total 2018 £'000
Guaranteed Minimum Pension	<u>-</u>	<u>-</u>	<u>-</u>

Notes to the financial statements continued**10. Investment income**

	DB 2019 £'000	DC 2019 £'000	Total 2019 £'000
Income from bonds	26,319	-	26,319
Expense from repurchase agreements	(4,856)	-	(4,856)
Income from cash instruments	325	-	325
Foreign exchange gain	466	-	466
Income from pooled investment vehicles	5,567	-	5,567
Income/(payments) from swaps	8,857	-	8,857
Income received in respect of unfunded pensions	99	-	99
Interest on cash deposits	(65)	-	(65)
	<u>36,712</u>	<u>-</u>	<u>36,712</u>

	DB 2018 £'000	DC 2018 £'000	Total 2018 £'000
Income from bonds	35,809	-	35,809
Expense from repurchase agreements	(3,450)	-	(3,450)
Income from cash instruments	360	-	360
Foreign exchange gain	142	-	142
Income from pooled investment vehicles	4,224	-	4,224
Income/(payments) from swaps	8,491	-	8,491
Income received in respect of unfunded pensions	14	-	14
Interest on cash deposits	(57)	-	(57)
	<u>45,533</u>	<u>-</u>	<u>45,533</u>

Included within interest on cash deposits is interest on the cash trading accounts with the investment managers.

Notes to the financial statements continued

11. Reconciliation of investments

DB (Sections 2, 2A, 3 and 3A) reconciliation of investments held at the beginning and the end of the year:

	Value at 30 September 2018 £'000	Purchases at cost and derivative payments £'000	Sales proceeds and derivative receipts £'000	Change in market value £'000	Value at 30 September 2019 £'000
Bonds	1,205,059	362,415	(354,571)	232,768	1,445,671
Pooled investment vehicles	645,209	90,000	(7,997)	30,009	757,221
Cash instruments	48,200	407,471	(438,729)	-	16,942
Derivatives	8,109	67,719	(61,066)	29,368	44,130
	1,906,577	927,605	(862,363)	292,145	2,263,964
AVC investments	10,338	-	(997)	483	9,824
	1,916,915	927,605	(863,360)	292,628	2,273,788
Cash deposits	8,539				(14,071)
Other investment balances	(513,549)				(537,101)
	1,411,905				1,722,616

DC (Sections 1 and 1A) reconciliation of investments held at the beginning and the end of the year:

	Value at 30 September 2018 £'000	Purchases at cost £'000	Sales proceeds £'000	Change in market value £'000	Value at 30 September 2019 £'000
Pooled investment vehicles					
Aberdeen	363,118	39,513	(14,139)	14,230	402,722

Notes to the financial statements continued

12. Transaction costs

Transaction costs are included in the cost of purchases and deducted from sale proceeds. Direct transaction costs include costs charged to the Plan such as fees, commissions and stamp duty.

DB transaction costs analysed by main asset class and type of cost are as follows:

	Fees £'000	Commission £'000	Taxes £'000	Total 2019 £'000	Total 2018 £'000
Bonds	-	-	-	-	449
Other	286	-	-	286	(109)
Total 2019	286	-	-	286	340
Total 2018	340	-	-		

In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles and charges made within those vehicles for both DB and DC investments. It has not been possible for the Trustee to quantify such indirect transaction costs.

13. Allocation of Defined Contribution investments

The DC section investments purchased by the Plan are allocated to provide benefits to the individuals on whose behalf corresponding contributions are paid. The investment manager holds the investment units on a pooled basis for the Trustee. The Plan administrator allocates investment units to members. The Trustee may hold investment units representing the value of employer contributions that have been retained by the Plan that relate to members leaving the Plan prior to vesting.

DC section assets are allocated to members and the Trustee as follows:

	2019 £'000	2018 £'000
Members	402,429	362,825
Trustee	293	293
	402,722	363,118

Notes to the financial statements continued

14. Investment management expenses

	DB 2019 £'000	DC 2019 £'000	Total 2019 £'000
Administration, management and custody	2,380	-	2,380
Advisory fees	561	-	561
	<u>2,941</u>	<u>-</u>	<u>2,941</u>

	DB 2018 £'000	DC 2018 £'000	Total 2018 £'000
Administration, management and custody	1,599	-	1,599
Advisory fees	533	-	533
	<u>2,132</u>	<u>-</u>	<u>2,132</u>

15. Taxation

The Plan is a registered Pension Scheme under Chapter 2 of Part 4 of the Finance Act 2004 and is therefore exempt from income tax and capital gains tax.

Notes to the financial statements continued

16. Pooled investment vehicles

The Plan's investments in pooled investment vehicles at the year-end comprised:

	DB 2019 £'000	DC 2019 £'000	Total 2019 £'000
Equity	-	77,477	77,477
Bonds	757,221	21,121	778,342
Absolute return/Diversified growth	-	295,307	295,307
Cash	-	8,817	8,817
	<u>757,221</u>	<u>402,722</u>	<u>1,159,943</u>

	DB 2018 £'000	DC 2018 £'000	Total 2018 £'000
Equity	-	74,536	74,536
Bonds	645,209	15,986	661,195
Absolute return/Diversified growth	-	265,812	265,812
Cash	-	6,784	6,784
	<u>645,209</u>	<u>363,118</u>	<u>1,008,327</u>

Notes to the financial statements continued

17. Cash instruments

	DB 2019 £'000	DC 2019 £'000	Total 2019 £'000
Cash instruments	<u>16,942</u>	<u>-</u>	<u>16,942</u>

	DB 2018 £'000	DC 2018 £'000	Total 2018 £'000
Cash instruments	<u>48,200</u>	<u>-</u>	<u>48,200</u>

18. Derivatives (DB section only)

The Trustee has authorised the use of derivatives by their investment managers as a part of their investment strategy as follows:

- Forward foreign exchange: in order to maintain appropriate diversification of investments, a proportion of the underlying investment portfolio is invested overseas. To balance the risk of investing in foreign currencies whilst having an obligation to settle benefits in GBP, the investment managers use forward foreign exchange contracts to remove as far as possible the currency exposure of these overseas investments.
- CDS: In order to target an expected return above LIBOR on the collateral held to support the LDI portfolio, the Plan enters into CDS on specific indices. This means the Plan receives a premium on an ongoing basis but is subject to the credit risk that any of the underlying companies could default.

The total collateral held for the derivative contracts was £522.3m as at 30 September 2019, which supports both the LDI and CDS mandates. The management of collateral is delegated to BlackRock who can use any assets held within the LDI / CDS portfolio for this purpose.

Notes to the financial statements continued

18. Derivatives (DB section only) continued

At the year-end the Plan had the following derivatives:

	2019	2019	2019	2018	2018	2018
	Assets	Liabilities	Total	Assets	Liabilities	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Futures	73	(51)	22	111	(120)	(9)
OTC Swaps	56,919	(12,869)	44,050	17,104	(9,019)	8,085
Forward FX contracts	62	(4)	58	43	(10)	33
	<u>57,054</u>	<u>(12,924)</u>	<u>44,130</u>	<u>17,258</u>	<u>(9,149)</u>	<u>8,109</u>

A summary of the Plan's outstanding derivative contracts at the year-end aggregated by key characteristics is set out on the following pages:

Notes to the financial statements continued**18. Derivatives (DB section only) continued****OTC Swaps**

Nature	Notional amounts £'000	Expires	Asset value £'000	Liability value £'000
Interest rate swaps	2,940	1 - 10 years	4	-
Cleared inflation swaps	46,230	1 - 10 years	-	(197)
Cleared inflation swaps	12,700	1 - 10 years	131	-
Cleared inflation swaps	12,760	10 – 20 years	190	-
Cleared interest rate swaps	86,350	1 - 10 years	3,377	-
Cleared interest rate swaps	104,717	1 - 10 years	-	(2,908)
Cleared interest rate swaps	141,184	10 – 20 years	15,807	-
Cleared interest rate swaps	85,359	10 – 20 years	-	(6,500)
Cleared zero coupon savings	189,965	1 - 10 years	3,903	-
Cleared zero coupon savings	10,850	1 - 10 years	-	(273)
Cleared zero coupon savings	71,394	10 – 20 years	4,596	-
Cleared zero coupon savings	33,830	10 – 20 years	-	(2,606)
Inflation rate swaps	196,290	1-10 years	3,989	-
Inflation rate swaps	12,672	1-10 years	-	(315)
Inflation rate swaps	47,000	10-20 years	621	-
Inflation rate swaps	637	10-20 years	-	(70)
Credit default swaps	667,242	1-10 years	24,301	-
Total 2019			56,919	(12,869)

Notes to the financial statements continued**18. Derivatives (DB section only) continued****Futures**

Nature	Economic exposure £'000	Expires	Asset value £'000	Liability value £'000
US 10YR Ultra	3,235	<3 months	37	-
Euro-Oat	3,917	<3 months	20	-
Long Gilt	11,141	<3 months	10	-
Euro-BTP	258	<3 months	4	-
Euro BUXL 30yr Bond	1,154	<3 months	2	-
Australian 10yr Bond	322	<3 months	-	-
US 10yr Note	106	<3 months	-	(1)
EURO-Bund	9,557	<3 months	-	(21)
US 2yr Treasury	10,842	<3 months	-	(29)
Total 2019			73	(51)

Notes to the financial statements continued

18. Derivatives (DB section only) continued

Forward FX

Contract	Settlement date	Currency bought	Currency sold	Asset value £'000	Liability value £'000
OTC Forward FX	<3 months	£791,000	€890,000	4	-
OTC Forward FX	<3 months	AUD 190,000	£104,000	-	-
OTC Forward FX	<3 months	\$490,000	£398,000	-	(1)
OTC Forward FX	<3 months	£104,000	AUD 190,000	-	-
OTC Forward FX	<3 months	£3,754,000	€4,170,000	56	-
OTC Forward FX	<3 months	£36,000	€40,000	-	-
OTC Forward FX	<3 months	£72,000	€80,000	1	-
OTC Forward FX	<3 months	£18,000	€20,000	-	-
OTC Forward FX	<3 months	€890,000	£793,000	-	(3)
OTC Forward FX	<3 months	£398,000	\$490,000	1	-
Total 2019				<u>62</u>	<u>(4)</u>

Notes to the financial statements continued

19. Other investments

The Plan's other investments at the year-end comprised:

	DB 2019 £'000	DC 2019 £'000	Total 2019 £'000
Unsettled trades (purchases)	(4,026)	-	(4,026)
Repurchase agreements	(534,613)	-	(534,613)
Investment income receivable	1,530	-	1,530
Cash in transit	8	-	8
	<u>(537,101)</u>	<u>-</u>	<u>(537,101)</u>

	DB 2018 £'000	DC 2018 £'000	Total 2018 £'000
Unsettled trades (sales)	1,410	-	1,410
Unsettled trades (purchases)	(2,316)	-	(2,316)
Repurchase agreements	(518,132)	-	(518,132)
Investment income receivable	5,489	-	5,489
	<u>(513,549)</u>	<u>-</u>	<u>(513,549)</u>

The Plan uses repurchase agreements ("repos") within the BlackRock LDI Portfolio, whereby the Plan has sold assets with the agreement to repurchase at a fixed date and price. The cash raised from repos are used to purchase additional UK Government Bonds ("Gilts"), with the aim of better matching the Plan's assets with its liabilities. The Plan enters into new repo contracts when existing ones expire in order to retain the target exposure to Gilts.

At the year end (£313,700,000) (2018: £350,000) of bonds reported in the Plan's assets are held by counterparties under repurchase agreements.

Notes to the financial statements continued**20. Concentration of investments**

The following investments represent more than 5% of the net assets of the Plan.

	2019		2018	
	£'000	%	£'000	%
Partners Group Private Markets Credit Strategies	394,069	18.5	281,039	15.8
Aberdeen Mobile Diversified Growth Pension Fund	283,462	13.3	257,633	14.5
M&G Alpha Opportunities Fund	221,916	10.4	221,045	12.4
Apollo Total Return Fund (offshore) Ltd	141,236	6.6	143,125	8.0

21. DB - Additional Voluntary Contributions ("AVCs")

The Trustee holds assets invested separately from the main fund securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions. Members participating in this arrangement each receive an annual statement confirming the amounts held in their account and the movements in the year. The aggregate amounts of AVC investments are shown in note 11.

22. Fair value determination

The fair value of financial instruments has been estimated using the following fair value hierarchy:

- Level 1: The unadjusted quoted price in an active market for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: Inputs other than quoted prices included within Level 1 that are observable (ie developed using market data) for the asset or liability, either directly or indirectly.
- Level 3: Inputs are unobservable (ie for which market data is unavailable) for the asset or liability.

Notes to the financial statements continued**22. Fair value determination continued**

The Plan's investment assets and liabilities have been fair valued using the hierarchy categories as follows:

DB at 30 September 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Bonds	755	1,444,916	-	1,445,671
Pooled investment vehicles	-	-	757,221	757,221
Cash instruments	27,576	(10,634)	-	16,942
Derivatives	22	44,108	-	44,130
AVC investments	-	9,812	12	9,824
Cash	(14,071)	-	-	(14,071)
Other investment balances	(2,488)	-	-	(2,488)
Repurchase Agreements	(534,613)	-	-	(534,613)
	<u>(522,819)</u>	<u>1,488,202</u>	<u>757,233</u>	<u>1,722,616</u>

DB at 30 September 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Bonds	-	1,205,059	-	1,205,059
Pooled investment vehicles	-	221,045	424,164	645,209
Cash instruments	-	48,200	-	48,200
Derivatives	(9)	8,118	-	8,109
AVC investments	-	10,326	12	10,338
Cash	8,539	-	-	8,539
Other investment balances	4,583	-	-	4,583
Repurchase Agreements	(518,132)	-	-	(518,132)
	<u>(505,019)</u>	<u>1,492,748</u>	<u>424,176</u>	<u>1,411,905</u>

Notes to the financial statements continued

22. Fair value determination continued

DC at 30 September 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Pooled investment vehicles	-	402,722	-	402,722

DC at 30 September 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Pooled investment vehicles	-	363,118	-	363,118

23. Investment risk disclosures

Investment risks

FRS 102 requires the disclosure of information in relation to certain investment risks. These risks are set out by FRS 102 as follows:

- Credit risk: this is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.
- Market risk: this comprises currency risk, interest rate risk and other price risk.
- Currency risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in foreign exchange rates.
- Interest rate risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market interest rates.
- Other price risk: this is the risk that the fair value or future cash flows of a financial asset will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or facts affecting all similar financial instruments traded in the market).

**Trustee's annual report and financial statements
for the year ended 30 September 2019****Notes to the financial statements continued****23. Investment risk disclosures continued**

The Plan has exposures to these risks because of the investments it makes to implement its investment strategy. The Trustee manages investment risks, including credit risk and market risk, within agreed risk limits which are set taking into account the Plan's strategic investment objectives. These investment objectives and risk limits are implemented through the investment management agreements in place with the Plan's investment managers and monitored by the Trustee by regular review of the investment portfolios.

Further information on the Trustee's approach to risk management and the Plan's exposures to credit and market risks are set-out below. These fit in with the Plan's investment strategy. Other risks include those associated with the cash and pooled investment vehicles and the risks inherent within derivative contracts.

The Plan is the sole investor in the Partners Group Private Markets Credit Strategies Fund. As such the investment risk disclosures have been written on a 'look through' basis in respect of this investment.

Credit risk

The Plan invests in cash/liquidity pooled investment vehicles ("PIVs") and is therefore directly exposed to credit risk in relation to the units it holds in these PIVs. The Plan is also exposed to indirect credit risk through its holdings in credit pooled funds. The Plan is also exposed to credit risks as a result of the financial instruments held in the segregated accounts, detailed on the following page:

Notes to the financial statements continued

23. Investment risk disclosures continued

Credit risk continued

Defined Benefit assets

Category	Investment Fund	Asset Class	Risk Nature	2019 (£'m)	2018 (£'m)
BlackRock LDI / CDS / Synthetic Equity	BlackRock cash equivalents	Cash instruments	Direct	16.9	48.2
	BlackRock other investments	Repurchase agreements	Direct	(534.6)	(518.1)
	BlackRock LDI	Fixed interest	Direct	1,163.9	931.8
	BlackRock CDS	Fixed interest	Direct	44.1	17.0
Corporate Bonds	BlackRock Corporate Bonds	Sterling Non Gilt Bonds	Direct	281.8	210.3
	BlackRock Buy-and- maintain corporate	Buy-and-maintain corporate	Direct	-	63.0
Credit pooled funds*	M&G	Liquid Credit	Direct / Indirect	221.9	221.0
	Apollo	Semi-liquid credit	Direct / Indirect	141.2	143.1
	Partners Group	Private market credit	Direct	394.0	281.0
Total Assets				<u>1,729.2</u>	<u>1,397.3</u>

* Included within these figures is cash held within the pooled fund that is also subject to indirect credit risk.

Notes to the financial statements continued

23. Investment risk disclosures continued

Credit risk continued

Defined contribution assets (including AVCs in respect of DB section)

Asset Class	Risk Nature	30/09/2019 (£'m)	30/09/2018 (£'m)
Bond PIV (1)	Direct/Indirect	22.2	17.2
Cash PIV (2)	Direct/Indirect	9.5	7.5
Other PIV (3)	Direct	380.8	348.7
Total		412.5	373.4

(1) BlackRock over 15y Corporate Bond Fund and BlackRock over 15y Index Linked Gilt fund.

(2) Aberdeen Deposit and Treasury Fund.

(3) Other PIVS include all remaining funds listed on page 20

Cash is held within financial institutions which are at least investment grade credit rated.

Defined Benefit assets

Credit risk on direct corporate bonds is broken down by type:

Credit rating	2019 (£'m)	2018 (£'m)
Investment Grade	1,445.7	1,203.1
Non-Investment Grade	-	2.0
Unrated*	394.0	281.0

*Partners Group Direct Lending is the only investor in the pooled fund.

Notes to the financial statements continued**23. Investment risk disclosures continued****Credit risk continued**

Credit risk arising on bonds is mitigated by investing in corporate bonds which are rated at least investment grade, i.e. Bonds which are BBB rated or above (as per Standard & Poors ratings system). The Plan invests in UK government bonds which are considered to have low credit risk. The Plan also invests in high yield bonds which are non-investment grade. The Trustee manages the associated credit risk by requesting the investment manager to diversify the portfolio to minimise the impact of default by any one issuer.

Credit risk arising on derivatives depends on whether the derivative is exchange traded or over the counter (OTC). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the Plan is subject to risk of failure of the counterparty. The credit risk for OTC derivatives is reduced by collateral arrangements.

Cash is held within financial institutions which are at least investment grade credit rated.

The Plan's holdings in pooled investment vehicles are unrated. Direct credit risk arising from pooled investment vehicles is mitigated by the underlying assets of the pooled arrangements being ring-fenced from the pooled manager, the regulatory environments in which the pooled managers operate and diversification of investments amongst a number of pooled arrangements. The Trustee carries out due diligence checks on the appointment of new pooled investment managers and on an ongoing basis monitor any changes to the regulatory and operating environment of the pooled manager.

The Plan also invests in gilt repurchase agreements as part of its hedging portfolio. The underlying assets are UK government bonds which are considered to have low credit risk.

Interest rate risk

The Plan is subject to interest rate risk because some of the Plan's investments are held predominantly in bonds within the segregated accounts.

Notes to the financial statements continued

23. Investment risk disclosures continued

Interest rate risk continued

Category	Investment Fund	Asset Class	Risk Nature	2019 (£'m)	2018 (£'m)
BlackRock LDI / CDS	BlackRock cash equivalents	Cash instruments	Direct	16.9	48.2
	BlackRock other investments	Repurchase agreements	Direct	(534.6)	(518.1)
	BlackRock LDI / CDS (Combined)	Fixed interest	Direct	1,258.0	931.8
Corporate Bonds	BlackRock Corporate Bonds	Sterling Non Gilt Bonds	Direct	281.8	210.3
	BlackRock Buy-and- maintain corporate	Buy-and-maintain corporate	Direct	-	63.0
Loan Portfolio	Partners Group	Direct Lending	Direct	394.0	281.0
Total Assets				1,416.1	1,016.2

Defined Benefit assets

The interest rate risk above is mitigated by the present value of the Plan's liabilities being calculated based on current yield curves. Therefore, any loss on assets due to changes in interest rates will also result in a reduction in the present value of the Plan's liabilities. The Plan has since implemented liability driven investment in order to reduce the mismatch between asset and liability interest rate sensitivity.

Defined Contribution assets (including AVCs in respect of DB section)

Investment Manager	Asset Class	Risk Nature	2019 (£'m)	2018 (£'m)
Bond Funds	PIV	Direct/Indirect	22.2	17.2

Bond Funds include BlackRock over 15y Corporate Bond Fund and BlackRock over 15y Index Linked Gilt fund.

Notes to the financial statements continued

23. Investment risk disclosure continued

Interest rate risk continued

Defined Contribution assets

Investment Manager	Asset Class	Risk Nature	2019 (£'m)	2018 (£'m)
Cash	PIV	Direct/Indirect	9.5	7.5
Other PIV	PIV	Direct	380.8	348.8

Other PIV includes multi-asset and equity funds.

Notes to the financial statements continued**24. Current assets**

	DB 2019 £'000	DC 2019 £'000	Total 2019 £'000
Contributions due in respect of:			
Employers	-	3,198	3,198
Employees	-	54	54
Other debtors	244	-	244
Due from the Company	627	-	627
Cash balances	2,854	-	2,854
	<u>3,725</u>	<u>3,252</u>	<u>6,977</u>

	DB 2018 £'000	DC 2018 £'000	Total 2018 £'000
Contributions due in respect of:			
Employers	-	2,817	2,817
Employees	-	60	60
Other debtors	1	-	1
Due from the Company	656	-	656
Cash balances	3,513	-	3,513
	<u>4,170</u>	<u>2,877</u>	<u>7,047</u>

All contributions due to the Plan at 30 September 2019 and 30 September 2018 relate to September 2019 and September 2018 respectively and were paid in full to the Plan in accordance with, and within the timescales of, the Schedule of Contributions in force for those years, and therefore do not constitute employer-related investments.

Notes to the financial statements continued

25. Current liabilities

	DB 2019 £'000	DC 2019 £'000	Total 2019 £'000
Unpaid benefits	599	-	599
Tax due to HM Revenue & Customs - PAYE	237	-	237
Accrued expenses	1,593	-	1,593
	<u>2,429</u>	<u>-</u>	<u>2,429</u>

	DB 2018 £'000	DC 2018 £'000	Total 2018 £'000
Unpaid benefits	221	-	221
Tax due to HM Revenue & Customs - PAYE	213	-	213
Accrued expenses	1,264	-	1,264
	<u>1,698</u>	<u>-</u>	<u>1,698</u>

26. Employer-related investments

As at the year ended 30 September 2019 there were no direct employer-related investments as defined in the Pensions Act 1995.

The percentage of indirect employer-related investments in each fund as at 30 September 2019 is as follows:

DB Section

M&G Alpha Opportunities Fund 0.22% (2018: 0.33%).

Notes to the financial statements continued**27. Related-party transactions**

Certain administration and secretarial activities are carried out on behalf of the Trustee by the Principal Employer. The costs, which cannot be identified, are borne by the Principal Employer.

£627,401 (2018: £655,711) is due back to the Plan from the Company in respect of VAT paid on administration expenses.

The following Trustee Directors who served during the year are members of the Plan:

- Cheryl Black (Deferred)
- Anthony Soothill (Pensioner)
- Adrian Gorham (Deferred)
- Andrew Davies (Pensioner)
- Amanda Stokes-Waters (Active)
- Mark Leonard (Deferred)

All contributions and benefits are paid in accordance with the Plan Rules. Included within note 8 is £54,938 (2018: £44,659) in respect of Trustee fees.

Income of £94,427 (2018: £13,596) was received by the Plan during the year from the Principal Employer in respect of unfunded pension payments. This income was used to pay pensions during the year for certain members.

28. Capital commitments

The Plan had capital commitments at the year-end of £Nil (2018: £90m) in respect of investments managed by Partners Group.

Notes to the financial statements continued**29. GMP**

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded that schemes should be amended to equalise pension benefits for men and women in relation to GMP benefits. The issues determined by the judgment arise in relation to many other defined benefit pension schemes.

The Trustee of the Plan is aware that the issue will affect the Plan and will be considering this at a future meeting and decisions will be made as to the next steps. Under the ruling schemes are required to backdate benefit adjustments in relation to equalisation and provide interest on the backdated amounts.

The impact on the Plan of any backdated benefits and related interest that might be payable and due before the effective date of the accounts is not expected to be material. The Trustee has therefore not included a liability in respect of these matters in these financial statements. They will be accounted for in the year they are determined.

30. Post year end event

During March 2020, subsequent to the Plan's year-end, the worldwide spread of Covid-19 (Coronavirus) caused increased volatility and significant falls in global equity markets. This has had an adverse impact on the funding level of the Plan, albeit the Plan's matching investments have mitigated the reduction in funding levels. The latest estimated position shows that the Plan has an increased deficit, however the investments have increased to some extent since the initial onset of Covid-19 and the Trustee continues to monitor this closely. The Trustee regards the impact of Covid-19 as a non-adjusting post balance sheet event and as a result no adjustments have been made to the financial statements as at 30 September 2019. The Trustee continues to monitor the situation and will respond to emerging issues as necessary. The impact on the Plan is currently unquantifiable at this stage in relation to the effects on the Principal Employer's business, future contributions and the value of the Plan's investments.

On 6 May 2020, Telefonica SA and Liberty Global announced the terms of a proposed merger of Telefonica UK with UK Virgin Media. This transaction will, if completed, have an impact on the covenant of the Plan; the Trustee is engaging with Telefonica in order to assess the materiality of that impact and to agree mitigation as appropriate. The Trustee understands that completion of the merger is expected to occur around the middle of 2021.

Independent Auditor's Statement about Contributions, under Regulation 4 of The Occupational Pension Schemes (Requirement to obtain Audited Accounts and a Statement from the Auditor) Regulations 1996, to the Trustee of the Telefonica UK Pension Plan

We have examined the Summary of Contributions payable to the Telefónica UK Pension Plan ("the "Plan") on page 67 for the year ended 30 September 2019 to which this statement is attached.

In our opinion contributions for Plan year ended 30 September 2019 as reported in the attached Summary of Contributions and payable under the Schedule of Contributions have, in all material respects, been paid at least in accordance with the Schedules of Contributions certified by the Plan Actuary on 17 December 2015 and 24 October 2018.

Scope of work on Statement about Contributions

Our examination involves obtaining evidence sufficient to give reasonable assurance that contributions reported on page 67 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 Plan and the timing of those payments under the Schedules of Contributions.

Respective responsibilities of Trustee and the Auditor

As explained more fully on pages 22 and 23 in the Statement of Trustee's Responsibilities, the Plan's Trustee is responsible for ensuring that there is prepared, maintained and from time to time revised a Schedule of Contributions showing the rates and due dates of certain contributions payable towards the Plan by or on behalf of the employer and the active members of the Plan. The Trustee is also responsible for keeping records in respect of contributions received in respect of active members of the Plan and for monitoring whether contributions are made to the Plan 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.

Independent Auditor's Statement about Contributions to the Trustee of the Telefónica UK Pension Plan continued**Use of our statement**

This statement is made solely to the Plan's Trustee as a body, in accordance with the Pensions Act 1995. Our audit work has been undertaken so that we might state to the Plan's Trustee those matters we are required to state to them in an auditor's statement and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Plan and the Plan's Trustee as a body, for our audit work, for this statement, or for the opinions we have formed.

**RSM UK Audit LLP**

Statutory Auditor

Chartered Accountants

Portland

25 High Street

Crawley

West Sussex

RH10 1BG

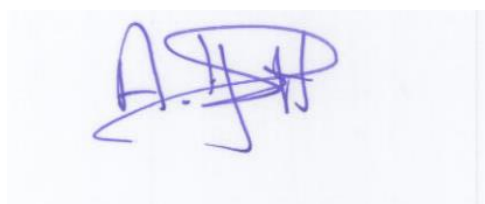
Date: 23 June 2020

Summary of Contributions payable during the year ended 30 September 2019

During the year, the contributions payable to the Plan were as follows:

	DB	DC	Total
	£'000	£'000	£'000
Contributions payable under the Schedules of Contributions:			
Employer:			
Deficit Funding	25,000	-	25,000
Employer normal	-	38,728	38,728
	25,000	38,728	63,728
Members normal contributions	-	662	662
Total contributions payable under the Schedules of contributions	25,000	39,390	64,390
Other contributions			
Members' additional voluntary contributions	-	6	6
Total contributions included in note 3 of the financial statements	25,000	39,396	64,396

Signed for and on behalf of the Trustee



19 June 2020

Date: _____

Anthony Soothill, Chair Telefónica UK Pension Trustee Limited

Schedule of Contributions

Names of Employers:	Telefónica Europe plc ("The Principal Employer")
	Telefónica UK Ltd
	O2 Holdings Ltd
	O2 Unify Limited
	Telefónica Digital Limited
	("The Employers")

This Schedule of Contributions has been prepared in accordance with Part 3 of the Pensions Act 2004 and the Occupational Pension Schemes (Scheme Funding) Regulations (SI 2005/3377). It sets out the contributions, other than the members' additional voluntary contributions, payable to the Telefónica UK Pension Plan ("the Plan") over the period of six years from the date that the Actuary certifies the Schedule.

It also shows the contributions that have been paid to the Plan between the effective date of the actuarial valuation on which it is based, 30 September 2017, and the date the Actuary certifies the Schedule.

The Trustee of the Plan and the Principal Employer have agreed this Schedule, as indicated below by authorised signatories (all the other Employers having nominated the Principal Employer to agree the Schedule of Contributions on their behalf).

The following contributions are payable to the Plan:

Sections 1, 1A and 1B

Contributions from Plan members	In accordance with the Plan Rules.
Contributions from the Employers	In accordance with the credits made to Members' Retirement Accounts, plus premiums required to insure lump sum and dependants' death in service benefits, less any assets allocated from any Section 1, 1A or 1B general assets not designated to members.

Schedule of Contributions continued**Sections 2, 2A, 3 and 3A**

Contributions from the Employers in respect of the shortfall in funding in accordance with the Recovery Plan dated <i>26 October 2018</i> ("Deficit contributions")	Six annual payments of £25.0m payable by each 10 January from 2019 to 2024 inclusive.
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Regular contributions from the Employers are payable monthly and are due within 19 days of the end of each calendar month.

Deficit contributions and other contributions from the Employers are due by the dates specified.

Contributions from Plan members are payable monthly and are due within 19 days of the end of each calendar month.

In certain circumstances permitted by the Plan Rules a member's contributions or the Employers' may be suspended or reduced during temporary absence.¹

The Employers will pay any additional contributions as decided by the Trustee, on the advice of the Actuary, and in accordance with the Plan Rules, to meet discretionary benefits and augmentations. Such contributions will be paid within 3 months of the due date notified by the Trustee.

The Employers will make additional payments to meet any Pension Protection Fund levies paid by the Plan, as these fall due. These payments will be made within 28 days of the due date notified by the Trustee.

The Employers may pay higher or additional contributions than those set out in this Schedule at their discretion.

This Schedule of Contributions replaces the Schedule of Contributions dated 17 December 2015 with effect from the date of certification.

¹ Where a member elects to pay contributions to cover a period of absence (in accordance with the Plan rules and with Principal Employer consent if appropriate) such contributions shall be payable within three months of his or her return to active service. Employer contributions will also be payable within three months of the return to active service.

Schedule of Contributions continued

This Schedule of Contributions is agreed:

on behalf of the Trustee of the Plan

[Handwritten signature of Anthony Sothill]

Name: ANTHONY SOTHILL authorised signatory

Position: CHAIRPERSON, TELEFÓNICA UK PENSION TRUSTEE LIMITED

Date: 24 October 2018

on behalf of Telefónica Europe plc (representing all the Plan employers)

[Handwritten signature of Patricia O'Brien]

Name: PATRICIA O'BRIEN authorised signatory

Position: CFO, TELEFÓNICA UK / DIRECTOR, TELEFÓNICA EUROPE PLC

Date: 24 October 2018

Certification of Schedule of Contributions

This certificate is provided for the purpose of Section 227(5) of the Pensions Act 2004 and Regulation 10(6) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of plan **Telefónica UK Pension Plan**

Adequacy of rates of contributions

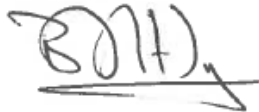
1. I certify that, in my opinion, the rates of contributions shown in this Schedule of Contributions are such that the Statutory Funding Objective could have been expected on 30 September 2017 to be met by the end of the period specified in the Recovery Plan dated *24 October 2018*.

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 *24 October 2018*.

The certification of the adequacy of the rates of contributions for the purpose of securing that the Statutory Funding Objective could have been expected to be met is not a certification of their adequacy for the purpose of securing the Plan's liabilities by the purchase of annuities, if the Plan were to be wound up.

Signature:


Date: *24 October 2018*

Name:

B J Huby

Qualification:

FIA

Address:

St Paul's House
St Paul's Hill
Winchester
Hampshire
SO22 5AB

Name of employer:

Lane Clark & Peacock LLP

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Telefónica UK Pension Plan

Trustee's annual report and financial statements
for the year ended 30 September 2019

Appendix A - DC Governance statement from 1 October 2018 to 30 September 2019

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Telefónica UK Pension Plan

Trustee's annual report and financial statements
for the year ended 30 September 2019

Appendix B - Statement of Investment Principles