

Harmsworth Pension Scheme

Summary funding statement – February 2010

As a member entitled to benefits from the Harmsworth Pension Scheme ('the Scheme') we, the Trustee Directors of the Scheme, are writing to provide you with an update of its financial position.

How the Scheme operates

The participating employers (collectively 'DMGT') and members currently employed by one of those employers, pay contributions to the Scheme so it can pay pensions to members when they retire. These contributions are invested in a common fund; separate funds are not held for each individual.

The company announced last year that although the Scheme would be kept open for current employees who are still able to join it, it would close to new employees from 30 September 2009. Current members continue to pay into and earn further benefits in the Scheme.

We invest the contributions paid into the Scheme in a variety of assets. Our current long-term investment strategy is to invest 39% of the assets in company shares (some in the UK but mostly overseas), 23% in a broad range of other alternative investments such as hedge funds, private equity and infrastructure funds, 28% in bonds and 10% invested in a portfolio of UK properties.

Scheme health checks

We monitor the financial position of the Scheme and obtain regular valuations – or financial 'health checks'. The valuation process involves comparing the value of investments held by the Scheme with the amount that we estimate is needed to pay for benefits built up to date. We choose prudent assumptions for our comparison regarding future events, such as how long people are expected to live and the returns that might be achieved on future investments. Detailed valuations are carried out every three years, the most recent one being as at 31 March 2007. We use the results of these valuations, or health checks, to come to an agreement with DMGT on the level of contributions to be paid into the Scheme in future. This is called our funding plan.

We then carry out approximate reviews on an annual basis, to monitor the Scheme's progress against our funding plan.

During discussions around the 2007 valuation and subsequently, DMGT has expressed its continued support for the Scheme. This is important to the success of the Scheme because DMGT contributes the bulk of the money needed to pay benefits. The financial position as measured by our regular health checks can vary over time, and if the position worsens from one formal three-yearly valuation to the next, DMGT will generally be required to pay more money into the Scheme.

Results of the 2007 funding valuation

As we said earlier, the last full valuation of the Scheme was carried out at 31 March 2007. This valuation took account of the position after the merger of the Scheme with the Mail Newspapers Pension Scheme in 2007.

The valuation showed that on an 'ongoing basis' (which assumes DMGT continues to sponsor the Scheme) the Scheme's assets were 99% of the estimated value of its liabilities (or benefit costs). This means that the Scheme's assets were £13.8 million less than the estimated cost of the benefits. This is called a 'shortfall' or 'deficit'. You should be aware that this is the snapshot position at one particular point in time, considering the Scheme as an ongoing entity with continuing support from DMGT.

After discussing the results of the valuation with DMGT, it was agreed that DMGT would continue to pay contributions to the Scheme at the rate of 18% of members' pensionable pay. Based on the assumptions used for the valuation, it was expected that with contributions at this level the deficit of £13.8 million at 31 March 2007 would be eliminated by November 2015.

Funding update at 31 March 2009

We have obtained an update of the Scheme's financial position at 31 March 2009. It does take some considerable time to collate the information and then assess the position, which is why we are only able to report on it now. This update showed that on an ongoing basis, using assumptions consistent with those used for the last valuation, the Scheme's assets were 63% of the estimated value of its liabilities (or benefit costs) at 31 March 2009. This means that the Scheme's assets were £617.7 million less than the estimated cost of the benefits.

This compares to a shortfall of £13.8 million as shown in the formal valuation at 31 March 2007 and a shortfall of £272 million shown by the funding update at 31 March 2008. The major contributing factors to this worsening in funding position are the negative returns on the Scheme's assets over the period (31 March 2009 was close to the low point for global stock markets) and the higher value placed on benefits owing to an increase in bond prices. If the position does not improve before the results of the next formal valuation as at 31 March 2010 are known, we will be asking DMGT to increase its financial support to the Scheme.

Payments to the employer

We confirm that no payments have been made from the Scheme to DMGT in the past 12 months.

Current financial markets

Since the low point for stock markets in March 2009, there has been a steady improvement which was maintained to the end of the year. However, there is ongoing uncertainty about the strength of this recovery and the prospects for inflation. You will be understandably concerned as to how these developments might affect your pension.

If you are a current or former member of a 'final salary' scheme, the level of your pension is not directly linked to investment returns. Instead, your benefits are linked to how long you have been a member of the Scheme, and your pensionable salary near retirement or the date you left the Scheme. Clearly, if investment returns fall below expectations, the Scheme's financial position will be worsened. The next valuation is due in 2010 and, if the current conditions persist, we will be discussing with DMGT what actions can be taken to improve the financial health of the Scheme on which the security of your benefits depend.

If you are retired and receiving a pension from the Scheme, the current level of your pension is not affected by the Scheme's financial position.

We are continuing to monitor the financial position of the Scheme during these difficult times, and are in regular discussions with DMGT to ensure its continued support for the Scheme.

The strength of the Scheme sponsor

We receive regular business updates from DMGT as sponsor of the Scheme, which allow us to assess its ongoing ability to provide the necessary financial support. The funding plan we have agreed with DMGT and our view regarding an appropriate investment strategy depend on the sponsor's strength and we have been reassured by DMGT's effectiveness in dealing with the very challenging trading conditions that have persisted during the past 18 months or so.

Further information

If you have any questions, or would like more information, please contact us at the following address:

Northcliffe Trustees Ltd
c/o DMGT Pensions
10 Bedford Street
Covent Garden
London WC2E 9HE

Northcliffe Trustees Ltd

The Pensions Regulator requires all pension schemes to make the following statements, in addition to the information already provided.

Pension Protection Fund

The Pension Protection Fund was set up to pay compensation to members of defined benefit pension schemes whose pension schemes are wound up without enough assets because their employer has become insolvent.

The following paragraphs outline what might happen if the Scheme is wound up or closed down and the benefits secured with an insurance company instead. Do not be alarmed by the references to winding up. We are legally obliged to provide you with this information and there are no plans to wind up the Scheme.

If the Scheme winds up at some point in the future, you might not get the full amount of pension you have built up even if the Scheme is fully funded on an 'ongoing basis'. However, whilst the Scheme carries on, even though the funding may be temporarily below target, we will continue to pay benefits in full.

For example, if the Scheme had been wound up on 31 March 2007 (the latest date at which this was estimated) then the additional assets required to meet all members' benefits in full were estimated to be around £667 million – on this 'winding up basis' the Scheme was around 69% funded.

The above calculation assumes that we would secure all benefits with an insurance company, and insurance companies are obliged to take a very cautious view of the future, and need to make a profit. For these reasons it is common practice for pension schemes such as ours to target a lower level of funding on an ongoing basis, as with the support of DMGT a longer-term view can be taken of the future.

If the Scheme was to wind up, DMGT would be required to pay enough into the Scheme to enable members' benefits to be completely secured with an insurance company. It may be, however, that DMGT would not be able to pay this full amount. If DMGT became insolvent, the Pension Protection Fund might be able to take over the Scheme and pay compensation to members, although this compensation is likely to be less than the benefits provided for under the Scheme rules.

Inclusion of this information does not imply that DMGT is thinking of winding up the Scheme. It would only be a concern if DMGT was unable to financially support the Scheme in future. As part of the 2007 valuation, and before reaching agreement on the long-term funding policy, we carried out a careful assessment of the financial strength of DMGT and put in place arrangements for this to be regularly monitored. In light of the recent economic downturn, we are monitoring the financial position very closely.

For further information on the Pension Protection Fund see the website at www.pensionprotectionfund.org.uk or write to the Pension Protection Fund, Knollys House, 17 Addiscombe Road, Croydon, Surrey, CRO 6SR.