

O2 Pension Plan and the current economic climate – what does this mean for you?

What's the issue?

You will have been hearing phrases such as 'recession' 'credit crunch' 'turbulent financial markets' and 'economic down-turn' in relation to our current economic climate. This document summarises how the current climate could be impacting you as a member of the O2 Pension Plan.

Does the economy have a direct impact on the Pension Plan?

Recent events have led to a loss of confidence in some of the world's biggest banks and insurers after they have had to be rescued from bankruptcy or have, in the case of Lehman Brothers, filed for bankruptcy.

This has led to a great deal of uncertainty in the economy and this is impacting the price of investments i.e. stocks, shares and property. A reduced price leads to a reduced value and it is this loss in the value of investment assets that is impacting all pension plans including the O2 Pension Plan.

What does this mean for me?

Section 1 and AVC

The investment assets of the Plan as a whole have gone down in value. This will mean the value of your individual retirement account will have fallen unless you are one of the members invested in only cash or bond funds. The value of your retirement account is directly linked to the value of your retirement benefits (pension annuity and/or tax free cash lump sum); therefore if you were to retire tomorrow you could have less money in your retirement account with which to secure your retirement benefit.

However, it is important to remember that the investment assets in your retirement account should be viewed in the long-term. Just because they have fallen in value now does not mean that they will not rise in value in the long-term. For the majority of you there are many years until you retire during which time your retirement account will have the opportunity to grow. It is important to remember that if you were not saving into the O2 Pension Plan you would lose the benefit of the employer contribution from O2 and the tax relief on your employee contributions, which increase the value of your retirement account.

Many of you have chosen to have your pension contributions invested in the Plan's Lifestyle option. Under the Lifestyle option the Trustee makes investment decisions on your behalf; for those of you approaching retirement the Trustee will switch your retirement account to 'less risky' assets such as cash and bonds. The purpose of this is to try and protect you against significant falls in asset values close to your retirement; when you want your retirement account to be most protected.

Section 2 and 3

As Section 2 or 3 members you have defined pension benefits, which mean that you have retirement benefits based on your salary and length of service with O2, not the value of the underlying investment assets of the Plan. The Trustee is currently conducting a formal valuation for these sections, which will look at their funding; the

liabilities compared to the assets. As a result of the valuation the Trustee and the Company will discuss and agree how the deficit in the value of the Plan's assets will be made good, so that the Plan is sufficiently funded to pay your benefits on retiring or leaving the Plan. This responsibility for funding the deficit rests with the employers supporting the Plan, Telefonica Europe plc and Telefonica O2 UK Ltd.

What is being done?

The Trustee has already been in discussion with the Investment Managers and Investment Adviser and, along with the Pensions Management team, is monitoring the current performance of the Plan's assets. The investment strategy of the Plan is designed to take a long-term view which builds in an expectation for asset values to, at times, fall as well as rise. The Trustee will continue to monitor performance in line with their strategy.

As noted above, the Plan's actuarial valuation is currently underway. You can find out more about the previous valuation at www.o2pensions.co.uk/understand-o2-pensions/protection/plan-security. We will include details about the results of the current valuation when it has been finalised in 2009.

What do I need to do?

At present no action is required but if you would like to discuss this further then you can call talk2hr on 0800 731 2638 (or +44 1908 356666 if dialling from overseas) or email your questions to O2adminteam.hrservices@accenture.com. You may also want to consider talking to an Independent Financial Adviser.