

Telefónica UK Pension Plan

Section 1 - The basics

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1. Understand Pensions

Pensions don't have to be complicated. The following pages will give you lots of useful information about your Telefónica UK Pension Plan. You'll find out how much you should contribute, learn about different ways to invest and then, when you do retire, how you receive your benefits.

So take a few moments to read about the Plan and see how being a member is of significant benefit not just to you, but to those closest to you, should anything happen to you while you are working at Telefónica.

2. Plan Basics

This section covers the basics of Section 1 of the Telefónica UK Pension Plan. By reading this section you will learn that the Plan is a valuable benefit to you as an employee of the Company. Membership allows you to decide how much you can afford to invest for the future, to choose a style of investment and, at retirement, to select the benefits which suit your particular circumstances. It also provides life cover and a pension for a Dependant if you die while you are working for the Company.

This is intended to be a summary guide only to the basics of Section 1. The full details can be found in the Trust Deed and Rules (as amended from time to time), which forms the legal basis of the Plan. If there is any conflict between this guide and the Trust Deed and Rules, the terms of the Trust Deed and Rules will prevail. If you have any questions about the Plan, contact details for the Plan Administrator are available in the further information section.

This summary describes the current Plan benefits and arrangements. These may change from time to time as a result of changes made by the Company to the Plan or as a result of changes to the tax and legal requirements which apply to pension schemes. The Company reserves the right to amend or discontinue the Plan at any time. If the Plan

were to discontinue, your benefits would be secured out of the assets of the Plan in accordance with the Trust Deed and Rules.

3. Joining the Plan

The sooner you join the Plan, the greater the advantages to you. The earlier you start saving for your retirement, the more time you give your funds to grow, which should mean there will be more money to pay your pension on retirement, or to provide benefits for your dependants.

Membership is voluntary and you will be invited to join the Plan when you join the Company as a permanent or a temporary employee.

If you are a high earner then we recommend that you speak to an Independent Financial Adviser about pension tax relief restrictions, which may influence some of your joining decisions.

Why you should join as soon as possible

Joining early (within your first 12 months) will mean that you will be entitled to all the benefits that the Plan has to offer. Should you join outside of this first 12 months period then you will be a 'Pension Only' member and will not be entitled to the extra death in service benefits that the Plan provides - you will only be covered for a lump sum of 2 x salary on death in service rather than the enhanced death in service benefits of early joiners (3 x salary lump sum and 30% of salary spouse's pension).

How to join

You can join through Telefónica's Flexible Benefits arrangement in the following three ways.

1. New starter - when you first start at Telefónica you will receive a letter from the Flexible Benefits team telling you how to log onto the Flexible Benefits site. The

Telefónica UK Pension Plan is one of your Flexible Benefit choices shown on your 'Sign up form'.

2. Annual enrolment - opens each year during November only.
3. Life event - if you don't join the Flexible Benefits arrangement as a new starter, you may be able to join it later on outside the annual enrolment period if you have a defined life changing event such as a promotion, moving house, getting married, having children etc. Call European People Services and select option 1 to find out more.

4. Contributions

4.1 Making contributions

As a member of the Plan, you must pay a minimum contribution rate of 4% of your basic salary, which is known as Plan Salary. The Company will also contribute 4%, which, along with your contributions, will be paid into your Retirement Account. You may also make additional contributions and the Company will match any regular additional contributions you are making above 4% up to an overall maximum Company contribution of 10%.

You may pay contributions up to a total of 100% of your Plan Salary provided that you are able to meet your other financial commitments from your salary (such as the payment of National Insurance). You should also give consideration to the Annual Allowance, Lifetime Allowance and pension tax relief restrictions if you are a high earner and thinking about making substantial contributions.

You may increase or decrease your contribution rate (but not below 4%). If you would like to change your contributions you should call European People Services. Alternatively there are two specific times when you are able to amend your contributions through the flexible benefits website, which can be accessed at www.o2rewards.com. They are –

1. Annual enrolment - opens each year during November only.

2. Life event - a defined life changing event such as a promotion, moving house, getting married, having children etc.

More information is available on www.o2rewards.com.

Your contributions will be deducted from your pay before tax, giving you tax relief at your highest rate. Therefore, for example, if you pay tax at the rate of 20%, every £1 that you contribute only costs you 80p. If you are a higher rate tax payer, the net cost of every £1 you pay is only 60p.

There are some restrictions on pension tax relief that you should be aware of if you are a high earner. We recommend that you discuss these with your Independent Financial Adviser if you have total taxable income of £130,000 or more per year.

In addition you are able to save National Insurance when making your pension contributions by paying through salary sacrifice – see the next section for details.

4.2 Salary sacrifice

Most people know that you obtain some tax relief on contributions you make to a pension arrangement like the Telefónica UK Pension Plan. However, not all arrangements enable you to save National Insurance (NI) on the contributions you make – the Telefónica UK Pension Plan does and it is called salary sacrifice.

Salary sacrifice is the name given to the special arrangement whereby you save the NI on the cost of making contributions to your pension. Under salary sacrifice, Telefónica makes contributions to your pension on your behalf and your salary is reduced by a corresponding amount. The effect of this is that you pay less NI, as you are not paying NI on the amount that is contributed to your pension. This arrangement is called salary sacrifice because although Telefónica pays the pension contributions on your behalf, you literally have to give up, i.e. *sacrifice*, that much of your *salary* in return.

How much you save in National Insurance under salary sacrifice depends on your earnings and to which section of the Telefónica UK Pension Plan you belong. The table below illustrates what you save by paying contributions under salary sacrifice if you are a Section 1 member.

Salary	% of salary saved
£0 - £5,044	Nil
£5,044 - £43,888	11%
£43,888 and above	1%

Over the course of a few years this can lead to considerable savings so it's no surprise that paying pension contributions through salary sacrifice has become very popular.

Using salary sacrifice

Salary sacrifice is accessible through flexible benefits at www.o2rewards.com. On joining the Plan, you will have the option to make your contributions on a salary sacrifice basis. You will find that the salary sacrifice option box is pre-selected if, according to the advice the Company has received, you would broadly benefit from salary sacrifice. You can opt out of salary sacrifice through the flexible benefits pages.

For those members who were pension members on 1 July 2007, unless you chose otherwise at flexible benefits enrolment, you may have been placed into salary sacrifice on the basis of the advice the Company received. You should check your pension statement at www.o2rewards.com.

4.3 When not to use salary sacrifice

Your National Insurance (NI) contributions are important; they provide you with entitlement to many state benefits. Some state benefits disappear altogether if you do not pay NI, some are reduced. The following groups of pension member should take particular care before paying contributions under salary sacrifice. If you are unsure about

whether your state benefits will be affected by salary sacrifice, you should contact European People Services or The Pensions Advisory Service (see the Further Information page for contact details).

<p>State Second Pension losses for members.</p> <p>Reduced salary for NI purposes results in lower State Second Pension at retirement.</p>	<p>Does not affect those people earning above the Upper Earnings Limit (£43,888 in 2010/11)</p> <p>The salary sacrifice option in the Flexible Benefit pension enrolment page is pre-selected to reflect those who we are advised will 'win' and 'lose' under salary sacrifice. By win, we mean that the State Second Pension forgone is more than compensated for by NI saving for most members. Details of this pre-selection can be sought from the Plan Administrator but there is a summary later on this page</p>
<p>State Benefit losses for members.</p> <p>NI history is used to calculate certain benefits such as Statutory Sick Pay, Incapacity Benefit and Job Seekers allowance. A reduced NI record leads to inability to claim benefits in the future.</p>	<p>This affects those pension Plan members with salary which, following salary sacrifice, will be reduced below the Lower Earnings Limit (£5,044 in 2010/11)</p> <p>The salary sacrifice option in the Flexible Benefit pension enrolment page is pre-selected to reflect those who we are advised will 'win' and 'lose' under salary sacrifice</p>
<p>Breach of Minimum Wage</p>	<p>This category of member will not be able to</p>

For plan members with earnings close to the minimum wage, salary sacrifice may take their earnings below the minimum wage.	benefit from salary sacrifice; the system will not let you make a benefit choice that will reduce your income to this level
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Help from the flexible benefits joining page

The enrolment page in flexible benefits goes a step further and will actually have pre-populated salary sacrifice for you if, under the advice that the Company received from independent experts, you are someone who will broadly benefit from salary sacrifice. However, it is your responsibility to read and understand what you are signing up to and to make the right choice for you. Accordingly you have the option to select or unselect this should you choose.

The pre-population works as follows:

- Section 1 member – will be pre-selected into salary sacrifice unless earning less than £6,000 per annum or between £30,000 to £40,000 and aged over 50.

Salary sacrifice impact on other benefits such as bonus

Salary sacrifice does not affect your salary figure used for any other calculations – for example any disclosure by Telefónica at your request for a mortgage application or in the calculation of any of your pay elements, such as bonus, where applicable. It will also not impact on the calculation of any benefits you will receive from the Plan apart from refunds on leaving the Plan early (see below).

Salary sacrifice for early leavers

One more consideration: when you make pension contributions on a salary sacrifice basis they do not count towards the early leavers' refund. So if you leave within three months of joining the Plan, you will receive no benefits. If you leave after three months but before you have completed two years in the Plan, you will need to transfer your pension to one of the many available alternatives (a pension scheme provided by your new employer or

an insurance company). We strongly recommend that you do this in order to maintain your retirement savings.

5. Investment Options

5.1 Investment choices

The investment choices for Section 1 Members (and those Section 2/3 Members with a retirement account) are:

- Lifestyle
- Selfstyle
- Default

If you choose Lifestyle your contributions will be invested for you in funds selected by the Trustee, which are adjusted as you get closer to retirement. There are three different Lifestyle arrangements for you to consider.

Selfstyle allows you to choose which funds you invest in, giving you more freedom and responsibility for your own investment strategy. The Trustee cannot be responsible for the funds you select, but will review and monitor the funds on offer against performance benchmarks.

If you do not make a selection you will be entered into the default arrangement, which is currently Balanced Lifestyle. You can also choose to invest in this arrangement; it is not only for default purposes.

Lifestyle option

In addition to the Balanced arrangement there are two further Lifestyle arrangements available for you to choose from – Lower Risk/Return and Higher Risk/Return.

Selfstyle option

There are nine different funds available. You can choose to invest a % of your contributions in any combination of the funds on offer ranging from putting 100% in one to putting some in all of them. The choice is completely yours.

This option gives you more flexibility and choice, but should be considered carefully.

5.2 Lifestyle Investment Option

The Lifestyle arrangements offered by the Telefónica UK Pension Plan ('the Plan') contain a combination of investment funds ('funds') selected by the Plan's Trustee. The funds that your contributions will be invested in will depend on your age and the age you select for retirement, hence why they are referred to as 'lifestyle'.

While you are still a number of years away from retirement your contributions will be invested in a fund or combination of funds that are designed for investment growth. As you move closer to retirement you will be gradually switched into fund(s) that aim to offer stability in the lead up to you taking your benefits.

There are three different Lifestyle arrangements available – Balanced, Higher Risk/Return and Lower Risk/Return.

- **Balanced**

This is the default fund, so if you do not make an investment choice then you will automatically be invested in this arrangement.

This arrangement uses the BlackRock Diversified Growth Fund in the 'growth' stage. Your assets would then be gradually switched into a combination of the BlackRock Over 15 Year Corporate Bond and the Standard Life Managed Cash Fund in the 'stability' stage during the 5 years leading up to retirement.

- **Lower Risk/Return**

This arrangement uses the same underlying funds as the Balanced Lifestyle arrangement, but with a longer switching period in the lead up to retirement.

Your assets would begin to be switched from the BlackRock Diversified Growth Fund into a combination of the BlackRock Over 15 Year Corporate Bond and the Standard Life Managed Cash Fund in the 10 years leading up to retirement.

The additional 5 years switching period, when compared to the Balanced Lifestyle arrangement, are what give this arrangement the potential to be lower risk. By investing in the stability stage rather than the growth stage for 5 years longer, the risk of your assets being significantly impacted by market conditions, i.e. falling close to retirement if the market takes a down-turn, can be reduced. The offset to this is that you will have less time invested in the growth stage; therefore you may have less time to benefit from the higher returns that the BlackRock Diversified Growth Fund aims to provide.

- Higher Risk/Return

This arrangement also uses the BlackRock Over 15 Year Corporate Bond Fund and the Standard Life Managed Cash Fund in the stability stage. The switch occurs over a 5 year lead up to retirement, like the Balanced Lifestyle arrangement. The key difference for this arrangement is the underlying funds invested in during the 'growth' stage.

The BlackRock Diversified Growth Fund is still used in the growth stage, but in addition to a Trilogy Global Diversified Fund and a BlackRock (50:50) Global Equity Index Fund. The split between these funds is also gradually rebalanced during the 5 year lead up to retirement.

The higher risk element of this arrangement comes from the two Equity Funds used during the growth stage, which are more sensitive to market movements. This also means that they contribute to potentially higher returns. For example, a market down-

turn might cause the value of the assets invested in Equity Funds to drop more in comparison to the BlackRock Diversified Growth Fund. The opposite could also be true should the market perform well.

Your contributions will be invested 100% in whichever arrangement you select. The key differences between the arrangements are the underlying funds used and the length of the switching period in the lead up to retirement as summarised in the following table:

Lifestyle arrangement	Switching period	Growth fund(s)	Stability fund(s)
Balanced	5 years	BlackRock Diversified Growth Fund	BlackRock Over 15 Year Corporate Bond Fund Standard Life Managed Cash Fund
Higher Risk/Return	5 years	BlackRock Diversified Growth Fund Trilogy Global Diversified Fund BlackRock (50:50) Global Equity Index	BlackRock Over 15 Year Corporate Bond Fund Standard Life Managed Cash Fund
Lower Risk/Return	10 years	BlackRock Diversified Growth Fund	BlackRock Over 15 year Corporate Bond Fund Standard Life Managed Cash Fund

5.3 Selfstyle Investment Option

If you select this option you must choose what % of your contributions you wish to invest in which of the following Funds:

- UK Equity Index – BlackRock
- Global Equity (50:50) Index – BlackRock
- Over 5 Year Index-linked Gilt Index – BlackRock

- Over 15 Year Corporate Bond Fund – BlackRock
- Managed Cash Fund – Standard Life
- Sharia compliant - HSBC Amanah Fund
- Global Diversified Fund – Trilogy
- Diversified Growth Fund – BlackRock
- UK Focus Fund – BlackRock

If you are considering this option you should read information on your chosen Funds and consider seeking independent financial advice if you are not confident in investment matters.

If you choose Selfstyle then you must make a choice of where to invest all of your contributions i.e. you can not choose to invest 90% in the Cash Fund and then not make a choice for the remaining 10%. Remember, you can invest in anything from all of the Funds to choosing 100% investment in just one.

5.4 The fund managers

Standard Life

Standard Life plc, was established in 1825. A leading provider of long-term savings and investments, Standard Life floated on the London Stock Exchange in 2006 and is now a FTSE 100-listed company. Our funds are managed by Standard Life Investments which was launched as a separate company in 1998 and quickly established a reputation for innovation in pursuit of our clients' investment objectives.

Standard Life Investments is a premier asset manager with an expanding global reach. Our wide range of investment solutions is backed by our distinctive Focus on Change investment philosophy, disciplined risk management and shared commitment to a culture of investment excellence. As active managers, we place significant emphasis on rigorous research and a strong collaborative ethos. We constantly think ahead and strive

to anticipate change before it happens, ensuring that our clients can look to the future with confidence.

As at 31 December 2010, Standard Life Investments managed £156.9 billion on behalf of clients worldwide. Our investment capabilities span equities, bonds, real estate, private equity, multi-asset solutions, fund-of-funds and absolute return strategies.

Headquartered in Edinburgh, Standard Life Investments employs more than 850 talented professionals. We maintain a presence in a number of locations around the world including Boston, Hong Kong, London, Beijing, Montreal, Sydney, Dublin, Paris and Seoul. In addition, we have close relationships with leading domestic players in Asia, including HDFC Asset Management in India and Chuo Mitsui Asset Trust and Banking in Japan.

Our investors rank among some of the world's most sophisticated and high-profile institutions. They include corporate pension plans, banks, mutual funds, insurance companies, fund-of-fund managers, endowments, foundations, charities, official institutions, sovereign wealth funds and government authorities.



HSBC Amanah is the global Islamic banking division of the HSBC Group, and was established in 1998 with the aim of making HSBC the leading provider of Islamic banking worldwide. With more than a hundred professionals serving the Middle East, Asia Pacific, Europe and the Americas, HSBC Amanah represents the largest Islamic banking team of any international bank.



BlackRock is one of the world's leading investment management companies, chosen by clients ranging from governments and corporates to advisers and individual investors. Their assets under management currently exceed \$1.3 trillion.

BlackRock is fully focused on delivering a world-class range of investments, backed by rigorous risk management and exceptional service. They have expertise and funds in all key asset classes.



Trilogy Global Advisors is a specialist equity investment firm managing £10bn in global developed and global emerging market portfolios for institutional pension schemes in the UK and around the world.

Founded in 1999, Trilogy has two investment offices in New York and Orlando, Florida and a marketing and client service office in London. Trilogy is an independent firm affiliated to the AMG Group and its investment management team co-invest in the same products alongside its clients while also retaining significant equity stakes in the business. Trilogy's investment strategy can be described as 'risk-sensitive growth investing.'

Using a combination of quantitative screening and fundamental research, their process aims to identify companies with better-than-average earnings prospects but where they believe the growth is inadequately discounted in a company's share price.

5.5 Investment Charges

Cost is one factor that you might want to consider when deciding where to invest your retirement account. The fees charged by each fund manager for each available fund are shown in the table below:

Manager	Fund	Fees (% per annum)
Standard Life	Managed Cash Fund	0.29%
HSBC	Amanah	0.53%
Trilogy	Global Diversified Fund	1.13%
BlackRock	Diversified Growth	0.80%
	UK Focus	1.36%
	(50:50) Global Equity Fund	0.24%
	UK Equity Index	0.24%
	Over 5 Year Index-Linked Gilt Index	0.24%
	Over 15 Year Corporate Bond Fund	0.25%

Cost should not be looked at in isolation, for example, the return a fund has the potential to achieve may outweigh a higher annual fee. It is important to have a balanced view of the fund you are investing in.

Reduced fees

The investment fees shown above, for the majority of funds, are lower than would normally be charged by the managers. The Trustee of the Telefónica UK Pension Plan ('the Trustee') has used its buying power to negotiate a lower fee to pass onto you.

5.6 Investment Jargon

Fund Manager

The Fund Manager is the company/person that is responsible for choosing the stocks and shares within a fund in which your money will be invested.

Benchmark

The benchmark is the investment comparison that has been set for each Fund Manager. Typically, the benchmark is an investment index, which comprises stocks and shares that

are representative of the market as a whole. Examples of investment indices of which you may have heard are the FTSE 100 Index and the Dow Jones Index.

Active or passive management

You have two types of investment management style available to you; active and passive.

A passive investment style will involve the Fund Manager trying to "track" the performance of the Benchmark; such funds are commonly referred to as "tracker" funds. Typically, the Fund Manager would do this by holding stocks in roughly the same proportions as the index. This approach takes most of the risk out of performing worse than a market. However, it does not remove the risk that the market itself will fall, or aim to beat the market even when the market falls.

An active investment style will involve the Fund Manager trying to "beat", i.e. perform better than, the Benchmark. The Fund Manager will attempt to do this by using his knowledge of companies to select stocks and shares that will do better than the market on average.

An actively managed fund aims to give higher returns than a passive fund, but there is a risk of it giving lower returns.

Lifestyle

A Lifestyle arrangement automatically changes how your money is invested as you approach your intended retirement age. The intention is to maximise returns while you are far away from retirement while switching your money into more "secure" assets as you approach retirement. You should note that the Trustee maintains the discretion to change the mechanics of the lifestyle option.

This strategy may not be suitable for you and may not provide as favourable an outcome as another investment approach. You must keep the decision to invest in a lifestyle option under regular review.

5.7 Trustee's objectives

The Trustee has provided a range of investments that are suitable for your long and short-term retirement saving objectives. In doing so, the Trustee has decided to make a core range of funds available that is sufficient to meet the needs of the majority of Plan members. The Trustee will keep the range of investment funds available under review. You should also note that the Trustee monitors the current investment options on an ongoing basis and may decide in the future to remove some or all of these options.

5.8 Different classes of investments

There are three basic classes of investment available under the Plan — equities, bonds and cash. It is important that you understand the differences between them because they have different risk profiles.

Equities (or company shares)

These are shares in UK and overseas companies. The Trustee has been advised that, in its investment adviser's opinion, over the long term, the return from shares has the potential to rise by more than bonds and cash. However, the success of shares depends on economic and market conditions as well as the performance of the individual companies.

Share prices can rise and fall quite sharply, so there is no guarantee that you will get back the capital you have invested. Sudden falls in share prices can be a particular problem if they take place immediately before your retirement, when your investments need to be sold. Investing in shares in overseas companies carries with it an exposure to currency risk.

The Trustee has been advised that shares are generally considered by its investment adviser to be more suitable for members who are at least five to ten years from retirement who can take advantage of long-term growth and may be better placed to bear any loss. But there is no guarantee that long-term growth will be achieved and shares may not be a suitable investment for all members. It is important to note that when losses arise they can be significant.

Bonds

Bonds are issued by companies or governments as a way of raising money. The issuer normally promises to repay the money at an agreed time and to pay interest in the meantime. The interest can be at a fixed rate, or the interest rate can be linked to increases in inflation.

Gilts are bonds issued by the UK Government

Bonds are traded in the investment markets and the value of a bond can fall as well as rise depending on changes in interest rates, as well as supply and demand, and expectations about rises or falls in future inflation rates.

The Trustee has been advised by its investment adviser that the long-term return on bonds is expected to be lower than that offered by shares.

The amount of pension that you can buy at retirement is currently linked to the price of bonds and therefore such investments may be useful close to retirement, if you are trying to minimise any major changes to the amount of pension you will receive when you retire.

Cash

You will be familiar with deposit accounts from your bank or building society. Cash and deposit funds are similar. Because the money which is lent or placed on deposit is payable back on demand or on giving a short period of notice, the rate of interest earned on the

money tends to be lower than the rate of return available on bonds. The interest earned on a cash or deposit fund may not keep up with price inflation.

The Trustee has been advised that cash and deposit funds are normally considered by its investment adviser to be low-risk, in that the amount of the investment never normally decreases. However, in return for this security, the returns that can be expected over the long-term are lower than those expected from equities and bonds. The Trustee has been advised that currently cash and deposit funds are not considered to be suitable for achieving long term investment growth.

5.9 Investment risk

When you hear people talk about investment risk, they usually mean the risk that the value of your investments may fall as well as rise - this is also known as volatility. But there are other kinds of risk that are equally important. The value of your investments may be eroded by inflation, and the buying power of your investments may be eroded as the price of buying pension can also change. The key to successful investment is balancing these different kinds of risk against each other.

In the earlier part of your career, it may be appropriate to accept a higher level of short-term volatility (or risk) in order to reap the potential reward of higher long-term growth. However, as you approach retirement age you may wish to protect the value of your investments and minimise the risk of them going down in value. When you retire, under current laws you must use some of your investment to buy a pension in the form of an Annuity. In exchange for a lump sum, the annuity company will provide you with an income for the rest of your life. The cost of buying a pension varies. As you approach retirement, you may wish to protect the buying power of your investments.

Your attitude to risk may change over a period and the levels of the different investment risks will also change. This means that you need to review your investments on a regular basis. You may wish to change the mix of your investments from time to time.

5.10 Investment Policy

The Trustee of the Plan must, under law, provide a statement of its policy on investments – this is known as the Statement of Investment Principles. This document is kept up to date by the Trustee reflecting the current investments of the Plan.

This document is available on request. Please see the further information section for details of how you can contact the Plan.

5.11 Switching investments

Instructions for active Plan members

If you are an active Plan member you will need to change your investment options through the flexible benefit website at www.o2rewards.com. This will only change where your future contributions are invested. If you would like to change the investment of your entire retirement account then please see below.

There are two specific enrolment windows during which you are able to change your investment options for future contributions:

1. Annual enrolment - opens each year during November only.
2. Life event - a defined life changing event such as a promotion, moving house, getting married, having children etc.

Instructions for deferred Plan members and those wishing to change the investment of their entire retirement account. If you are a deferred Plan member you can switch between different investment options at any time by completing a switch form. Once completed this should be returned to the Plan Administrator.

The same form can be used by active Plan members who want to change where their entire retirement account is currently invested. The 'Instructions for active Plan members' above only allows you to change where your future contributions are invested and a form must be completed to effect all other changes.

Forms can be obtained from the Plan's website or the Plan Administrator. Please see the further information section for contact details.

6. Transfers in

You may be able to transfer benefits you have from being a member of a previous pension scheme into the Telefónica UK Pension Plan.

Should you be interested in this, please complete the relevant form and send this to the Plan Administrator who will investigate the feasibility of transferring your benefits. Forms can be obtained from the Plan's website or the Plan Administrator. Please see the further information section for contact details.

If you choose to transfer benefits in from another pension scheme, this may affect the options available to you if you leave the Scheme before attaining two years' service, for example, you may not have the option to take a refund of contributions. The Plan Administrator will be able to give you more information on this when you contact them.

7. Retirement

7.1 Retirement age

There is much flexibility and choice in retirement under the Plan and more details on how you can arrange your retirement can be found in the following pages. This first page provides details on the ages from which you can draw your pension.

For the purposes of calculating and paying your pension under the Plan, your Normal Pension Age is age 60. This means that there are two options available to you once you have reached age 60:

- Retire if you wish.
- Continue to be employed by the Company and continue to save through the Plan and enjoy the benefits of Plan membership, in accordance with the Plan Rules.

* The Company's intranet pages provide further information on your employment rights.

Minimum retirement age

You can currently retire and use your Retirement Account to purchase benefits at any time from age 55. However, you are able to request early retirement on the grounds of ill health before age 55.

Maximum retirement age

If you are considering delaying your retirement, you will have to take your pension no later than your 75th birthday.

Choosing your retirement age for investment purposes

Under the Lifestyle investment strategy you will need to select a target retirement age. This must be between the Minimum and Maximum retirement ages above. If you do not make an active choice regarding your retirement age, the Plan will assume you wish to retire at age 65 (your contractual retirement age).

7.2 Normal retirement

The Normal Pension Age under the Plan is age 60, so if you wish you can retire from age 60 and take your Plan benefits without penalty (and without the need for the Company's

consent, which is required if you want to retire and take your Plan benefits before age 60). However, you have the right to work and continue to save through the Plan. When you retire, the value of your accumulated Retirement Account will be used to purchase the benefits of your choice.

As well as a pension for you, these benefits can include:

- a tax-free sum
- a pension payable to your spouse should you die first
- a pension for your Dependants should you die first

The maximum* amount of the tax-free sum you are able to take is normally restricted to 25% of the value of your Retirement Account.

Your pension will be paid directly to your bank or building society account and will be subject to tax. It is payable for life.

Example:

A member is age 60 in 3 months time with a Retirement Account value of £40,000. The member is given following options:

- Use all the £40,000 for a pension for himself that will be paid for the rest of his life and increased with inflation each year, up to 5%.
- Take a lower pension but have pension increases each year up to a higher maximum.
- Take up to £10,000 as a tax-free cash lump sum and use the rest of the money to buy a pension.
- Take a lower pension for himself and use some of his Retirement Account to provide a pension for his partner, when he dies.
- Take a pension with a guarantee period so that if he died during the first five years of retirement, his beneficiaries would receive an amount equivalent to any unpaid instalments.

The Plan Administrator will contact you six months before you reach age 60 to let you know:

- how much is in your Retirement Account
- how much pension this could buy
- what your options are
- what to do next

* If your entitlement to tax free cash was greater immediately prior to the 6th April 2006 you may take the higher value.

7.3 Early retirement

As with normal retirement, you can use your Retirement Account to purchase retirement benefits for yourself and your Dependants. If you retire early, your benefits will be lower because:

- Fewer contributions will have been made and the monies in your Retirement Account will have had less time to grow.
- Your pension is expected to be paid for a longer period and therefore is more expensive to purchase.

You can currently retire and use your Retirement Account to purchase benefits at any time from age 55 (or earlier if on the grounds of ill-health). If you are under age 60 you will require the Company's permission which will not ordinarily be withheld should the appropriate period of notice be provided. Should you wish to consider this please discuss this with your line manager. Once approved you should contact the Plan Administrator who will arrange for a quotation to be sent.

7.4 Late retirement

If you continue in employment past the Normal Pension Age further contributions will be paid into your Retirement Account. The existing monies in your Retirement Account will

continue to be invested and together with future contributions, will accumulate investment income until you actually retire.

Current law requires you to put your benefits into payment no later than your 75th birthday.

7.5 Flexible retirement

Flexible retirement has been introduced from the 6th April 2006. Flexible retirement means exactly what it sounds like it means - more freedom to draw your pension in the way that most suits you. You may wish to consider:

1. Taking your pension whilst continuing to work

Subject to being at least the Minimum Retirement Age, you may put your pension benefits into payment without leaving Telefónica.

2. Postponing your benefits

You will not be forced to take your pension when you reach age 60 or on leaving the Company. You can choose to take your pension anytime before your 75th birthday at which time tax rules require that you put your Retirement Account into payment.

3. Take your benefits over staggered periods

This is more complicated and the example below is intended to help you understand your options. You are able to use part of your Retirement Account to set up a pension and to receive tax free cash. The remainder of the fund will stay invested until you choose to put it into payment. There are a few conditions that apply to ensure that the process works well and complies with tax law but there are no conditions that are designed to inconvenience you.

Example

On reaching age 58 Ramon decides to put part of his pension fund into payment and reduce his hours of work with Telefónica to 3 days a week.

Ramon opts to put half his fund of £90,000 into payment. Of this £45,000, Ramon opts to take 25% (£11,250) as tax free cash to pay off his mortgage and uses the other £33,750 to purchase a pension which is arranged by the Plan Administrator.

The remaining element of Ramon's retirement account (£45,000) continues to be invested until his 65th birthday when Ramon puts his entire fund into payment. Between age 58 and 65 Ramon continues to contribute to the Telefónica UK Pension Plan and his contributions along with the Company's matching contributions and tax relief are invested in his Retirement Account.

Ramon was covered for death benefits as follows:

- Up to age 58 - 3 x salary and a 30% dependent's pension.
- Age 58 to 65 - 3 x salary and any dependent's pension set up by purchasing a pension.
- 65 onwards - any dependent's pension set up by purchasing a pension.

Conditions

1. The first payment must not commence prior to your Minimum Retirement Age.
2. All benefits must be in payment before or on your 75th birthday.
3. Tax free cash relating to an element of your Retirement Account must be taken at the same time as the pension to which it relates.
4. Subject to (iii) above you may continue to contribute to the Plan as discussed next.

4. Make more savings

If you choose to take only some of your pension (as outlined previously), you can still continue to contribute to the Plan. You will need to be in the employment of the

Company and either under age 65 or have Company consent. You will also need to maintain a balance of at least £2,000 in your Retirement Account. You will continue to benefit from Company Contributions. However, your death benefits will be altered as noted below.

5. Partial transfer of your benefits

You may opt to transfer part of your Retirement Account to another approved arrangement, which is able and willing to accept a transfer payment should you wish. The conditions that apply are as noted in conditions 1-4 above. You are strongly recommended to take Financial Advice should you be considering this option.

6. Death benefits under flexible retirement

Should you be in receipt of pension from the Plan but remain in service you will be entitled to the following death benefits:

- If you do not make further contributions to the Plan, you will be entitled to 2 x salary as though a non member.
- If you continue to contribute at least 4% of salary to the Plan you will be entitled to a lump sum death benefit of 3 x salary. Entitlement to 30% dependent's pension will cease from the date that your first pension payment is made. The dependent's pension by virtue of being an active member ceases as pension in payment may provide a dependent's pension.

8. Death Benefits

There are three types of death benefit available in the Plan:

8.1 Death in service

If you die in service then a range of benefits are payable:

- A lump sum - an amount equal to 3 times your Plan Salary at the date of your death plus an amount equal to that part of your Retirement Account attributable to the contributions you have made to the Plan.
- A spouse/Dependant's Pension. This will normally be equal to 30% of your Plan Salary.

However, you should note that if you joined the Plan outside of your first 12 months of employment with the Company then you may be a 'Pension Only' member and covered for death in service at the level of a non-member. This means a lump sum of 2 times your Plan Salary at the date of your death will be paid.

Please refer to Section 7 above if you have chosen to take flexible retirement.

8.2 Death after leaving the Plan

If you die before retirement the Trustees will use your Retirement Account to pay a lump sum or to provide a pension for your Dependents.

8.3 Death in retirement

On your death in retirement, your spouse and/or Dependents will receive any pension or death benefits which you purchased for them from your Retirement Account at the time of your retirement.

Please ensure that you have an up to date Expression of Wish form to let the Trustees know your wishes in the event of your death.

9. Leaving the Plan

Your membership of the Plan will end when you leave the employment of the Company. You can also leave the Plan (while remaining an employee of the Company) by giving six weeks' notice to the Plan administrators.

If you chose to leave the Plan, you will only be able to rejoin the Plan in the future with the agreement of the Company, but will be admitted as a Pension Only member (which means you will only be covered for a lump sum of 2 x salary on death in service rather than 3 x salary).

If you choose to leave the Plan, your options depend on whether you have:

- been a member for less than 3 months,
- been a member for 3 months or more but less than 2 years,
- been a member for more than 2 years.

Less than 3 months

If you joined the Plan and opted to make contributions on a salary sacrifice basis, no benefits are payable and you will not receive a refund of contributions if you leave the Plan within 3 months of your date of joining the Plan. Take a look at the salary sacrifice page to find out more.

If you did not opt to make contributions on a salary sacrifice basis when you joined the Plan and leave within 3 months of joining the Plan, you will receive a refund of the value of your accumulated contributions less tax (currently at 20%). No benefits will be received in respect of the contributions paid by your employer.

Example

A member leaves after 2 months of membership of the Plan having not opted to make contributions under salary sacrifice.

Their contributions were £50 per month. On leaving the member would receive a net refund of:

- $2 \times £50 = £100$
- Less Tax at 20% = £20

- Net refund is £80 (plus investment income — the amount may be lower if investment returns are negative)

3 months or more but less than 2 years

If you have been in the Plan for 3 months or more but less than 2 years, you have two options:

- A refund of the value of your accumulated contributions less tax (currently at 20%). No benefits will be paid in respect of the contributions made by your employer which includes contributions paid to the Plan on a salary sacrifice basis. Please see the salary sacrifice page to find out more.
- Transfer the full value of your Retirement Account to another approved arrangement, which is able and willing to accept a transfer payment. You will have 3 months to decide to take a transfer from the date that a letter summarising your options is sent to you by the Plan Administrator.

Example

Karen leaves the Plan after 12 months. She opted not to make contributions through salary sacrifice when she joined the Plan. Her contributions were £50 per month.

Karen's options are:

- **Refund:**

12 x £50 = £600

Less Tax at 20%* = £120

Net refund is £480 (plus investment income - the amount may be lower if investment returns are negative)

- **Transfer**

A transfer of the entire Retirement Account including £600 contributions made by Karen and £600 contributions made by the Company (plus investment income - the amount may be lower if investment returns are negative).

* Note tax charge is 20% on first £10,800 and 40% on excess.

More than 2 years

If you have been in the Plan for more than 2 years, you have two options:

- Leave your accumulated contributions in your Retirement Account where they will continue to be invested until retirement. At retirement, the accumulated value will be used to purchase the benefits of your choice. (You may retire early in the same circumstances as set out under Early Retirement.)
- Transfer the full value of your Retirement Account to another approved arrangement, which is able and willing to accept a transfer payment.

Example

A member leaves the Plan after 24 months. Their contributions were £50 per month. On leaving the member would receive a deferred Retirement Account of:

- $24 \times £50 = £1,200$
- Plus a matching Company contribution of £1,200
- Giving a deferred Retirement Account of £2,400 (plus investment income — the amount may be lower if investment returns are negative)

Note: if you want to transfer to another arrangement, you will need to ask the Plan Administrator for a quote of the transfer value of your fund.

10. Your state pension

The State scheme is in two parts — the State Basic Pension and the State Second Pension. Both are paid from State Pension Age (currently age 65 for men and 60 for women but this will be equalised to age 65 for all in the period from 2010 to 2020).

Section 1 of the Plan is not contracted out of the State Second Pension and therefore you will normally receive the State Basic Pension and the State Second Pension in addition to your Plan benefits.

11. Further information

Queries and disputes

All pension queries, including problems or complaints regarding the membership of the Plan should, in the first instance be directed to the Plan Administrator:

For Section 1 members and AVCs paid by Section 2 and Section 3 members:

Standard Life

Corporate Pensions

Standard Life House

30 Lothian Road

Edinburgh

EH1 2DH

Email: corppen_service@standardlife.com

For Section 2 and 3 members:

Team - 02 Pensions Administration

Lane Clark & Peacock LLP

St Paul's House

St Paul's Hill

Winchester

Hampshire

SO22 5AB

Email: Team-02Admin@lcp.uk.com

A copy of the annual report of the Plan is also available from the Plan Administrator on request.

The Plan has a formal procedure in place for resolving disputes. You may request a copy of the full formal disputes procedure from the Plan Administrator at the above address.

If you are dissatisfied with the outcome of the internal dispute procedure, the following external organisations are available to investigate complaints.

The Pensions Advisory Service (TPAS) and the Pensions Ombudsman

TPAS is available at any time to assist members and other beneficiaries of the Plan in connection with any pension query that they may have or difficulty which they failed to resolve with the Trustees or administrators of the Plan.

Complaints may also be referred to the Pensions Ombudsman who will investigate and determine any complaint or dispute of fact or law.

TPAS and the Pensions Ombudsman can be contacted at:

11 Belgrave Road

London

SW1V 1RB

Tel: 01273 627600

The Pensions Regulator

The Pensions Regulator is able to intervene in the running of pension schemes where trustees, employers or professional advisers have failed in their duties.

The Pensions Regulator can be contacted at:

The Pensions Regulator

Napier House

Trafalgar Place

Brighton

BN1 4DW

Tel: 0870 6063636

Tax advantages of the Plan

The Plan is a registered pension scheme under the Finance Act 2004. This results in the following tax advantages.

- both your contributions and those of the Company qualify for some tax relief
- your lump sum payable at retirement is tax-free
- tax advantages in respect of the Plan's investment income and capital gains

Pension scheme registry

The Plan is registered with the Registrar of Occupational and Personal Pension Schemes. It acts as a central tracing agency to help individuals keep track of their former pension arrangements as they move jobs. The Register is held at:

PO Box 1NN

Newcastle upon Tyne

NE99 1NN

The Data Protection Act 1998

The Data Protection Act 1998 imposes various obligations on organisations, which process information about you – this includes an obligation to notify you that information is held about you. In order to administer the Plan, data about you and your Dependants will be processed by the Trustees, administrators and advisors of the Plan. Data may also be disclosed (including outside the European Union) to insurers, employers, any potential purchaser of your employer or its business and any administrator or adviser of another pension arrangement in the context of any transfer of your pension rights.

12. Glossary

Annuity

A fixed sum of money paid to an individual each year for the rest of their life. It may include annual increases and also dependants' benefits payable on death

Children

Include your offspring, adopted children, stepchildren and, in certain circumstances, children for whom you are acting in the position of a parent

Company

Is Telefónica Europe Plc, Telefónica O2 UK Ltd, or one of the participating employers

Company Contribution

This is the amount the Company contributes into your Retirement Account

Contributing member

Is a member who is paying contributions to Section 1 of the Plan

Dependant

Is anyone who the Trustee agrees is dependent on you financially or by reason of disability. This can be an adult of either sex, and includes any child who is dependent on you and is either under the age of 17, in full time education and under age 23, or is physically or mentally incapable of self support

Earnings Cap

Is the maximum earnings that may be taken into account for pension purposes under the Plan Rules (£123,600 for 2010/11 tax year)

High Earners

A person is classed as a high earner for the purposes of assessing pension tax relief if they have taxable income of more than £130,000 per year

Normal Pension Age

Under the Plan is age 60, but you have the right to continue working until age 65

Plan Salary

Is your basic salary excluding overtime payments, up to the Earnings Cap

Retirement Account

Is the individual account set up to receive the monthly contributions contributed by you and the Company. This is maintained on your behalf by the Trustee of the Plan

Retail Prices Index

The index of Retail Prices compiled by the Government's Office of National Statistics

Rules

The Trust Deed and Rules governing the Telefónica UK Pension Plan. The Rules will be used to determine benefits and override any other communication, including this website

State Pension Age

Is currently age 65 for men and 60 for women, but it is to be equalised to age 65 for all, over the period 2010 to 2020