



PENSIONS

HARMSWORTH PENSION SCHEME

2010

Report and Financial Statements

for the year ended 31 March 2010

10 Bedford Street
Covent Garden
London WC2E 9HE

HARMSWORTH PENSION SCHEME

HARMSWORTH PENSION SCHEME

Scheme Number: 101324297

TRUSTEE

Northcliffe Trustees Limited

10 Bedford Street
Covent Garden
London
WC2E 9HE

INDEPENDENT DIRECTOR

C A Wood OBE (Chairman)

COMPANY SECRETARY

G M Staines, FPMI

COMPANY APPOINTED DIRECTORS

J P Williams
K N Thompson
N Jennings (appointed 24 February 2010)
S Dyson MBE (resigned 30 November 2009)

MEMBER-NOMINATED DIRECTORS

P G Newman
L Hollamby
P Ash
S J Torrington

INVESTMENT SUB-COMMITTEE

J P Williams
S Bates
A Brummer (appointed 10 June 2010)
A V Hilton (resigned 10 June 2010)
M McGregor-Smith
A Perry
S J Torrington
C A Wood OBE

FUNDING SUB-COMMITTEE

C A Wood OBE
M Newman
P G Newman
S J Torrington
K N Thompson
J P Williams

ADMINISTRATION SUB-COMMITTEE

P Ash
L Hollamby
K N Thompson

FINANCE & RISK SUB-COMMITTEE

P G Newman
C A Wood OBE

HEAD of INVESTMENT

M Weston – DMGT Pensions

HARMSWORTH PENSION SCHEME

PROFESSIONAL ADVISERS

ACTUARIAL ADVISERS

Hewitt Associates Limited
6 More London Place
London SE1 2DA

SCHEME ACTUARY

Richard Whitelam FIA

ADMINISTRATOR

DMGT Pensions
10 Bedford Street
London WC2E 9HE

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP
Hay's Galleria
1 Hay's Lane
London SE1 2RD

BANKERS

National Westminster Bank Plc
Bishopsgate Branch
PO Box 34
15 Bishopsgate
London EC2P 2AP

COVENANT ADVISERS

Towers Watson Limited
21 Tothill Street
Westminster
London SW1H 9LL

Lincoln International
16 Garrick Street
Covent Garden
London WC2E 9BA

CUSTODIAN

The Northern Trust Company
50 Bank Street
Canary Wharf
London E14 5NT

EXISTENCE CHECKING

Tracesmart Limited
2 Sovereign Quay
Havannah Street
Cardiff CF10 5SF

INVESTMENT CONSULTANT

Towers Watson Limited
21 Tothill Street
Westminster
London SW1H 9LL

INVESTMENT MANAGERS

(see APPENDIX 1 on Page 32)

MORTALITY EXPERIENCE CONSULTANTS

Club Vita LLP
One London Wall
London EC2Y 5EA

PERFORMANCE MEASUREMENT SPECIALISTS

The WM Company
525 Ferry Road
Edinburgh EH5 2AW

RISK ANALYSTS

PensionsFirst Analytics
90 Long Acre
Covent Garden
London WC2E 9RA

SOLICITORS

Linklaters LLP
One Silk Street
London EC2Y 8HQ

HARMSWORTH PENSION SCHEME

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2010

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HARMSWORTH PENSION SCHEME

TRUSTEE'S REPORT

Constitution of the Scheme

The Harmsworth Pension Scheme (the "Scheme") is a defined benefit scheme providing salary-related benefits for the employees of certain subsidiary companies of Daily Mail and General Trust plc ("DMGT"). It is established under and governed by a Trust Deed and Rules administered by a Trustee specially appointed for this purpose. The Scheme is a registered pension plan under the Finance Act 2004. To the Trustee's knowledge there is no reason why such registration should be prejudiced or withdrawn.

The Scheme is contracted-out of the State Second Pension.

Contingent asset following merger

The Trustee executed a Transfer Agreement dated 30 November 2007 that merged the Mail Newspapers Pension Scheme into the Scheme.

As a condition of this merger, DMGT provided a letter of credit for £40 million during the period to 1 December 2011 which was available to the Trustee in the event that the Scheme begins to be wound up before 1 December 2011 and the assets of the Scheme are insufficient to provide benefits in full for all members.

However, on the advice of their actuary, the Trustee agreed to exchange this letter of credit for funding payments of £3.167 million comprising an initial payment of £1 million received on 30 September 2009 followed by a series of monthly payments of £83,346 to November 2011.

Membership

Membership of the Scheme under the various categories is shown below:

	2009	Additions	Withdrawals	2010
Members in service	3,878	163	(835)	3,206
Deferred members	8,110	507	(382)	8,235
Retired members*	9,655	633	(348)	9,940
TOTAL	21,643	1,303	(1,565)	21,381

*Includes widow(er)s, adult dependants and children receiving a pension from the Scheme.

The further significant reduction in members in service reflects the action taken by Participating Companies to reduce headcount as part of a broad reorganisation aimed at reducing the cost base of those businesses.

Actuarial valuation and Scheme Specific Funding

Every three years the Scheme carries out an actuarial valuation. This is a financial assessment of the Scheme undertaken by the Scheme Actuary. The Actuary looks at the value of the assets of the Scheme and compares these with the value of the benefits that are either already being paid or are to be paid in the future i.e. the liabilities. A number of assumptions are made by the Actuary and these are agreed with the Trustee in advance of the valuation.

The last valuation was completed as at 31 March 2007 by Kevin Ellis of Watson Wyatt Limited who was the Scheme Actuary at that time. This was the first valuation undertaken in accordance with the Scheme funding provisions under the Pensions Act 2004. This introduced a requirement for the trustees of defined benefit occupational pension schemes to enter into discussions with the scheme sponsor to determine a suitable, prudent, ongoing funding basis for the Scheme. In addition, where a deficit existed on that basis, there is a requirement to agree an appropriate recovery plan for removing it.

HARMSWORTH PENSION SCHEME

The agreed funding strategy made allowance for assumed future investment returns on the Scheme's assets of 3.3% p.a. above price inflation, compared with the real return of some 2.6% p.a. implicit within the calculations of the Technical Provisions (i.e. the value of the Scheme's benefit liabilities). The Trustee agreed that this margin could be covered by a contingent asset and the Company has put in place letters of credit (to be updated annually) of an amount sufficient to cover any potential shortfall in this additional investment return arising prior to the next triennial valuation. At 31 March 2010, the letters of credit had a value of £46.94 million.

The employer paid annual contributions of 18% of members' Scheme Salaries up to 31 December 2008. However, from 1 January 2009 most active members agreed to participate in a salary sacrifice arrangement, known as 'XTRA', under which contributions paid by the employer for those employees in the new arrangement were increased by an amount equal to the contributions that would have been paid by the employee. Contributions for all other employees remained unchanged.

The combined accumulated assets of the Scheme as at 31 March 2007 represented 99% of the combined Scheme's Technical Provisions in respect of past service benefits. However, in common with the majority of defined benefit schemes, there was a sharp deterioration over the following two years, with the equivalent funding level falling to 63% as at 31 March 2009. Recent quarterly updates provided to the Trustee indicate that the funding position has since improved.

The key financial assumptions used in the 2007 actuarial valuation are shown below:

	2007 Nominal	2007 Real
	% pa	% pa
Financial Assumptions		
Price inflation	3.0	0.0
Pension increases (on excess over GMP)	3.0	0.0
General increases in pensionable earnings	4.3	1.25
Increases in pensionable earnings deductions	3.0	0.0
Discount Rates:		
- Pre-retirement	6.4	3.3
- Post-retirement	4.8	1.8

Discussions between the Company and the Trustee in connection with the 2010 triennial valuation are underway and certain principles regarding the length of the deficit recovery period and the schedule of contributions have been set out in a memorandum of understanding between these two parties. It is expected that preliminary results from the Scheme Actuary's calculations will be available to the Trustee's Funding Sub-Committee towards the end of the year before being presented to the Board.

De-Risking

The Trustee is aware that the significant pension liability (risk) being carried by the Company on its balance sheet is an ongoing concern and, for this reason, steps are being taken to develop a long-term de-risking strategy. When in place, this will be used as a benchmark against which specific de-risking proposals will be assessed.

A Risk Management Working Group (RMWG) has been set up by the Company as the body responsible for assessing first stage de-risking proposals through feasibility studies carried out with help from external specialists. A senior representative from the Hewitt actuarial team has joined the RMWG to add her de-risking experience and to ensure that any proposal is subjected to appropriate scrutiny in preparation for Trustee engagement where further analysis is justified.

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The Trustee has appointed a risk analyst (see page 4) to work with DMGT Pensions in examining selected de-risking proposals. The specialist software supplied to DMGT Pensions by that organisation is designed to help the Trustee and the Company optimise its de-risking activity.

Asset Allocation

In parallel with the funding discussions between the Trustee and the Company in connection with the 2010 triennial valuation further analysis of the portfolio asset allocation is being carried out to establish the asset mix that has appropriate characteristics and is expected to deliver cashflows that match benefit cashflows as closely as possible. This is the second phase in a process which began with a diversification of the portfolio in mid-2008.

Financial Development of Scheme

The net assets of the Scheme increased by £286.3 million, or 27.1%, from £1,054.0 million to £1,340.3 million as shown in the following table:

	£m	£m
Contributions and transfers receivable	28.7	
Benefits payable and payments to and on account of leavers	(73.6)	
Net withdrawals		(44.9)
Investment income	14.7	
Change in market value of investments	319.9	
Investment management expenses	(3.4)	
Net returns on investments		<u>331.2</u>
Net increase in the fund during the period		286.3

The financial statements have been prepared and audited in compliance with Regulations 41 (1) and 41 (6) of the Pensions Act 1995.

Member Contributions

Pension contributions paid by members in the Pension+ section of the Scheme are 7.5% of Scheme Salary. Contributions for members in the Standard section are 5% of Scheme Salary.

However, as explained above, from 1 January 2009 most active members agreed to participate in a salary sacrifice arrangement ('XTRA') under which contributions paid by the employer were increased by an amount equal to the contributions that would have been paid by those members. Contributions for all other employees remained unchanged.

Transfer Payments from Other Pension Arrangements

The Trustee has resolved not to accept payments from other pension arrangements in respect of active Scheme members. This change reflects the broader range of options now available to individuals in the pensions market and the potential cost to the Scheme of offering a final salary benefit in return for a transfer payment often received from a defined contribution pension plan.

Additional Voluntary Contributions (AVCs)

The Trustee has agreed to add a cash fund to the range of AVC options available to members and the communications material has been updated accordingly. It has also been agreed that owing to administration concerns that have increased following the recent acquisition of Friends Provident by Resolution Life, the AVC facility for members will be transferred to Fidelity later this year. All existing AVC investments will be mapped to appropriate funds on the Fidelity platform and steps are being taken by the Trustee's advisers Hewitt to limit or remove out of market exposure during this process.

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Pension Increases

The level of increase to pensions in payment granted during the year was in accordance with the rules of the Scheme. Accordingly, the basic increase awarded in April this year was 2.4%, in line with the movement in the Retail Prices Index in the last calendar year. This increase has been applied to the pension, excluding any Guaranteed Minimum Pension in payment.

Deferred pension benefits were increased by the statutory rate, 2.4%, from the same date, reflecting the annual increase in the Retail Price Index to December 2009.

A history of recent pension increases to retired members is shown below:

Date	%
1.4.05	3.5
1.4.06	2.2
1.4.07	4.4
1.4.08	4.0
1.4.09	0.9
1.4.10	2.4

Trustee

Details of the Trustee of the Scheme are shown on page 3 of this Report. Northcliffe Trustees Limited, which was incorporated on 30 June 1997, was appointed Trustee of the Scheme by a Deed dated 2 September 1997. The Directors of this Company, as listed on page 3, jointly hold all the issued ordinary shares.

Trustee Directors

Board meetings of the Trustee have been held quarterly. Certain decisions of the Trustee have been delegated to sub-committees set up under formal terms of reference to deal with administration, funding, finance & risk and investment. Certain specialists and selected internal attendees have been co-opted to the sub-committees to assist their work. Trustee-Director members of the sub-committees are listed on page 3 of this report.

The Pensions Regulator

The Pensions Regulator was established by the Pensions Act 2004 to oversee the operation of occupational pension schemes. The Regulator has far reaching powers and is able to intervene in the running of schemes in the event of any failure by trustees, employers, or professional advisers regarding their duties. He has the power to issue orders to sponsoring companies where corporate transactions might impact on the financial position of pension schemes.

The Pensions Regulator and Pension Protection Fund Levies

The Pensions Regulator (TPR) collects a General Levy from all UK occupational pension schemes. It also collects an Administration Levy on behalf of the Pension Protection Fund (PPF). In addition, the PPF collects directly from schemes a Scheme-based levy and a Risk-based levy.

The total levy for the Scheme is the responsibility of the Trustee but, at present, is reimbursed by the Company.

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Details regarding the levies collected during the year are shown in the table below:

Levy	Collected by	2010 £	2009 £
General Levy	TPR	21,725	14,300
Admin Levy	TPR for PPF	28,025	18,400
Scheme-based levy	PPF	236,093	226,348
Risk-based levy	PPF	161,407	54,472
		447,250	313,520

Daily Mail and General Holdings Limited (DMGH) has provided the Trustee with a guarantee in the form prescribed by the PPF. This guarantee effectively substitutes the low default risk of DMGH for the list of participating companies, some of which have a higher default risk according to the Dun & Bradstreet scoring system. The recognition by the PPF of this guarantee significantly reduces the risk-based levy charged to the Scheme.

Statement of Trustee's Responsibilities

The Trustee's responsibilities in respect of the financial statements are set out in more detail in the Compliance Statement on page 14.

Further Information

Further information about the Scheme generally, or about members' individual entitlements to benefit is available from:

**The Secretary
Harmsworth Pension Scheme
DMGT Pensions
10 Bedford Street
Covent Garden
London
WC2E 9HE**

or from the website www.dmgtpensions.co.uk

By order of the Trustee



**Geoffrey Staines
Secretary**