



Announcement to all active members of the ALSTOM Pension Scheme (“the Scheme”) in relation to changes to the Scheme as a result of the Employment Equality (Age) Regulations 2006

As you may be aware, new age discrimination legislation will come into force in relation to pensions from 1 December 2006. The Regulations will apply both to employers and trustees in relation to pension schemes. The Company and the Trustees are committed to comply with this new law and will take the necessary steps to remove discrimination where it is identified. Unfortunately due to repeated changes to draft Regulations, the Government has given Companies and Trustees only three weeks to meet the requirements.

This announcement gives details of the changes the Company is making to the benefits provided by the Scheme to comply with the new legislation.

Background

Under the legislation, direct or indirect discrimination by employers or trustees of pension schemes on the grounds of age in relation to service on or after 1 December 2006 is considered to be unlawful.

However, a wide range of exemptions are provided under the legislation for occupational pension schemes and in addition age discrimination is still allowed if it can be “objectively justified”.

If the practice is not covered by a statutory exemption or it cannot be “objectively justified” then the practice will have to change.

Following a review by the Trustee of the Scheme (the “Trustee”), the Company and their legal advisers, we have identified a number of practices, which unless they are changed could result in discriminatory benefits. The Company has therefore asked the Trustee to make the following changes.

Definition of a child

The Company has raised the upper age limit for the payment of children’s pensions where a child is in full-time education or vocational training from age 21 to age 23 in line with HM Revenue and Customs.

Earnings cap

The earnings used to calculate the death in service lump sum and spouse's pension were limited for members who joined the Scheme on or after 1 June 1989. This limit has now been removed. (This only affects members whose pensionable earnings are in excess of £108,600).

Flexible retirement

Members will be given the option to apply for payment of their pension from the Scheme on or after age 60, whilst remaining in employment with ALSTOM.

Members who choose to draw their pension early will not be able to accrue further benefits in the Scheme but will be able to join the ALSTOM Defined Contribution Plan (the "DC Plan"). Members who do this will **neither** be covered for death in service benefits, other than a return of the member's Individual Account in the DC Plan, **nor** be covered under the associated Income Replacement Scheme.

Building up additional pension after the age of 65

Members who reach age 65 and who with Company consent continue to work for ALSTOM have three options.

He or she can carry on building up additional years and months of pensionable service in the Scheme. If he or she does so and dies whilst working for ALSTOM, a death in service benefit will be payable.

A member can continue to work for ALSTOM, but choose to receive a pension from the Scheme. If he or she does so and dies whilst working for ALSTOM, but after drawing his or her pension, death after retirement benefits will be payable.

If the member opts out of the Scheme and dies whilst working for ALSTOM but before drawing his or her pension, a death in deferment benefit will be payable which, as the member has passed normal retirement, means the member is assumed to have retired the day before death.

Other

The Company is committed to eliminating discrimination and has had discussions with the Trustee to identify discrimination and deal with it where it is identified. This has been done in difficult circumstances, because the final regulations implementing the age discrimination law in relation to pensions were only released on 10 November 2006, three weeks before the law takes effect. There are considerable uncertainties about how the law will apply in practice. It is only relatively recently that the Government actually recognised that the age discrimination law would affect pension schemes at all.

As the law develops, some benefits that appear acceptable now may later come to be regarded as discriminatory. An example of this in a similar context is when the law outlawing sex discrimination was introduced. It was only years after the law had come into force that it became clear that treating part-time workers less favourably was sex discrimination because most part time workers are women.

If any aspect of benefit design later emerges as being age discriminatory, the Trustee would, under a statutory non-discrimination rule, be required to level up the benefits of the disadvantaged members. This would increase the Scheme's liabilities and could have a serious impact on the security of all members' benefits.

The Company and the Trustee have agreed that action is required in light of the uncertainty of the law to protect against increases in the liabilities of the Scheme if the Trustee was obliged to level up benefits. Reluctantly therefore, a provision will be included in the Scheme rules which levels down discriminatory benefits with effect from 1 December 2006, should discrimination under the Scheme rules later become apparent.

The effect of including this provision is that if a practice under the Scheme is identified as being discriminatory because one group of members is treated more favourably than another on grounds of age, the more favoured members will have their benefits levelled down to be in line with the less favoured members' benefits. This will only affect benefits accrued in the Scheme from 1 December 2006.

As mentioned previously, the Trustee and the Company have made every effort to identify discriminatory practices, so the provision should only catch benefits that unfortunately could not be identified as discriminatory. This means that if discrimination is identified after 1 December 2006, the provision may operate to cut back benefits that the Company, Trustee and Members thought were accruing from 1 December 2006. This uncertainty about benefits accruing from 1 December 2006 is a concern, so to mitigate the possible effect, the levelling down provision allows the Trustee to use any cost savings resulting from levelling down to increase benefits provided under the Scheme, in a way that is not discriminatory. The aim of the levelling down provision is not to save costs, but to allow the provision of non-discriminatory benefits without costs being increased. The change to the rules means that the Trustees may not be able to deliver your benefits in respect of service on and after 1 December 2006 in exactly the same form as currently.

In any event, if age discrimination is identified at a later date, the Company would first consider whether any other option is feasible to equalise benefits. A rule amendment which levels down gives the Company flexibility to decide on the most appropriate way to resolve the discrimination rather than having to provide (potentially very expensive) levelled up benefits.

Because the Company and the Trustee have reviewed the Scheme to identify obvious discriminatory practices it is hoped that the levelling down provision will never have effect. The Company and Trustee will review the necessity of having the provision as the law develops, the intention being that it be removed in the future if it is no longer considered necessary.

Consultation

The Department of Trade and Industry has issued guidance on age discrimination which expressly states that the consultation regulations "do not apply to changes made to the rules of schemes to prevent unlawful age discrimination"

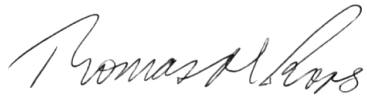
Notwithstanding this, the Company is keen that should you have any comments or queries that these be addressed to the UK Pensions Executive, Bryan Radford, at Newbold Road, Rugby CV21 2NH or bryan.radford@chg.alstom.com.



Eric Prescott
UK Country President



Helena Austin
UK Country HR Director



Tom Ross

on behalf of
ALSTOM Pension Trust Limited, the
trustee of the **ALSTOM Pension Scheme**