

A statement of the Scheme's financial health

Membership of the Alstom Pension Scheme (the Scheme) is an important and valuable benefit. So knowing how the Scheme is doing financially, and what proportion of your benefits is covered by the Scheme assets, is of paramount importance

Although your Trustee sends you Dimensions each year to update you on the Scheme's progress, they are also required to send you an annual statement showing the Scheme's financial health.

You will recall that they sent you the first such statement in September last year and this provided information about the Scheme as at 5 April 2003. This was when the last formal financial health-check – known as the 'actuarial valuation' – was carried out.

This year's statement provides information about the Scheme as at 5 April 2006 which is when the latest actuarial valuation of the Scheme was carried out.

As you know, the 2003 valuation showed a shortfall in the assets needed to pay all the benefits when they become due for payment. **The good news is that the actuarial valuation at 2006 shows a significant decrease in the shortfall from £406 million in 2003 to £227 million in 2006.** The principal reason for this fall has been that the returns on investments have been better than the assumptions made at the time of the 2003 valuation and the contributions paid by Alstom have been higher than necessary to pay for the accruing benefits.

If these were the only factors at work, the deficit would have fallen even further. However, your Trustee and Alstom have taken a prudent approach and built in an allowance for lower future returns on some of the investments held which has, to a degree, offset the investment and contribution gains during the period. Fuller details are available in the report of the actuarial valuation as at 5 April 2006.

In the September 2006 statement, your Trustee explained that it was finalising, with Alstom, a Funding Agreement which sets out the contributions that will be paid by Alstom and a guarantee that Alstom had given about funding the Scheme.

This was signed on 14 November 2006 and the principles of this agreement have, alongside the results of the 2006 actuarial valuation, been incorporated into **the Statement of Funding Principles, Recovery Plan** and a **Schedule of Contributions**. These were all signed along with the formal actuarial valuation on 5 April 2007. **The Trustee and Alstom's intention is unchanged that the remaining shortfall should be eliminated by April 2016.**

This actuarial valuation is the first valuation of the Scheme on the new funding basis introduced by the Pensions Act 2004. The next formal valuation will not take place, other than in exceptional circumstances, until April 2009 but in the meantime, the Trustee will review the Scheme's financial health on an annual basis and send you an updated statement each year.

The following pages provide fuller details on the results of the actuarial valuation and contributions that will be paid in the future. Also included in this statement are answers to some of the questions you may have about the Scheme's financial health and what the figures included in this statement really mean.

This statement is for information only and the Trustees hope that you find it interesting and informative.

The Trustee's Funding Objective

The objective of the Trustee is to ensure that funding is available to meet all pension obligations as they fall due and to maximise protection of the benefits that the Employer has promised to pay and that members are expecting.

To enable the Trustee to meet this objective it commissions actuarial valuations which provide a great deal of information as they advise on the funding position of the Scheme (whether there is a shortfall or surplus), the adequacy of the employee and employer contributions to meet the cost of benefits accruing for future service, how the Scheme's investments and liabilities are changing compared to what the Trustee assumed would happen, and the additional contributions that may be needed to meet any shortfall or the abatement of contributions if and when there exists a surplus.

The latest actuarial valuation of the Scheme showed that on 5 April 2006:

Scheme's financial health assuming that the Scheme will continue

The assets compared to the Scheme's **technical provisions** (liabilities) on 5 April 2006 was:

The Scheme's assets were valued at:	£1,327 million
The value of the Scheme's liabilities was:	£1,554 million
This means that there was a shortfall of:	£227 million

Using the bases set out in the Statement of Funding Principles and the Recovery Plan, the shortfall has fallen further to £145 million as at 31 March 2007. This is due to two main factors, investment returns exceeding those assumed by the Trustee and Alstom paying extra contributions.

Alstom paid, during the year ending 5 April 2007, regular contributions of 12.5% of pensionable earnings and additional contributions totalling £38.5 million.

As a result of the actuarial valuation and the assessment at 31 March 2007, Alstom has increased its regular contributions to 13.0% of pensionable earnings, will pay additional contributions of £16.1 million each year for the nine years ending April 2016, will pay the cost of the PPF levy and Trustee indemnity insurance and will contribute £468,900 to the Scheme for expenses which will be increased each year, from 6 April 2008, in line with the 2006 section pension increases.

The next formal assessment of the Scheme is due at 5 April 2009. However, the Trustee will monitor the financial position of the Scheme regularly before then.

Scheme's financial health if the Scheme were to be wound up

The latest actuarial valuation of the Scheme at 5 April 2006 showed that if the Scheme were to be wound up at that date and run as a closed fund:

The Scheme's assets would have been valued at:	£1,327 million
The liabilities would have been valued at:	£2,095 million
This means that there would have been a shortfall of:	£768 million

The Trustees are required by law to provide you with this information on the Scheme's solvency position. It does not imply that there is any intention, on the part of either Alstom or the Trustees, to wind up the Scheme.

Payments to Alstom

There has not been any payment to Alstom out of Scheme funds in the period since the actuarial valuation or since the first summary funding statement.



Your questions answered

How is my pension paid for?

Contributory members pay contributions at the rate of 4%, 5.5% or 7% of pensionable earnings depending on whether they have chosen to accrue benefits at 85ths, 75ths, or 65ths. Alstom pays the balance of the contributions required by the Scheme.

All these contributions are held in a common fund, not in separate funds for each individual member.

The contributions are invested by the Trustee. The money built up in the Scheme through the contributions and investments are used to provide members benefits.

How is the Scheme's financial security measured?

At least every three years, the Trustee ask the Scheme Actuary to carry out a thorough examination of the Scheme's financial health. This is called an 'actuarial valuation'. The actuary looks at the value of the Scheme's assets and the liabilities that have built up and compares the two. If the Scheme has fewer assets than liabilities, it is said to have a 'shortfall' or 'deficit'. If the assets are more than the liabilities there is said to be a 'surplus'.

Is the shortfall going to be paid off?

As explained on page 2, Alstom will be making additional contributions for nine years of £16.1 million and it is the joint Trustee and Alstom's intention that the shortfall be eliminated by April 2016.

How much money is paid into the Scheme each year?

Following each actuarial valuation, the level of contributions that should be paid to the Scheme in order to meet the benefits being built up by members is calculated by the actuary and agreed by the Trustees and Alstom.

This agreed level of contributions is recorded in a document called the Schedule of Contributions. This is reviewed and updated at least each time the Scheme has an actuarial valuation.

What does 'winding up' mean?

Winding up means that the Scheme would be discontinued. In this circumstance benefits would either be provided from the Scheme, run as a closed scheme, or would be secured and paid through an insurance company. This could happen if Alstom went out of business or decided to discontinue the Scheme.

If this did happen, Alstom would have to pay enough money to the Scheme to buy all the benefits built up by members from an insurance company.

So why have you shown the 'winding up' position?

We are required by law to show you this information. Providing this information does not mean that Alstom is thinking of winding up the Scheme. It is just another piece of information we hope will help you understand the financial security of your benefits.

What would happen if the Scheme were wound up and there was not enough money to pay for all my benefits?

The Government has set up the Pension Protection Fund (PPF) to pay benefits to members of schemes that wind up where the employer has gone out of business and the scheme does not have

enough money to cover the cost of buying all members' benefits with an insurer. The pension paid from the PPF might be less than the full benefit that the member has earned, depending on their age and when their benefits were earned.

Further information is available on the PPF website at: www.pensionprotectionfund.org.uk.

Or you can write to the Pension Protection Fund at: Knollys House, 17 Addiscombe Road, Croydon, Surrey CR0 6SR.

Does the Trustee always work out the Scheme's liabilities in the same way?

Each time the Trustees ask the Actuary to calculate the Scheme's liabilities, they review the approach taken previously. This is to ensure that the calculation takes into account the most up-to-date information available.

The Government has introduced new funding rules for calculating the Scheme's liabilities and these applied to the Scheme for the first time for the 5 April 2006 valuation. The rules meant the Trustee have prepared a Statement of Funding Principles setting out how they will manage the funding of the Scheme to ensure it has enough money to pay members' benefits.

As the Scheme had fewer assets than liabilities (ie, there is a shortfall), the Trustees also prepared a document which shows more detail about how the shortfall will be paid off. This is called the Recovery Plan.

In brief the new rules are different to the way the Trustee previously looked at the Scheme's liabilities but, assuming no further changes to the rules, should be the same for future assessments.

Explaining pensions

Actuary

The qualified, independent professional appointed by the Trustee who is responsible for examining the Scheme's finances and assessing the Scheme's financial health.

Actuarial valuation

An in-depth look at the Scheme's finances, carried out at least every three years by the Actuary.

Scheme's liabilities

The estimated cost of providing the benefits earned to date by all the current members and those who have left the Scheme, together with the pension benefits already in payment.

Scheme's assets

The amount of money invested and held by the Alstom Pension Scheme.

Shortfall

If the liabilities are greater than the assets, the Scheme is said to have a shortfall or **deficit**.

Surplus

If the assets are greater than the liabilities, the Scheme is said to have a surplus.



Your questions answered continued

If you would like more information

Can I leave the Scheme before I am due to retire?

If you are an active member, you can leave the Scheme before you reach retirement and your pension will be based on your service and salary at your date of leaving. Alternatively, you may be able to leave your benefits in the Scheme to be paid at retirement or transfer them to another pension arrangement.

If you have already left the Scheme and decided to leave your benefits in the Scheme, you can if you wish, transfer your benefits to another pension arrangement prior to retirement.

If you are thinking of leaving the Scheme or transferring your pension benefits to another arrangement you should speak to an independent financial adviser before taking any action to ensure that you don't lose out.

How the Scheme is invested

The Trustee set the Scheme's investment strategy with the help of their professional advisers. As at 5 April 2006, the Scheme benchmark asset allocation was as follows:

UK shares	23.75%
Overseas shares	23.75%
UK Index-linked gilts	13.33%
UK Fixed-interest bonds	16.67%
Overseas Fixed-Interest bonds	10.00%
Property	12.50%

But following the actuarial valuation the Trustee, after discussions with Alstom, decided to move some of the investments from shares into less volatile bonds. Over the middle of 2007 they will move towards the following asset allocation:

UK shares	16.65%
Overseas shares	16.65%
UK Index-linked gilts	18.88%
UK Fixed-interest bonds	23.64%
Overseas Fixed-Interest bonds	14.18%
Property	10.00%

There are a number of documents available about the Scheme.

- **Statement of Investment Principles:** This explains how the Trustee invest the money paid into the Scheme.
- **Statement of Funding Principles:** This sets out the basis and assumptions used by the Trustee to value the assets and liabilities of the Scheme.
- **Recovery Plan:** This sets out how any shortfall revealed by the actuarial valuation will be eliminated.
- **Schedule of Contributions:** This shows how much money is being paid into the Scheme by Alstom and active members.
- **Annual Scheme Report and Accounts:** This shows the Scheme's income and expenditure over the year.
- **Formal Actuarial Valuation Report:** This contains details of the actuary's check of the Scheme's financial security as at 5 April 2006.

If you would like a copy of any of these documents, or if you have a question about the Scheme or the information in this statement, please contact the Pensions Department at:

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