Alstom Pension Scheme

Report on the actuarial valuation as at 5 April 2009

29 March 2011

TOWERS WATSON

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Throughout this document:

- "Scheme" refers to the Alstom Pension Scheme
- "Trustee" refers to ALSTOM Pension Trust Limited acting as the Trustee of the Alstom Pension Scheme
- "Company" refers to ALSTOM Ltd
- "The Scheme Rules" refers to the Consolidated Trust Deed and Rules dated 8 June 2005 together with the subsequent amending deeds, as further consolidated in a new Consolidated Trust Deed and Rules dated 5 May 2010.

Further definitions and terms in italics are explained in the glossary (Appendix F)

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Section 1: Summary of main conclusions

Introduction

1.1 This is my report on the actuarial valuation of the Alstom Pension Scheme as at 5 April 2009. The report is addressed to the Trustee and to the Company.

1.2 Two key purposes of the actuarial valuation are to review the financial position of the Scheme relative to its *statutory funding objective*, as required under the Pensions Act 2004, and to determine the appropriate level of future contributions.

1.3 The valuation is required under General Rule 22 of the Scheme Rules and Part 3 of the Pensions Act 2004. Both the Trustee and the Company have an interest in the valuation process and, as required by General Rule 22.1, this report is submitted to both parties. This report has been prepared in accordance with the guidance note GN9 (version 9.0) "Funding Defined Benefits – Presentation of Actuarial Advice" adopted by the Board for Actuarial Standards and effective from 1 November 2010.

1.4 This report on the actuarial valuation also falls within the scope of two Technical Actuarial Standards (TASs) published by the Board for Actuarial Standards, "TAS R: Reporting Actuarial Information" and "TAS D: Data". I confirm that the report complies with these two TASs. However, because it is a 'report of record', and not a report provided with the intention of assisting the Trustee or any other party to make any decisions, the requirements of TAS R are not, in practice, relevant.

1.5 This valuation is based on the *Statement of Funding Principles* agreed by the Trustee and Company dated 29 March 2011 and included as Appendix D to this report. The principal conclusions of the valuation are summarised below.

1.6 The Trustee has agreed a separate legally-binding agreement with the Company and ALSTOM Holdings SA, the indirect parent of the Company, in which ALSTOM Holdings SA provides a guarantee of certain of the Company's financial obligations to the Scheme. In certain circumstances ALSTOM Holdings SA would provide financial support for the Scheme when the Company was otherwise unable to make the payments it owed to the Scheme.

Ongoing funding position

1.7 Past service:

- On the assumptions adopted by the Trustee and agreed with the Company, the Scheme had a shortfall relative to its *statutory funding objective* of £392 million at the valuation date. This means that the assets of £1,131 million, which include the assets relating to Additional Voluntary Contributions (AVCs) and the Additional Benefits Scheme (ABS), covered 74% of the Scheme's *technical provisions* (including liabilities for AVCs / ABS).

1.8 Recovery plan:

- The Company and the Trustee have agreed that the Company will pay additional contributions at the rate of £16.116 million per annum in equal monthly instalments for the period 6 April 2009 to 5 October 2010 and £20.0 million per annum in equal monthly instalments for the period between 6 October 2010 and 5 April 2026. The Company will also pay a lump sum of £1.942 million to the Scheme by 5 April 2011.

- In assessing the additional contributions required to meet the shortfall, the Trustee and the Company have:

  - allowed for the improvement in the Scheme's funding position in the period from 5 April 2009 to 31 March 2010, and

  - assumed that Scheme's assets will generate returns over the period of the recovery plan from 31 March 2010 which are higher than the prudent allowance made in determining the Scheme's *technical provisions.*

- If the assumptions set out in the *Statement of Funding Principles* are borne out in practice*,* the shortfall will be removed within a period of 17 years from the valuation date.

1.9 Future service:

- On the assumptions adopted, the Employers' basic contribution rate required to provide future benefits for employed members is 12.2% pa of members' pensionable salaries, calculated at 5 April 2009 on the basis used to determine the Scheme's *technical provisions*.

- The Employers are currently paying contributions in respect of ongoing benefit accrual at the rate of 13.0% pa of members' pensionable earnings. The Company and the Trustee have agreed that the Employers shall continue to pay 13.0% pa of members' pensionable earnings from 6 April 2009 onwards.

- The above contributions exclude those required to fund any future augmentations that might be made. In respect of any such augmentations, the Company will pay to the Scheme amounts as agreed by the Trustee, to be paid on or before the implementation of any augmentation.

1.10 Expenses:

- The Company will credit against invoices raised to the Scheme:

  - The cost of Pension Protection Fund ('PPF') levies, as imposed by the PPF Board.

  - The cost of the Trustee's indemnity insurance

  - Expenses of £488,614 for the year beginning 6 April 2009

  - Expenses of £506,693 for the year beginning 6 April 2010

  - Expenses of £532,534 for the year beginning 6 April 2011 and increased each subsequent Scheme Year by further pension increases, as at each 1 May, for the 2006 Section ignoring, in all years, any capping at 2.5% per annum.

1.11 The Pensions Act 2004 requires the Trustee and Company to agree a revised *schedule of contributions*. The Trustee will also need to submit a *recovery plan* to the *Pensions Regulator*.

Discontinuance position

1.12 If the Scheme had been discontinued and wound up at the valuation date, there would not have been sufficient assets to secure the accrued benefits through the purchase of annuity policies with an insurer. My estimate of the overall solvency funding level of the Scheme at the valuation date is 51%, including assets and liabilities relating to AVCs and the ABS. The approach I have followed in making this estimate is set out in Section 4 of this report.

Reporting to members

1.13 The Trustee is required to disclose to members, in a *summary funding statement*, certain outcomes of this actuarial valuation within a reasonable period, generally considered to be within three months of the date of this report.

Next actuarial valuation

1.14 The financial position of the Scheme and the level of Company contributions to be paid will be reviewed at the next actuarial valuation, which is expected to be carried out as at 5 April 2012. However, in the intervening years the Trustee will obtain annual *actuarial reports* on developments affecting the Scheme's assets and *technical provisions*. The first such report as at 5 April 2010 must be completed by 5 April 2011.

I R Skinner
Fellow of the Institute and Faculty of Actuaries

29 March 2011

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The limitations of the investigation

Third parties

I have written this report for the Trustee of the Scheme and the Company, as required under General Rule 22 of the Scheme Rules. I have prepared it to satisfy the requirements of the Deed and the statutory requirements of section 224 of the Pensions Act 2004. It has not been prepared for any other purpose. As such, it should not be used or relied upon by any other person for any other purpose, including, without limitation, by individual members of the Scheme for individual investment or other financial decisions, and those persons should take their own professional advice on such investment or financial decisions. Neither I nor Towers Watson Limited accepts any responsibility for any consequences arising from a third party relying on this report.

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Data supplied

The Trustee bears the primary responsibility for the accuracy of the information provided to me for the valuation, but will, in turn, have relied on others for the maintenance of accurate data, including the Company who must provide and update certain membership information. Even so, it is the Trustee's responsibility to ensure the adequacy of these arrangements. I have taken reasonable steps to satisfy myself that the data provided is of adequate quality for the purposes of the investigation, including carrying out basic tests to detect obvious inconsistencies. These checks have given me no reason to doubt the correctness of the information supplied. It is not possible, however, for me to confirm that the detailed information provided, including that in respect of individual members and the asset details, is correct.

This report has been based on data available to me as at the effective date of the actuarial valuation and takes no account of developments after that date except where explicitly stated otherwise.

Assumptions

The choice of assumptions, as set out in the Scheme's *Statement of Funding Principles* dated 29 March 2011, is the responsibility of the Trustee, in agreement with the Company, and after taking my advice. They are only assumptions; they are not predictions and there is no guarantee that they will be borne out in practice. In fact, I would expect the Scheme's experience from time to time, to be better or worse than that assumed. The Trustee and the Company must be aware that there are uncertainties and risks involved in any course of action they choose based on results derived from these assumptions.

Section 2: Background to the valuation

Purposes of the valuation

2.1 The main purposes of the actuarial valuation are to:

- review the financial position of the Scheme relative to its *statutory funding objective* as required by section 224 of the Pensions Act 2004, and to determine the level of future Company contributions required; and
- examine the extent to which the Scheme's resources would have been adequate to secure accrued benefits if it had discontinued at the valuation date; and
- provide the statutory certificate required under Section 225 of the Pensions Act 2004.

Previous valuation and the contributions paid since then

2.2 The previous actuarial valuation of the Scheme was carried out by me as at 5 April 2006. The main results were:

- A past service shortfall on an ongoing basis of £227 million which meant that the Scheme's assets of £1,327 million were expected to cover 85% of the benefits earned for service to 5 April 2006. These figures include assets and liabilities relating to AVCs and the ABS.
- The Company agreed to pay additional contributions of:
  - For the year commencing 6 April 2006: £23.1 million payable in three monthly instalments of £1.75 million, then one instalment of £2.45 million and then eight instalments of £1.925 million, payable in the calendar months April 2006 to March 2007.
  - For the nine Scheme Years commencing 6 April 2007: annual contributions, of one ninth of the shortfall as at 31 March 2007 using the 31 March 2007 Accounting Assumptions, which are the assumptions adopted by Alstom Group for its own company accounting purposes at that date under the IAS19 accounting standard.
- It was also agreed between the Trustee and the Company that the deficit would be reviewed as at each subsequent 31 March. If the deficit (calculated as agreed on the Accounting Assumptions at the relevant time) was within the corridor of 20% below or 15% above the expected deficit for a particular Scheme Year then the extra annual contribution would be equal to that determined as at 31 March 2007. If the deficit was outside the corridor for any specific Scheme Year, the Company and the Trustee would agree to initiate new discussions on the funding of the Scheme.
- The above contributions were expected to make good the shortfall over 10 years from 5 April 2006.
- The Company also agreed to pay contributions to finance future service benefits at a rate of 12.5% pa of members' pensionable earnings for the year commencing

6 April 2006 and 13.0% pa of members' pensionable earnings for the years commencing on or after 6 April 2007.

2.3 The overall contributions paid between 5 April 2006 and 5 April 2009 are shown in Appendix B.

Legislative changes

2.4 This is the second actuarial valuation subject to the requirements of the Pensions Act 2004 and associated regulations (including the codes of practice issued by *The Pensions Regulator*).

2.5 A summary of current relevant legislation is provided in Appendix C.

Scheme benefits valued

2.6 I have valued the Scheme's benefits as set out in the Scheme Rules. Benefits accrued after 5 April 2006 are subject to a new benefit structure, under the 2006 Section, as set out in the Scheme Rules. A summary of the main benefits applying to employed members is shown in Appendix A. The treatment of discretionary increases in benefits is described in the *Statement of Funding Principles* dated 29 March 2011 in Appendix D.

2.7 There have been no changes to the Rules in the three years to the valuation date that materially affect the results of the present valuation.

2.8 There is still legislative uncertainty about whether the Scheme will need to adjust benefits to counter the effect of unequal GMPs. In this valuation no allowance has been made for the cost implications of such a requirement.

Membership data

2.9 In order to carry out the present valuation, I have obtained detailed information regarding the membership of the Scheme as at 5 April 2009 from the administrator to the Scheme. A summary of the membership data supplied and the corresponding figures at the previous valuation is shown in Appendix B.

2.10 I have taken reasonable steps to satisfy myself that the data provided is of adequate quality for the purposes of the valuation.

Assets

2.11 I have been provided with audited accounts for the Scheme for each of the Scheme years ending 5 April 2007, 5 April 2008 and 5 April 2009. The audited accounts show that the mid market value of the Scheme's assets at the valuation date was £1,131.5 million (including AVCs held with external providers). A summary of the main classes of the Scheme's assets is shown in Appendix B.

2.12 The corresponding market value of assets at the previous valuation date was £1,327.4 million.

Section 3: The funding position and future contribution requirements

3.1 This part of the actuarial valuation reviews the financial position of the Scheme relative to its *statutory funding objective*. From this assessment we determine the level of Company contributions required to meet the funding objective.

3.2 There are normally three stages to the assessment of the financial position relative to its funding objective:

- First, we compare the Scheme's assets with the value of the benefits earned in respect of service up to the valuation date (the *technical provisions*);
- If this reveals a shortfall, a *recovery plan* is required to remove this shortfall by payment of additional Company contributions over a suitable period;
- Finally, we calculate the cost of the continuing accrual of benefits after the valuation date for employed members, so that the funding plan remains on track.

Funding objectives

3.3 Having considered the support available for the Scheme from the Company, the Trustee and the Company have agreed the funding objective for the Scheme, and the method and assumptions for calculating the Scheme's *technical provisions.* These are set out in the *Statement of Funding Principles* dated 29 March 2011, which is included as Appendix D.

3.4 The Scheme's *statutory funding objective* is to have sufficient and appropriate assets to cover its *technical provisions* (ie the amount that the Trustee has determined should be set aside to meet the Scheme's liabilities).

3.5 The funding objective has not changed since the last valuation. However, the assumptions employed and recorded in the *Statement of Funding Principles* have changed in response, inter alia, to changes in market conditions and the results of a Company covenant review.

Method and assumptions for calculating technical provisions

3.6 The funding method is to determine the discounted capital value of the prospective benefits arising from service completed before the valuation date, including allowance for prospective salary increases for employed members at the valuation date. The funding method described above is generally referred to as the "projected unit" method. This is different to the method used for the last valuation, which was the "defined accrued benefits" method. This change was envisaged in the 2006 valuation and has occurred because members' decisions regarding the option to choose a service credit under the 2006 Section of the Scheme are known.

3.7 The method and assumptions for calculating the *technical provisions* are set out in the *Statement of Funding Principles* dated 29 March 2011 in Appendix D. The *Statement of Funding Principles* is subject to review at the time of each future actuarial valuation of the Scheme.

3.8 The key changes to the assumptions since the last valuation are a higher real discount rate relative to assumed retail prices inflation, a higher inflation assumption and a strengthened allowance for future mortality improvements.

3.9 As Scheme Actuary, I am required to certify that the *technical provisions* at this valuation have been calculated in accordance with section 222 of the Pensions Act 2004 and, in particular, in accordance with the method and assumptions set out in the *Statement of Funding Principles* dated 29 March 2011. My certificate for this purpose is included at Appendix E.

3.10 Please note that the *technical provisions* are not an estimate of the cost of securing the benefits if the Scheme were to wind up.

Past service – comparing assets with technical provisions

3.11 A comparison of the Scheme's *technical provisions* in respect of service up to 5 April 2009 with the market value of the Scheme's assets at that date is as follows:

Valuation statement as at 5 April 2009	£m
Amount required to provide for the Scheme's past service liabilities of:	
Employed members, in respect of service up to 5 April 2009	50
Deferred pensioners	570
Pensioners and dependants	863
ABS/external AVCs	40
Total value of accrued benefits (technical provisions)	**1,523**
Market value of assets (including AVCs)	**1,131**
Past service shortfall (assets less technical provisions)	**(392)**
Funding level (assets / technical provisions)	**74%**

3.12 I confirm that, for the purpose of this comparison, the basis for valuing the Scheme's assets is consistent with the basis for valuing its liabilities.

3.13 The shortfall above compares with a shortfall of £227 million, corresponding to a funding level of 85%, revealed at the 5 April 2006 actuarial valuation.

3.14 My investigations suggest that some items of experience of the Scheme since the last valuation varied significantly from the assumptions made in that valuation. In particular investment returns have been significantly lower than were assumed. The main factors contributing to the overall deterioration in the funding position are shown below:

Reconciliation from 5 April 2006 to 5 April 2009	Surplus/(Deficit) £m
Excess/(Shortfall) at 5 April 2006	(227)
Contributions paid less cost of accruals	73
Return on assets less interest on liabilities	(311)
Increases in members' earnings above assumed rate	(4)

Increases in pensions and deferred pensions above assumed rate	(17)
Impact of commutation	5
Equalisation in English Electric Section	(2)
Impact of Project Tide	8
Miscellaneous experience items	10
Change in financial assumptions	97
Change in demographic assumptions	(24)
Excess/(Shortfall) at 5 April 2009	(392)

3.15 It is advisable to monitor the Scheme's finances on a regular basis because movements in the market value of assets can make the funding position volatile. The Trustee is required by law to obtain annual *actuarial reports* on developments affecting the Scheme's assets and *technical provisions* in years when a formal actuarial valuation is not carried out. Following this valuation, the first such *actuarial report* is to be made as at 5 April 2010 and must be completed by 5 April 2011.

Recovery plan

3.16 As there was a shortfall relative to the *technical provisions* at the valuation date, the Trustee and the Company must agree a *recovery plan*. This specifies how and by when the *statutory funding objective* is expected to be met.

3.17 The Trustee and the Company have agreed that additional contributions aimed at meeting the deficit by 5 April 2026 will be paid to the Scheme. In respect of the deficit disclosed as at 5 April 2009, the Company has paid additional contributions at the rate of £16.116 million per annum in equal monthly instalments for the period 6 April 2009 to 5 October 2010. The Company will pay further additional contributions of £20 million per annum in equal monthly instalments for the period 6 October 2010 to 5 April 2026 together with a lump sum of £1.942 million by 5 April 2011. The *recovery plan* will be subject to review at future actuarial valuations.

3.18 The recovery plan takes account of changes in the value of the Scheme's assets and estimated changes in the value of the technical provisions in the period from 5 April 2009 to 31 March 2010. Thereafter, the Trustee assumes that the assets of the Scheme will return 3.25% pa in excess of price inflation as measured by the Retail Prices Index during the period of the Recovery Plan.

Future service contribution rate

3.19 The annual Employer contribution rate required, in addition to members' normal contributions, to cover the accrual of benefits for future service over the period to the next actuarial valuation is 12.2% pa of members' pensionable earnings.

3.20 The Employers are currently paying contributions at the rate of 13.0% pa of members' pensionable earnings. The Company and the Trustee have agreed that the Employers shall continue to pay 13.0% pa of members' pensionable earnings for the years commencing on or after 6 April 2009.

3.21 Administration expenses will be met by the Company as they arise. In addition the Company will credit against invoices raised to the Scheme:

- the cost of PPF levies, as imposed by the PPF Board
- the cost of the Trustee's indemnity insurance
- £488,614 for the year beginning 6 April 2009
- £506,693 for the year beginning 6 April 2010
- £532,534 for the year beginning 6 April 2011 and increased each subsequent Scheme Year by further pension increases, as at each 1 May, for the 2006 Section ignoring, in all years, any capping at 2.5% per annum.

3.22 The Employers' contribution rate has been calculated as the rate required, in addition to the member contributions payable, over the year following the valuation date to meet the cost of the benefits expected to be earned over that year. On this basis, the rate actually paid by the Employers will be sufficient, if the assumptions are borne out in practice, to cover the accrual of benefits in the future provided the age, sex and salary profile of the employed membership remains stable. In practice, the profile of the employed membership is expected to change over time, particularly as the Scheme is closed to new entrants, and the cost of accruing benefits might increase. Any such changes will be examined at each actuarial valuation. Additional Voluntary Contributions are payable in addition to the Employers' contributions for accruing benefits.

Section 4: The position of the Scheme on discontinuance

4.1 This section of the report considers what would happen to the Scheme on discontinuance. This would occur, for example, if the Company were to terminate its liability to contribute, or if the Company were to go into liquidation under circumstances such that General Rule 34.4 applied, or if any other of the provisions of General Rules 33, 34 or 35 of the Scheme Rules were invoked.

4.2 If the Scheme were discontinued, employed members would become deferred pensioners with no entitlement to future accrual of benefits. The Scheme would then have liabilities comprising:

- the pensions payable to pensioners and deferred pensioners (and contingent pensions payable to their dependants);
- future increases in the deferred pensions;
- future increases to pensions whilst in payment; and
- future expenses.

4.3 On discontinuance, the Trustee could seek to meet the Scheme's liabilities either by winding up the Scheme or by continuing it as a closed scheme (an approach permitted under General Rule 35.7). The appropriate approach would depend mainly on the financial position of the Company, the effect, if any, of the guarantee from ALSTOM Holdings SA, the level of the Scheme's assets, whether the Scheme would be eligible for entry to the *Pension Protection Fund* (PPF), and whether a buy-out of the liabilities would be possible in practice. In paragraphs 4.6 to 4.11 below, I consider a number of possible eventualities.

4.4 If the Scheme had wound up at 5 April 2009, legislation would impose a debt on the Company (the "company debt") equal to the Scheme Actuary's estimate of the full cost of securing all accrued benefits with an insurance company, allowing for expenses, less the value of the Scheme's assets.

4.5 The amount of any such company debt that would actually be paid would depend on the Company's ability to pay (with whatever financial support is available from ALSTOM Holdings SA) what could be a substantial sum of money. The outcome for the Scheme would then depend significantly on whether the Company remained solvent or not, as follows.

Discontinuance when the Company is solvent

4.6 If the Company paid the company debt in full, the Trustee would have sufficient funds to provide all of the Scheme's benefits. The Trustee would then either buy-out the Scheme's liabilities immediately or continue to run the Scheme as a closed fund.

4.7 If the Trustee decided to run the Scheme as a closed fund without winding up, the ability to provide members' accrued benefits in full from the assets of the Scheme would depend on future experience, in particular the future investment returns achieved and the longevity of the members. Running the Scheme as a closed fund might possibly be considered appropriate if, for example, the Trustee believed that this approach was likely to produce higher benefits for members or there were practical or financial restrictions on buying out the Scheme's liabilities with an insurance company.

4.8 A decision to run the Scheme as a closed fund might well lead the Trustee to change the investment strategy for the Scheme, depending on the strategy in place at that time. For example, the Trustee might reduce the equity content of the investment policy, choosing instead further exposure to financial instruments with much lower volatility relative to the liabilities such as index-linked and fixed-interest bonds.

Discontinuance when the Company is insolvent

4.9 If, when the Scheme was discontinued, the Company was, or became, insolvent, any such company debt due might have a low or nil rate of recovery. The Scheme would then have been assessed for possible entry to the PPF.

4.10 If the assets were insufficient to secure the PPF compensation (see 4.12) the Scheme would be likely to enter the PPF.

4.11 If the full PPF compensation was covered, the Scheme would have been required to wind up and the Trustee could not choose to run it as a closed fund instead. If, in practice, the Trustee was unable to buy-out the benefits, the Scheme would be called a 'closed scheme' under the legislation, but would be required to operate as if it were in wind-up, cutting back benefits where necessary to comply with the *statutory priority order*.

Pension Protection Fund

4.12 The Government introduced the PPF in April 2005 to ensure that members of private sector occupational defined benefit schemes receive compensation (the "PPF compensation") if the scheme sponsor becomes insolvent, leaving a scheme with insufficient assets to provide a certain minimum level of benefits. The level of compensation provided would not normally be at the full level promised by the Scheme. A summary of the current PPF compensation is provided in Appendix C.

4.13 The Trustee is required by Section 179 of the Pensions Act 2004 to submit routinely an assessment of the Scheme's discontinuance position, based on assumptions specified by the PPF Board and accrued benefit entitlements similar in form to the PPF compensation. The results of the Section 179 valuation for the Scheme as at 5 April 2009 reveal that the Scheme's assets covered approximately 61% of the liabilities on this measure.

4.14 As the Scheme's level of cover for PPF compensation was less than 100% at the valuation date, the Scheme would have been required, on discontinuance with an insolvent company at that date, to wind up as described in paragraph 4.10. This would mean that members would receive 100% of PPF compensation but no other benefits.

Estimate of the solvency of the Scheme

4.15 I am required by law to provide the Trustee with an estimate of the solvency of the Scheme. Normally, this means an estimate of the level of cover of accrued benefits if the Trustee were to secure (i.e. buy-out) the Scheme's liabilities with an insurance company, on the premise that no further contributions would be available from the Company.

4.16 To estimate this cost, I have assumed that an insurer would price this business on the following basis:

- the Scheme would have been invested at the valuation date in a portfolio of gilts, matched as far as possible with the liabilities;
- around £33 million of the Scheme's assets would be set aside to cover the expenses of winding up, which has been calculated in line with the method prescribed by the PPF for estimating such expenses;
- future improvements to mortality in line with medium cohort subject to a 1.5% per annum minimum rate of improvement from 2009; and
- other relevant assumptions are as set out in the *Statement of Funding Principles* in Appendix D.

4.17 My estimate of the solvency of the Scheme at 5 April 2009 is that the assets of the Scheme would have met 51% of the overall cost of buying annuities to meet the accrued benefits at that date. The coverage for particular benefits depends on where they fall in the *statutory priority order*, for which four categories are identified in Appendix C. I estimate that 100% of the benefits in category 1, approximately 65% of the benefits in category 2, and none of the benefits in categories 3 and 4 would have been covered on this basis.

4.18 These figures are only an estimate of the position at the valuation date and should not be relied upon to indicate the position on a future winding up. Changes in market interest rates and in the supply and demand for annuities mean that the actual position at any particular point in time can be established only by completing a buy-out.

4.19 The overall solvency level at the previous valuation was approximately 62%. The decrease in the estimated buy-out cover to 51% is due mainly to the investment return achieved on the Scheme's assets over the three years to the valuation date being lower than the rate assumed.

4.20 The solvency position of the Scheme (and hence the asset cover within priority category 2) is expected to improve from the valuation date if the assumptions made are borne out in practice and Company contributions are paid as set out in Section 3 of this report. On this basis, and taking into account known improvements in the value of the Scheme's assets and estimated changes in the value of the liabilities in the period to 31 March 2010 (as per the Scheme's Recovery Plan), I estimate that the overall solvency funding level might improve from 51% to 57% at the actuarial valuation due at 5 April 2012.

Relationship between the technical provisions and the buyout liabilities

4.21 If the *statutory funding objective* had been exactly met on 5 April 2009 (ie. there had been no shortfall), I estimate that the solvency of the Scheme would have been approximately 69%.

Section 5: Sensitivity of the results

5.1 The assumptions used to determine the Scheme's funding and discontinuance positions each represent only one possible scenario of future events. To the extent that the actual experience turns out to be different from the assumptions, the financial position of the Scheme will be affected.

5.2 The results of the valuation are especially sensitive to the assumptions made regarding investment returns and longevity.

Sensitivity to investment conditions

5.3 The assumed future investment returns are unlikely to be precisely borne out in practice. The possible variation in outcomes is considerable, particularly given the Scheme's holding of some 'return-seeking' assets (eg equities), the value of which may not move in line with the value of the liabilities. There is considerable room for variation and the Trustee and the Company should be aware of the sensitivity of the results to future investment conditions.

5.4 If future investment returns over the long term are lower than assumed, then other things being equal the cost of providing the benefits will be higher than calculated in this valuation, which means that unless contributions are adjusted to reflect the experience, the funding position of the Scheme will fall short of the expected position.

5.5 To illustrate this we have considered the following examples:

- If government and corporate bond yields at the valuation date had been lower by 0.5% per annum with a corresponding impact on the liabilities and the bond assets.
- If the value of the return-seeking investments, such as equities, fell by 20%, assuming no movement in the value of the other assets held or the liabilities.

	Actual Funding level at 5 April 2009	Funding level assuming 0.5% pa fall in bond yields	Funding level assuming 20% fall in equity values
Technical provisions basis	74%	70%	68%
Estimated solvency basis	51%	48%	47%

5.6 Severely adverse investment conditions which would produce significantly worse funding positions than those shown in the above table are also possible.

Sensitivity to mortality experience

5.7 The future financial position of the Scheme is also particularly susceptible to future variations in mortality experience relative to the assumptions adopted for valuation purposes. For example, if mortality rates continued to improve indefinitely by at least 2.0% per annum (rather than 1.0% per annum), this would add around 1.1 years to the life expectancy of a male member currently aged 65 and around 3.1 years to the life expectancy of a male member aged 65 in 20 years' time. On this assumption, the funding level relative to the *technical provisions* would have been around 71% at the valuation date rather than 74% as calculated.

Appendix A: Summary of Scheme Benefits

The Alstom Pension Scheme is a registered pension scheme under the Finance Act 2004.

Scheme Provisions

The 2006 Section was introduced for future accrual after 5 April 2006 for members in active service on 6 April 2006. These members were given the opportunity to receive a service credit in the 2006 Section in exchange for their benefits accrued to 5 April 2006 under the pre-6 April 2006 scale of benefits.

The benefits payable to, and contributions payable by, individual members of the 2006 Section of the Alstom Pension Scheme are described in the Scheme Rules. A summary of the main benefits is set out below.

This section is not contracted-out of the earnings related section of the State pension scheme.

2006 Section:	
Normal Retirement Date (NRD):	This is the member's 65th birthday.
Pensionable Earnings:	Basic pay plus other fixed allowances decided by the Company from time to time.
Final Pensionable Earnings:	The average of the best three consecutive Scheme Year's Pensionable Earnings in the last ten Scheme Years of membership.
Retirement at NRD:	Members can choose between three tiers with different accrual rates and contribution rates, as follows:

	Contribution rate (% of Pensionable Earnings)	Multiple of Pensionable Earnings for each year of service
Tier 1	4.0%	1/85th
Tier 2	5.5%	1/75th
Tier 3	7.0%	1/65th

Pension at Normal Retirement Date is calculated based upon Pensionable Service completed in each tier and Final Pensionable Earnings.

Early retirement:	Early retirement is permitted between age 55 and age 65, with the agreement of the Company and the Trustee. The pension is calculated as if the member had retired at Normal Retirement Date, except that Pensionable Service and Final Pensionable Earnings at the date of early retirement are used, and the resulting pension is reduced in accordance with tables of early retirement factors.
Ill-health retirement:	For members retiring on the grounds of Serious Ill-Health, the pension will be based on potential Pensionable Service until Normal Retirement Age, using Final Pensionable Earnings at the date of retirement, with no reduction for early payment. For members retiring on the grounds of Partial Ill-Health, the pension will be calculated in the same way as for Serious Ill-Health retirement, but will be reduced.
Commutation:	Members may commute pension for a cash lump sum at retirement, subject to a maximum of 25% of the Capital Value of their benefits.
Death in service:	A lump sum of four times Pensionable Earnings in the last complete Scheme Year before death, plus a Dependant's pension of 50% of the member's pension calculated using Pensionable Service to Normal Retirement Date. Children's benefits of 25% of the Dependant's pension for up to four children are also payable.
Death after retirement:	A lump sum equal to the balance of the pension payments due during the first five years of payment, and a pension payable to the qualifying spouse or dependant, equal to 50% of the Pensioner's pension, without reduction for commutation.
Leaving service :	If less than two years' pensionable service has been completed, the member is entitled to a refund of any of his own contributions less statutory deductions, or a transfer payment. Members who have completed more than two years' pensionable service are entitled to a deferred pension calculated as at Normal Retirement Date, using Final Pensionable Earnings and Pensionable Service as at the date of withdrawal.
Pension increases in deferment:	Deferred pensions are assumed to increase in line with the rise in the Retail Prices Index (RPI) during the period of deferment up to a maximum of 5% per annum.
Pension increases in payment:	Pensions in payment increase in line with RPI up to a maximum of 2.5% in any one year.

The benefits payable to individual members of several other sections, in particular the Main Section, of the Alstom Pension Scheme are described in the Scheme Rules. All other sections were closed with effect from, or before 6 April 2006. In my calculations I have taken account of the benefits of the other sections as set out in the relevant Schedules of the Scheme Rules.

Appendix B: The information supplied

The information supplied to us for the purposes of the valuation is summarised below; the corresponding 2006 figures are shown for comparative purposes.

Employed members	5 April 2009		5 April 2006	
	Number	Total Pensionable Earnings £m pa	Number	Total Pensionable Earnings £m pa
Total	1,351	53	2,522	73

Deferred pensioners	5 April 2009		5 April 2006	
	Number	Total deferred pensions revalued to valuation date £m pa	Number	Total deferred pensions revalued to valuation date £m pa
Total	10,759	49	11,628	34

Current pensioners	5 April 2009		5 April 2006	
	Number	Total pensions £m pa	Number	Total pensions £m pa
Total	11,433	63	11,035	57

Notes:

- The pensions in payment figures for both 2009 and 2006 include the increases granted at the immediately following 1 May.
- The 2009 deferred pension amount includes allowance for active members who did not take a service credit in the 2006 Section.
- As directed, the 2009 Pensionable Earnings figures assume that a salary increase of 3% was awarded in April 2009.

Assets

According to the audited accounts supplied as at 5 April 2009, the market value of the Scheme's assets was £1,131.5 million. This included Additional Voluntary Contributions (AVCs) held with external providers (which amounted to £28.9 million).

The assets, excluding AVCs, were invested as follows:

	Market value as at 5 April 2006		Market value as at 5 April 2009	
	£m	%	£m	%
Overseas equities	333.9	25.9	207.2	18.8
UK equities	333.4	25.8	192.2	17.4
Long short US equities	-	-	92.5	8.4
UK fixed-interest gilts	202.8	15.7	88.9	8.1
Overseas fixed interest securities	151.6	11.7	42.1	3.8
UK index-linked bonds	145.5	11.3	243.8	22.1
Property	121.1	9.4	84.8	7.7
Pooled investment vehicle	-	-	95.0	8.6
Derivative contracts	-	-	(0.1)	-
Short term deposits and net current assets	2.7	0.2	56.2	5.1
Total	1,291.0	100	1,102.6	100

Over the three year period to 5 April 2009, the Scheme has undertaken the following financial transactions:

Consolidated Revenue Account for the period 5 April 2006 to 5 April 2009	**£m**	**£m**
Fund at 5 April 2006		1,327.4
Contributions from the Company		
- Normal	23.3	
- Deficit	55.4	
- Additional[1]	21.7	
Contributions from members		
- Normal	11.2	
- AVCs	2.5	
Transfer values received from other funds	7.6	
Income from investments net of investment expenses	66.7	
Total income		188.4
Benefits paid	(209.1)	
Transfer values paid to other funds	(19.7)	
Administration expenses	(6.8)	
Total outgo		(235.6)
Change in market values		(148.7)
Fund at 5 April 2009		1,131.5

[1] Additional Company contributions include payments towards PPF levies, expenses, Trustees indemnity insurance as set out in the Schedule of Contributions dated 5 April 2007.

Appendix C: Summary of relevant legislation

Pensions Act 2004 (and associated regulations)

Prior to the 5 April 2006 valuation the Government enacted the Pensions Act 2004 which introduced new requirements on the funding of UK defined benefit pension arrangements and several other measures that affect the Scheme.

Funding

The Pensions Act 2004 replaced the prescriptive statutory funding test (the Minimum Funding Requirement) with a scheme-specific standard for actuarial funding valuations with an effective date on or after 22 September 2005. The legislation was supplemented with regulations and Regulatory codes of practice. This is the second actuarial valuation of the Scheme under this funding regime. Central to the funding regime are:

- *Statutory funding objective* – this is a requirement that the Scheme has sufficient and appropriate assets to meet its *technical provisions*. The *technical* provisions mean the Actuary's assessment, calculated on the scheme-specific assumptions determined by the Trustee, of the amount required to meet the Scheme's liabilities as they fall due.

- *Statement of Funding Principles*: this is a document prepared by the Trustee which must set out its policy for ensuring that the *statutory funding objective* is met. That is, it must in particular set out the Trustee's choice of methods and assumptions for determining the Scheme's *technical provisions*, after taking advice from the Actuary. The regulations require the Trustee to agree with the Company on the content of the *Statement of Funding Principles*.

The principal purpose of the actuarial valuation is to assess whether the Scheme meets its *technical provisions* at the effective date of the valuation, based upon the method and assumptions specified in the *Statement of Funding Principles*. The Actuary has to certify that the calculation of the *technical provisions* at the valuation was in accordance with the prescribed requirements.

It is important to note that the legislation does not require pension schemes to fund at a level sufficient to meet the buy-out cost of the liabilities, or even the buy-out cost of the 'protected liabilities' under the *Pension Protection Fund*. The Trustees are required, however, to obtain the Actuary's estimate of the Scheme's solvency position at the effective date of the valuation.

If the valuation reveals that the Scheme does not have sufficient assets to cover its *technical provisions*, the Trustee is required to prepare a *recovery plan* to bring the Scheme back to full funding (ie sufficient assets to cover the *technical provisions*) over a certain time frame. The *recovery plan* must be based upon advice from the Actuary and have regard to the nature and circumstances of the Scheme.

The Trustee must agree with the Company about the s*chedule of contributions* which specifies the contributions to be paid to the Scheme by the Company and the dates by which they are required to be paid. This schedule must be certified by the Actuary.

Pension Protection Fund (PPF)

The Pensions Act 2004 introduced the *Pension Protection Fund* with effect from 6 April 2005. The PPF is intended to ensure that members of private sector occupational defined benefit pension schemes can be assured that they will receive a certain level of compensation if their company's business fails. That is, on the insolvency of all of the sponsoring employers a pension scheme will be assessed for possible admission to the PPF and if it meets prescribed criteria (in particular, but not limited to, the Scheme having insufficient assets to secure the minimum level of benefits on a prescribed actuarial basis) then the PPF will absorb the Scheme's assets and provide compensation to members currently as described below:

- For non-pensioner members younger than normal pension age: a deferred pension equal to 90% of the pension built up to date, subject to a maximum amount and payable from normal pension age;
- For non-pensioner members over normal pension age: the full deferred pension;
- For pensioners younger than normal pension age who retired in normal health: 90% of the pension in payment subject to a maximum amount which varies by age;
- For pensioners over normal pension age and widow(er)s: the full pension in payment
- Deferred pensions may:
  - increase in line with Retail Price Inflation (RPI) (capped at 2.5% or 5% a year depending on when they were accrued) between the date of entry to the PPF and normal pension age;
  - or may receive no revaluation to normal pension age;
- Pensions built up before 6 April 1997 will receive no increases in payment. Pensions built up on or after that date will increase in line with RPI capped at 2.5% a year.
- Survivor benefits are provided.

In the above, normal pension age is essentially the earliest age at which members can receive an unreduced pension under the Scheme Rules (65 for most Scheme members).

Consequently, the PPF will not necessarily provide benefits at the same level as those provided by the Scheme.

The PPF is funded through a combination of scheme-based and risk-based levies on UK occupational defined benefit pension schemes; although in the event of it having insufficient Schemes to meet its liabilities it can decide to reduce the compensation payments. In order for the PPF Board to calculate levies for individual schemes, pension scheme trustees are required under Section 179 of the Pensions Act 2004 to submit routinely an assessment of their scheme's discontinuance position, based on assumptions specified by the PPF Board and accrued benefit entitlements in a similar form to the compensation payments that would be provided by the PPF.

The Government established the PPF Board to oversee the PPF and also to collect annual levies from defined benefit schemes to finance its liabilities and its running costs. The government also introduced the *Pensions Regulator*, one of whose roles is to protect the PPF.

Statutory priority orders

Since 6 April 2005, on winding up a pension scheme, the benefits must be secured in broadly the following order of priority (after allowing for expenses and any potential debts to third parties):

- Category 1 – benefits relating to certain pension annuities secured by the Scheme before 6 April 1997;
- Category 2 – the cost to the Scheme of securing the liabilities for pensions and other accrued benefits that would be payable by the PPF (if the Scheme were eligible for entry to the PPF);
- Category 3 – benefits in respect of defined benefit AVCs not already covered above (money purchase liabilities are to be excluded from the priority order and should therefore normally be secured in full);
- Category 4 – all other pensions and benefits provided by the Scheme including pension increases (where these exceed those under the PPF).

Finance Act 2004

This Act and associated Regulations were intended to simplify the entire taxation framework for UK pensions. From 6 April 2006 the former Inland Revenue maximum limits on benefits payable from approved pension schemes were replaced by a system of tax "allowances" by the HMRC. More specifically:

- Members can receive any amount of benefit from a registered occupational pension scheme. However, if the benefits provided have a value higher than a specified amount (the 'Lifetime Allowance', £1.75 million for 2009/10 and £1.8 million for 2010/11) then the excess value over the Lifetime Allowance is subject to additional tax.
- The value of benefits for the purpose of comparing with the Lifetime Allowance is calculated as 20 times the pension provided plus the face value of the cash sum provided. Benefits provided from money purchase arrangements are based upon the fund value.
- Cash sums at retirement are restricted to 25% of the value of the member's benefits.
- If the assessed value of benefit accrual in and contributions to tax-advantaged pension arrangements for an individual exceed an Annual Allowance of £245,000 a year for 2009/10 and £255,000 a year for 2010/11, the excess is subject to a special tax charge.
- Dependants' pensions are not tested against the Lifetime Allowance, but lump sums provided to dependants are tested against the member's unused allowance.
- The technical details of benefits that can be provided as 'authorised benefits' from a tax-advantaged pension arrangement were specified.
- The statutory surplus test was abolished.
- The minimum age at which members may retire early increased from age 50 to age 55 on 6 April 2010.

Transitional arrangements were introduced for cases where the new requirements would adversely impact a member's benefits compared to pre-6 April 2006 limits.

Finance Act 2009

In the April 2009 Budget the Chancellor announced a new and complex restriction on higher rate tax relief for individuals with income in excess of £150,000 from April 2011. The Finance Act 2009 also included anti-avoidance provisions for the period to April 2011.

The new Government has amended these new provisions and announced its intention to tighten the tax relief on pensions saving with the introduction of a significantly reduced Annual Allowance of £50,000 from 6 April 2011 and a reduced Lifetime Allowance of £1,500,000 from 6 April 2012. In December 2010 the Government announced further details of the proposed changes in the form of draft clauses for the Finance Bill 2011.

Appendix D: Statement of Funding Principles

There follows a copy of the Statement of Funding Principles signed on 29 March 2011.

Alstom Pension Scheme
Statement of Funding Principles

29 March 2011

ALSTOM Pension Trust Ltd as the Trustee of the Alstom Pension Scheme

This statement has been prepared by the Trustee of the Alstom Pension Scheme ("the Scheme") to satisfy the requirements of Section 223 of the Pensions Act 2004, after obtaining the advice of the Scheme Actuary, Ian Skinner. The Trustee has discussed and agreed it with ALSTOM Ltd ("the Company").

Statutory funding objective

The statutory funding objective is that the Scheme should have sufficient and appropriate assets to cover its technical provisions, and this statement sets out the Trustee's policy for securing that this objective is met.

Method

The Trustee and the Company have agreed that the technical provisions for the Scheme at 5 April 2009 are to be calculated as the capital value of the prospective benefits arising from service completed before that date, including allowance for prospective salary increases for those members in active service at that date. This approach is in line with the valuation method commonly known as the Projected Unit Method.

The Trustee and the Company agreed that the participating employers will pay contributions towards the cost of ongoing benefit accrual at the rate of 13% of active members' Pensionable Earnings, which is higher than the calculated cost of ongoing benefit accrual as at 5 April 2009. It has been agreed to use the Projected Unit Method to determine the cost of ongoing benefit accrual at future Actuarial Valuations in respect of active members, using assumptions consistent with those used for determining technical provisions at that time.

Assumptions

Discount rate

The Trustee and the Company have agreed that the real rate of discount used to calculate the technical provisions as at 5 April 2009 will be based upon yields on index-linked gilts, with an addition to allow for the expected outperformance relative to index-linked gilts from the assets held by the Scheme. The addition to be made is 1.64% pa in excess of a yield calculated as the average of (a) the annualised yield on the FTSE Actuaries index of UK index-linked gilts of over 5 years' duration assuming 0% inflation and (b) the annualised yield on the corresponding index assuming 5% inflation.

Price inflation

The Trustee and the Company have agreed that the assumed level of future increases in the Retail Prices Index will be at a rate of 2.8% pa.

Other financial assumptions

Salary increases have been set at 1% pa in excess of the price inflation assumption. Pension increases have been set by reference to the price inflation assumption, and to the respective minima and maxima applicable to the different types of pension in the Scheme.

Demographic assumptions

The mortality assumptions have been chosen in light of the Scheme's experience and mortality trends experienced more widely. Other demographic assumptions have been chosen in light of the Scheme's experience.

ALSTOM

Assessments of technical provisions at future dates will follow the method outlined above, with such modification, if any, as the Trustee and the Company agree.

In agreeing to this Statement of Funding Principles, the Company states that the derivation of the real rate of discount will not automatically be used for future Actuarial Valuations under S224 of the Pensions Act 2004 but will, however, form the basis for discussion.

Discretionary Benefits

There is a number of areas where the benefits payable are subject to some exercise of discretion on the part of the Trustee and/or the Company, the principal details of which are set out below. The Company may, in some circumstances, after consulting the Scheme Actuary, direct the Trustee to

- substitute a pension for another benefit, or
- award a pension to a Member's dependant, or
- increase benefits payable or prospectively payable,

subject to the Company agreeing with the Trustee (after they have taken the advice of the Scheme Actuary) what additional contributions (if any) shall be payable by the Company to meet the cost of the relevant benefit.

No advance allowance is made in the funding arrangements for the potential increase in the liabilities of the Scheme, or the potential contributions, arising from the exercise of such discretion.

The Trustee, having obtained the advice of the Scheme Actuary and having consulted the Company, determines the rate of Credited Interest (subject to a minimum rate of 2.5% per annum). No advance allowance is made in the Scheme's funding for a rate in excess of 2.5% per annum.

No advance allowance is made in the Scheme's funding for any other exercise of a discretion that would increase the liabilities of the Scheme.

Actuarial investigation as at 5 April 2009

The Trustee (having taken the advice of the Scheme Actuary) and the Company have agreed assumptions for the investigation as at 5 April 2009, in line with the approach described above. These assumptions are set out below.

Financial assumptions as at 5 April 2009

	% per annum
Discount rate	5.73
Retail price inflation (RPI)	2.80
Salary increases (for valuing future accruals of benefits)	3.80
Pension increases in payment (for increases in line with RPI changes capped at 5% pa)	2.60
Pension increases in payment (for increases in line with RPI changes, minimum 3.0% pa, maximum 5.0% pa)	3.00
Pension increases in payment (for increases in line with RPI changes, minimum 4.0% pa, maximum 10.0% pa)	4.00
Pension increases in payment (for increases in line with RPI changes capped at 3.0% pa)	2.60
Pension increases in payment (for increases in line with RPI changes capped at 2.5% pa)	2.30
Increases to pensions in deferment	2.80

Pensions which increase in payment at a fixed rate are assumed to increase at that rate.

Demographic assumptions as at 5 April 2009

Details (including sample rates) of the demographic assumptions are shown in the appendix to this statement.

Expenses

Investment management costs are assumed to be met out of future investment income.

The Company will meet certain administrative and non-investment expenses directly as they are incurred, including the cost of all Pension Protection Fund levies (i.e. Scheme-based levies, Risk-based levies and Administration levies) and the Company will reimburse the Scheme for some non-investment expenses. To the extent (if any) that the Company does not directly meet, or reimburse, the Scheme's expenses, they will be met out of the resources of the Scheme. The investment returns on the Scheme's assets are therefore assumed to exceed the discount rate by sufficient margin to meet any such expenses. There is no allowance in the Scheme's technical provisions for these expenses and the future service contribution rate does not include any allowance for expenses.

Funding objectives in addition to the statutory funding objective

The Trustee has no funding objectives in addition to the statutory funding objective.

Eliminating a shortfall

The Trustee and the Company have agreed that the funding shortfall identified as at 5 April 2009 should be eliminated partly by the payment of additional contributions, partly by the improvement in the funding position in the period from 5 April 2009 to 31 March 2010 and partly by assumed investment returns in excess of the discount rate over the period from 1 April 2010 to 5 April 2026. The assumed investment return is 3.25% pa above the assumed rate of Retail Prices Inflation, after allowing for expenses met directly by the Scheme.

Frequency of valuations

The Scheme's second actuarial funding valuation under the Pensions Act 2004 has been carried out as at 5 April 2009. In the normal course of events the Trustee will request subsequent funding valuations three years after the preceding one. The Scheme Actuary will also provide an estimate of the up-to-date financial position of the Scheme as at each 5 April between valuations relative to both the statutory funding objective and the solvency liabilities.

The Trustee may call for a formal funding valuation at any date if it is of the opinion that events have made it unsafe to rely on the results of the previous valuation for funding purposes. In reaching such a view, the Trustee will consider the advice of the Scheme Actuary and consult with the Company.

The Company may call for a formal funding valuation at any time.

Arrangements for other parties to make payments to the Scheme

There are no arrangements for a person other than the Company (including any associated companies) or a member of the Scheme to contribute to the assets held by the Scheme, except that ALSTOM Holdings has provided the Trustee with a guarantee that it will ensure that, whilst the Scheme is assessed to have a deficit in its assets as compared to its Technical Provisions, amounts owed by ALSTOM Ltd to the Scheme in the period ending on 5 April 2026 will be paid to the Scheme. The guarantee does not apply to sums payable as a result of the Scheme beginning to be wound up as a result of an act by the Trustee.

Paying funding surpluses to the employer

There is no power under the Scheme for payments to be made to the Company out of the Scheme's funds except if the Scheme were to be wound up and the Trustee had assets remaining after securing Members' benefits and after providing such augmented, varied or further benefits for Members as it decided.

Cash equivalent transfer value calculations

The Trustee will ask the Scheme Actuary to advise them at each valuation of the extent to which the Scheme's assets are sufficient to provide cash equivalent transfer values for all non pensioners without adversely affecting the security of the benefits of other members and beneficiaries. The Trustee's policy is to reduce cash equivalent transfer values paid to members if the Scheme Actuary advises that the Scheme's assets are not sufficient to provide cash equivalent transfer values in full to all members, on the method and assumptions adopted for that purpose.

Dates of review of this Statement

This Statement will be reviewed, and if necessary, with the agreement of the Company, revised, by the Trustee either

- within 15 months after the effective date of each actuarial valuation; or
- within a reasonable period after any occasion on which the Regulator has used its powers to modify future accrual of the Scheme, directed as to the manner in which technical provisions are to be calculated or the period over which failure to the statutory funding objective is to be remedied, or imposed a schedule of contributions.

The Trustee may also elect to review, and if necessary revise, the statement at other times.

Signed on behalf of ALSTOM Ltd

Name: B.W. RADFORD

Position: UK BENEFITS DIRECTOR

Date: 29 March 2011

Signed on behalf of the Trustee of the Alstom Pension Scheme

Name: B.J. DUFFIN

Position: Director of ALSTOM Pension Trust Ltd

Date: 29 March 2011

Appendix to the Statement of Funding Principles

In service – Specimen rates (future service only)

Sample rates per 1,000 members at each age								
	Withdrawal		Death		Retirement through incapacity		Retirement not through incapacity	
Age	Male	Female	Male	Female	Male	Female	Male	Female
20	100	150	0	0	0	0	0	0
25	150	200	0	0	0	0	0	0
30	100	150	0	0	0	0	0	0
35	80	120	0	0	0	0	0	0
40	60	90	0	0	1	1	0	0
45	40	60	1	1	1	1	0	0
50	20	20	1	1	3	3	15	60
55	15	15	2	2	6	6	33	60
60	15	0	4	3	13	13	100	982
64	15	0	6	4	17	17	300	0
65	0	0	0	0	0	0	0	0

Retirement from active service (past service)

All active members are assumed to retire at Normal Retirement Date with the exception of ABB and Basis 4 members, who are assumed to retire at age 60 with no early retirement reduction applied.

Retirement from active service in ill health (past service)

No allowance.

Retirement from deferred pensioner status

All deferred pensioners are assumed to retire at Normal Retirement Date with the exception of Basis 4 members.

Mortality for non-active members

Assumed to follow standard tables PNA00 with a +1.5 years age rating and projected from calendar year 2000 in line with the medium cohort improvement rates, with a floor of 1% pa to the improvement rates applying from 2009 onwards.

Spouses' and dependants' pensions

The proportion of members assumed to be married is in accordance with an age-related table. At age 65, the proportion is approximately 85% for men and 60% for women.

Age difference between members and dependants

The age difference (husband's age minus wife's age) is assumed to range between 0 and 3 years depending on age.

Allowance for option of members to commute pension for cash at retirement

No explicit allowance.

Appendix E: Statutory certificate

Actuarial certification for the purposes of regulation 7(4)(a) of the Occupational Pension Schemes (Scheme Funding) Regulations 2005

Name of scheme: **Alstom Pension Scheme**

Calculation of technical provisions

I certify that, in my opinion, the calculation of the Scheme's *technical provisions* as at 5 April 2009 is made in accordance with regulations under section 222 of the Pensions Act 2004. The calculation uses a method and assumptions determined by the Trustee of the Scheme and set out in the *Statement of Funding Principles* dated 29 March 2011.

I R Skinner
Fellow of the Institute and Faculty of Actuaries

29 March 2011

Towers Watson Limited
Watson House
London Road
Reigate
Surrey
RH2 9PQ

Appendix F: Glossary

This glossary describes briefly the terminology of the regime for funding defined benefit pension schemes as introduced by the Pensions Act 2004. Defined terms are in *italics*.

Actuarial report: this is a financial check carried out by the scheme actuary in between *actuarial valuations* to estimate the level of coverage of the *technical provisions*. This financial check is carried out using more approximate methods than for an *actuarial valuation*. The estimates are based upon the assumptions set out in the *Statement of Funding Principles*

***Actuarial valuation**: this is a financial check carried out by the scheme actuary that assesses whether the assets are sufficient to meet the *funding target*. It also determines the contributions required to meet the target both in respect of benefits built up to date for all members and the benefits that are building up to employed members. The calculations are based upon a number of assumptions.

***Discount rate**: This is the investment return assumed to be achieved on a fund's assets in the future when calculating the value of the liabilities. The lower the investment return assumed, the more cautious the assumption is.

Company covenant: this is the ability and willingness of the sponsoring company to support the scheme; under the new funding regime the Trustees are required to take this into consideration in making funding decisions.

Funding target/objective: this is a policy to achieve, by the end of a specified period, the minimum amount of assets expected to be sufficient to pay benefits built up to date as they fall due over the lifetime of the scheme. It is usually based on a scenario that requires assumptions to be made about the future.

Pension Protection Fund (PPF): established by the Pensions Act 2004, this provides compensation to members of an occupational scheme in the event that the scheme is wound up with insufficient assets and the company has gone insolvent.

Recovery plan: this will be drawn up where an *actuarial valuation* discloses that the assets held are less than the *technical provisions*. It is a formal agreement between the Trustee and the company that sets out the steps to be taken with the aim to ensure there are sufficient assets to cover the *technical provisions* at the end of an agreed period.

Schedule of contributions: this is a document that sets out the agreed contributions payable into a scheme by members and the company and the dates by which such contributions are to be paid. It includes, but is not limited to, contributions agreed under a *recovery plan*.

Statement of Funding Principles: the Trustee is responsible for preparing and maintaining this document (with the agreement of the company and taking into account the advice of the actuary). It sets out the Trustee's policy for ensuring that the *statutory funding objective* is met and in particular the method for determining the assumptions for calculating the *technical provisions*.

Statement of Investment Principles: the Trustee is responsible for preparing and maintaining this document. It sets out the policy for investing the Scheme's assets.

Statutory funding objective: every pension scheme is subject to the *statutory funding objective*, which is to have sufficient and appropriate assets to cover its *technical provisions*. The Trustees may establish other funding objectives in addition to the *statutory funding objective*.

Statutory Priority Order: this sets out the order in which the assets of a scheme should be applied in securing the benefits of different members in the event of a wind-up. In broad terms it requires that, after allowing for expenses, a scheme first secures benefits that are in line with those that would be provided by the *Pension Protection Fund* with any remaining assets then being used to secure any other benefits.

Summary funding statement: the Trustee must issue a statement to members following each *actuarial valuation* and each *actuarial report* to disclose the Scheme's funding position and certain other information.

Technical provisions: this is the amount of assets required to make provision for the accrued liabilities of the Scheme. Over the lifetime of the Scheme, this amount is expected to be sufficient to pay all of the benefits built up to date as they fall due, based upon the method and assumptions set out in the *Statement of Funding Principles*.

The Pensions Regulator: the statutory body established with the aim to ensure the security of members' benefits and reduce the claims for compensation from the *Pension Protection Fund*. As part of this role it monitors the funding plans of all occupational defined benefit schemes and has wide ranging powers to ensure these are adequate.

Wind-up*:* a particular method of discharging a scheme's liability to pay benefits. It typically arises where the company no longer provides financial support to the scheme (for example if it becomes insolvent) and would usually involve using the scheme's assets to buy a policy with an insurance company that pays as much of the scheme's benefits as possible in accordance with the s*tatutory priority order*.