

Alstom Pension Scheme's funding position update

As you know from last year's Dimension, the Trustee of the Scheme has a Funding Agreement in place with Alstom. As a result of this agreement, additional payments are being made to the Scheme with the aim of eliminating the Scheme's deficit (shortfall) calculated on an accounting basis over the next 9 years ending in April 2016, using a formula-based approach. For 2007/08 this means:

- Employer contributions have increased from 12.5% to 13% of pensionable salaries.
- Extra employer contributions of £1,343,000 a month are being paid into the Scheme.
- Alstom is paying professional costs associated with the running of the Scheme of up to £468,900 a year.
- Alstom will pay the Pension Protection Fund levy.

In addition, Alstom Holdings has guaranteed to meet the agreed financial obligations of ALSTOM Limited to the Scheme (up to £500 million) until 5 April 2016.

The next formal assessment of the Scheme is due as at 5 April 2009. However, we continue to monitor the Scheme's financial position on a regular basis.

Investment focus

Update on investments

Following an investment strategy review in February 2007, and subsequent consultation with our investment advisers and Alstom, the Trustee decided to increase the allocation of the Scheme's assets in bonds. The Scheme's investment strategy is now to have 56.7% of the assets in bonds, 33.3% in equities and 10% in property. The reason for this move was to reduce the risk of an adverse performance in equities, which would result in an increase in the deficit.

Last year, we appointed two new specialist equity investment managers; Goldman Sachs Asset Management and Analytic Investors Incorporated to manage relatively small parts of the equity portfolio. Following a very disappointing performance by the Goldman Sachs fund, the contract with this manager has now been terminated. We are currently working with our advisers with a view to improving the returns from the Scheme's substantial bond portfolio, without taking any higher risk. This will involve appointing new investment managers for part of the bond portfolio.

Investment returns

Overall, the fund achieved a return of 6.1% for the year ended 31 March 2007 compared to the Scheme's benchmark of 6.2%. These returns do not take into account investment management fees. During the year, the market value of the assets increased from £1,327 million at 5 April 2006 to £1,399 million at 5 April 2007. The value of the assets at 31 October 2007 was £1,392 million and the Scheme's liabilities were estimated to be worth £1,444 million at the same date. This means that at 31 October 2007, there was an estimated shortfall of £52 million. However, it is important to note that this is only a snapshot of the funding position at that time. The deficit is volatile, because both the value of the assets and the liabilities fluctuate on a daily basis, as a result of changing conditions in the economy. Financial conditions since the April 2006 valuation have, overall, been positive for the Scheme. It is hoped that this will continue, but this cannot of course be guaranteed.

Full details of the Scheme's investment performance can be found in the Scheme's Annual Report & Accounts, which is available on request from the Pensions Department. Contact details can be found on the back page.

Accounts in brief

Every year, the Trustee publishes a detailed Annual Report and Accounts for the Scheme. Our auditors, Deloitte & Touche LLP, audit the Annual Report and Accounts to ensure that they present a true and fair view.



The following is a summary of the audited Annual Report and Accounts for the Alstom Pension Scheme for the year ended 5 April 2007

Fund account for the year ended 5 April

	2007 £ million	2006 £ million
Net assets at the start of the year	1,327.4	1,120.8
Coming into the Scheme		
Contributions received	51.9	44.1
Transfer in (bulk transfer)	0	9.1
Total received	51.9	53.2
Going out of the Scheme		
Benefits paid	64.7	60.2
Transfer values paid (individual)	1.1	1.6
Transfer values paid (bulk)	0	7.9
Administration expenses	1.2	2.2
Total paid	67.0	71.9
Return on investments		
Investment income	28.7	28.6
Investment management expenses	(3.1)	(3.0)
Change in market value of investments	61.2	199.7
Net return on investments	86.8	225.3
Net increase in the Fund during the year	71.7	206.6
Net assets at the end of the year	1,399.1	1,327.4

Split of Scheme membership

	Number at 5 April 2007	Number at 5 April 2006
Contributing members	1,725	2,474
Deferred members	12,048	11,716
Pensioner members	11,023	10,861
Total Scheme membership	24,796	25,051

Changes to the Board of Trustee Directors

As you may know, the Trustee of the Scheme is a company called ALSTOM Pension Trust Limited. The Trustee Board is made up of nine Trustee Directors.

Following legislation introduced by the Pensions Act 2004, the Trustee reviewed and adopted new procedures to nominate and select Member-Nominated Directors (MNDs). As a result, one pensioner MND and three contributory MNDs were appointed.

This meant that during 2007, Harvey Perkins was appointed as a pensioner MND and Richard E Dean replaced Alan Bown as a contributory MND. Peter Bradshaw and Don McKenzie, both contributory MNDs, were reappointed.

In addition, we also lost the services of Steve Murray and Mark Flicker both of whom left the Company this year. The Trustee would like to thank Steve, Mark and Alan for their time and commitment to the Trustee Board over the last few years.

As Mark's replacement we welcomed Steve Jones to the Board; Steve is known to many of you as the Managing Director of PSUK.

The current Trustee Directors are:

Company appointed

Tom Ross – independent Chairman
Nicolas Khalife
Xavier Langlois d'Estaintot
James Milner
Steve Jones

Member-Nominated Directors

Peter Bradshaw
Richard E Dean
Don McKenzie
Harvey Perkins

Additional Voluntary Contributions (AVCs)

Earlier this year, a new AVC booklet was issued to contributing members of the 2006 Section. Those members who have AVCs in the Alstom in-house arrangement, known as the Additional Benefits Scheme (ABS), have the option to transfer their ABS benefits to the Friends Provident AVC arrangement.

In October 2007, 41 out of 180 members of the 2006 Section with ABS benefits, requested to transfer to Friends Provident.

The Pensions Department will ask deferred members whether they wish to transfer their ABS benefits to Friends Provident in April 2008.

Information for deferred members

At the moment, whilst the Scheme is in deficit, the Trustee is unable to provide full transfer values and currently applies a reduction of 14%.

In September, ALSTOM Limited contacted former employees who had deferred benefits in the Scheme, to give them the opportunity to take an enhanced transfer value from the Scheme to their current employer's pension scheme, a personal pension or a stakeholder policy. The cost of funding the enhanced transfer value is being met entirely by Alstom and independent financial advice, paid for entirely by Alstom, is being offered to help members make the right decision. The deadline to take up this offer is 31 January 2008.



Early retirement information

For contributing and deferred members

From January 2007, the Trustee agreed to lift the early retirement suspension. So far, approximately 300 members have taken early retirement from the Scheme in 2007.

As different rules apply to each Section, it is not always possible to take early retirement as the Trust Deed & Rules may require both Company and Trustee consent. The Company has set a policy that where it consents to early retirement, it will not ordinarily do so before age 60.

If you would like a copy of the current early retirement factors, or more information on when you can retire, please call the pensions helpline number or visit our website. Contact details can be found on the back page.

For contributing members only

If you are currently working for Alstom, you will be given the option to apply for payment of your pension from the Scheme on or after age 60. New legislation allows you to draw your pension while you are still working.

Members who choose to draw their pension early will not be able to build up further benefits in the Scheme but will be able to join the Alstom Defined Contribution Plan (Alstom DC Plan). The Alstom DC Plan is a money purchase arrangement and is not part of the Alstom Pension Scheme. If you do this, you will not be covered for death in service benefits, other than a return of your fund value in the Alstom DC Plan.

If at age 65 you are still a member of the Scheme and working for Alstom, assuming the Company has given its consent for you to continue to work for Alstom, you have 3 options:

- 1) You can build up extra years and months of pensionable service in the Scheme, if you continue to pay member contributions.
- 2) You can choose to draw your pension from the Scheme. If you choose to do this, you are eligible to join the Alstom DC Plan.
- 3) You can opt out of the Scheme.

Note:

- You are only covered for death in service benefits if you choose option 1.
- Under options 2 and 3, death benefits are payable but they are substantially lower than the death in service benefits.
- You may wish to seek independent financial advice if you are considering continuing to work after age 65.

Service credits

In January 2007, members of the 2006 Section were asked whether they wanted to transfer their past service Alstom pension benefits to the 2006 Section. Out of a total membership of 1,749 active members, 19% chose to take the service credit, 43% chose to retain a deferred pension and 38% did not return their forms and as a result were given the default option which was a deferred pension.



Information for pensioner members

In March this year, due to a Banks Automated Clearing System (BACS) problem experienced by many banks, the Pensions Department, along with many other companies, were unable to pay pensioners their pension on the designated day. The Trustee makes every effort to ensure that pensions are paid on time but unfortunately, this situation was out of the Trustee's control.

Consequently, if you have set up direct debits and transfers to take place on the day your Scheme pension is paid, it may be wise to arrange for these payments to take place a few days after your pension is due to be credited, in case something similar happens again.

A list of the payment dates is sent to all pensioners in April every year. For further information please call the pensions helpline.



Pension Protection Fund (PPF)

The PPF was set up to provide compensation to members of eligible defined benefit pension schemes, when the employer becomes insolvent and there are insufficient assets in the pension scheme to cover the PPF level of compensation.

To help fund the PPF, compulsory annual levies are charged on all eligible schemes and Alstom pays this on behalf of the Scheme.

During the year, we have received feedback from members asking for further details on the compensation benefits payable from the PPF, in the unlikely event of the Scheme winding up, through the employer becoming insolvent.

The PPF provides two levels of compensation:

1) For individuals below the Scheme's normal pension age, the PPF will pay 90% level of 'compensation'.

This means 90% of the pension an individual had built up immediately before the Scheme is assessed for entry to the PPF (which will be close to the date the employer became insolvent), plus revaluation in line with the increase in the Retail Price Index (RPI), to a maximum of 5%, between the assessment date and the date the compensation payments start.

For individuals who are under normal pension age at the assessment date, this compensation is subject to an overall cap. This cap on compensation is currently an annual pension of £26,935 at age 65. The cap is adjusted according to the age at which compensation comes into payment, and is lower before age 65.

Once compensation is in payment, the part of the compensation relating to pensionable service on or after 6 April 1997 will be increased each year in line with the RPI up to a maximum of 2.5%. Compensation relating to pensionable service before 6 April 1997 will not be increased.

The compensation will allow for a pension to continue at the rate of 50% of your pension to your spouse or other dependants on your death.

2) For individuals who have reached the Scheme's normal pension age, the PPF will pay 100% level of 'compensation'.

In other words, the compensation is equal to 100% of the pension in payment immediately before the Scheme is assessed for entry to the PPF (which will be close to the date the employer became insolvent).

This also applies to individuals, regardless of age, who are already receiving a survivor's pension or an ill-health pension from the Scheme.

The part of the compensation in payment that relates to pensionable service on or after 6 April 1997 will be increased each year in line with the Retail Prices Index (RPI) up to a maximum of 2.5%. Compensation in payment relating to pensionable service before 6 April 1997 will not be increased.

The compensation will allow for a pension to continue at the rate of 50% of your pension to your spouse or other dependants on your death.

It should be noted that the compensation payable by the PPF can vary and is therefore not guaranteed.

For more information about the PPF, you can look at the Pension Protection Fund website at www.pensionprotectionfund.org.uk or call the helpline on **0845 600 2541**.

Topical pension news

Improving State benefits

The Pensions Act 2007 was passed in July. The Act implements the Government's State pension reforms and the key points are:

1) Improving eligibility.

From 2010, it will be easier for individuals to earn their entitlement to a full Basic State Pension.

Individuals reaching State Pension Age (SPA) from 6 April 2010 will need only 30 years of National Insurance contributions or credits to qualify for full entitlement to the Basic State Pension, rather than 44 years for a man and 39 years for a woman.

2) Improving State pension increases.

The Basic State Pension currently increases in line with price inflation. In the future (date not yet announced) the Basic State Pension will increase in line with the general level of earnings.

3) Increasing State Pension Age (SPA).

SPA is the earliest age at which you can claim your State Pension. Currently, the age at which men and women can claim their State Pension is different. Women who reach SPA before 6 April 2010 can receive their State Pension at 60 and men at 65.

SPA for women will increase to 65 so that the SPA will be the same for both men and women by 2020. This change will be phased in from 2010.

The SPA for both men and women will also rise from 65 to 68 in stages between 2024 and 2046.

For more information on State benefits, you can look at The Pension Service website at: www.thepensionservice.gov.uk or call the helpline on **0845 606 0265** Monday to Friday from 8am to 8pm.

Keeping you informed

This document is designed to keep you informed of developments in the Scheme. If you require more detailed information, or you would like a copy of one of the following documents, you should contact the Alstom UK Pensions Department:

- Trustee Report and Accounts - the full, formal document;
- Statement of Investment Principles - setting out the Trustee's investment policy; and
- Trust Deed and Rules – the legal documents governing the Scheme.

Further information

The Alstom UK Pensions Department is open between 8.30am and 5.00pm Monday to Thursday and 8.30am to 4.30pm on Fridays. The Pensions Department will be happy to help with any questions you have about your pension or the information contained in this newsletter.

Phone:

If your pension has not started yet:
01788 557402 or **01788 557403**

If you are receiving a pension:
01788 557404

Write:

**Alstom UK Pensions
PO Box 2229
Rugby
Warwickshire
CV21 2YP**

Log on:

If you have access to the Company intranet or the internet, you can visit our website by opening your web browser and typing in:

iwww.pensions.alstom.com
(from the intranet) or

www.pensions.alstom.co.uk
(from the internet)

Full details of the Scheme are contained in the Trust Deed and Rules. In the event of any discrepancy between the information contained in this newsletter and the Trust Deed and Rules, then the Trust Deed and Rules will apply.