

## **ALSTOM's commitment remains strong**

In September, we sent you a summary of the funding position of the Scheme. We have now signed a revised Funding Agreement with ALSTOM and we are able to let you have details. Under the revised Funding Agreement ALSTOM will:

- make additional payments into the Scheme with the aim of eliminating the Scheme's deficit ('shortfall') calculated on an accounting basis over the next 10 years, using a formula-based approach;
- pay a contribution of £23.1 million during 2006/07; and
- pay various costs associated with the Scheme, such as the costs of running the pensions department and the Pension Protection Fund levy.

In addition, the Company's contribution rate has increased to approximately 12.5% of pensionable salaries from 8% to reflect more up-to-date financial conditions and the new benefit structure from April 2006. The funding of the Scheme will be reviewed formally every three years.

There was already an agreement between the Trustee and ALSTOM Holdings under which ALSTOM Holdings had guaranteed the above financial obligations of ALSTOM Limited (up to £450 million) until 5 April 2009. The period of the ALSTOM Holdings guarantee has been extended until 5 April 2016 and the guarantee is now up to a maximum of £500 million.

## **investment focus**

### **Changes to investments**

We are required by law to regularly review the performance of the investment managers to ensure that the Scheme's assets are safeguarded (and performing satisfactorily). To do this, the Trustee has an Investment Committee, which regularly reports back to the Trustee on investment performance. The full Trustee Board is responsible for all investment decisions.

Following the results of a recent investment review, the Trustee decided to end the appointment with Wellington who were one of the Scheme's equity investment managers. Two new managers have been recently appointed - Goldman Sachs Asset Management and Analytic Investors Inc. Both are specialist equity managers. There is also a considerable amount of work being done in relation to the bond portfolio. Further details regarding this will be available once the review has been completed.

### **Investment returns**

It has been a positive year in terms of investment performance and the fund as a whole achieved a return of 20%. During the year, the market value of the assets has increased from £1,120.8 million at 5 April 2005 to £1,327.4 million at 5 April 2006. The value of the assets as at 30 September 2006 was £1,298.9 million. We will continue to give a high priority to investment matters in the years ahead to ensure that we maximise investment return without exposing the Scheme to unnecessary risks.

## accounts in brief

Every year, the Trustee publishes a detailed report and accounts for the Scheme. Our auditors, Deloitte & Touche LLP, audit the accounts and report that they present a true and fair view. Here is a summary of the audited accounts for the year ended on 5 April 2006.



The following is a summary of the audited report and accounts for the ALSTOM Pension Scheme for the year ended 5 April 2006

| Fund account for the year ended 5 April    |                   |                                 |
|--|-------------------|---------------------------------|
|  | 2006<br>£ million | 2005<br>£ million<br>(restated) |
| <b>Net assets at the start of the year</b> | <b>1,120.8</b>    | <b>1,049.9</b>                  |
| <b>Coming into the Scheme</b>              |                   |                                 |
| Contributions received                     | 44.1              | 18.0                            |
| Transfers in (individual members)          | 0                 | 0.1                             |
| Transfer in (bulk transfer)                | 9.1               | 19.6                            |
| <b>Total receivable</b>                    | <b>53.2</b>       | <b>37.7</b>                     |
| <b>Going out of the Scheme</b>             |                   |                                 |
| Benefits paid                              | 60.2              | 60.8                            |
| Transfer values paid (individual)          | 1.6               | 5.5                             |
| Transfer values paid (bulk)                | 7.9               | 0.1                             |
| Administration expenses                    | 2.2               | 0                               |
| <b>Total payable</b>                       | <b>71.9</b>       | <b>66.4</b>                     |
| <b>Return on investments</b>               |                   |                                 |
| Investment income                          | 28.6              | 26.0                            |
| Investment management fees                 | (3.0)             | (2.5)                           |
| Change in market value of investments      | 199.7             | 76.1                            |
| <b>Net return on investments</b>           | <b>225.3</b>      | <b>99.6</b>                     |
| <b>Net increase in value of the fund</b>   | <b>206.6</b>      | <b>70.9</b>                     |
| <b>Net assets at the end of the year</b>   | <b>1,327.4</b>    | <b>1,120.8</b>                  |

| Split of Scheme membership     |                           |                           |
|--------------------------------|---------------------------|---------------------------|
|                                | Number at<br>5 April 2006 | Number at<br>5 April 2005 |
| Contributing members           | 2,474                     | 3,577                     |
| Deferred members               | 11,716                    | 10,937                    |
| Pensioners                     | 10,861                    | 10,848                    |
| <b>Total Scheme membership</b> | <b>25,051</b>             | <b>25,362</b>             |

## new pension arrangements

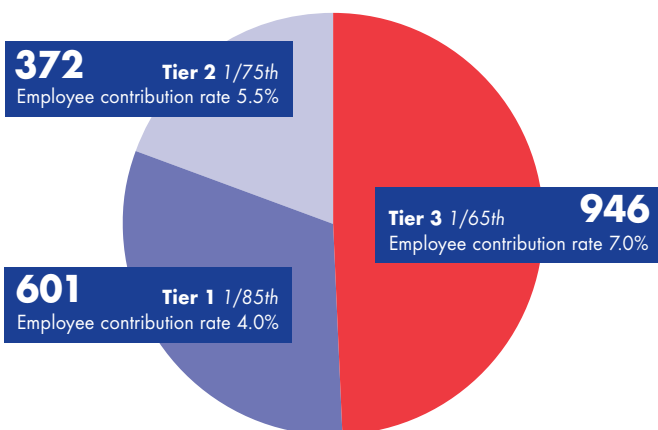
During 2005, the Company undertook a detailed review of all ALSTOM pension arrangements offered to current employees. The review included a consultation exercise with members. As a result of this review, significant changes to the ALSTOM Pension Scheme were proposed for the future and discussed with the Trustee Board.

The Company's final proposals were communicated to all members affected and the changes were successfully implemented on 6 April 2006.

The major changes are as follows:

- The ALSTOM Pension Scheme is now closed to new members.
- Current Retirement Capital Plan (RCP) members and new employees can join a new defined contribution plan, which is entirely separate from the Scheme.
- For **all** final salary members, there is one new section for pension earned after 5 April 2006 called the '2006 Section'. Members can pay contributions at one of three different rates to provide differing levels of benefits on retirement.
- The 2006 Section has a new Pensionable Earnings definition based on basic salary and fixed allowances. For some members there will also be changes to the benefits payable on death in service.

### Numbers of members in each tier on 6 April 2006



**Note:** Members of the final salary section of the ALSTOM Pension Scheme were also given a choice to cease accruing final salary benefits. As a result, 31 members chose to join ALSTOM's defined contribution plan as at 6 April 2006. Seven members decided to leave the ALSTOM pension arrangements altogether.

### Jargon buster

#### Final salary

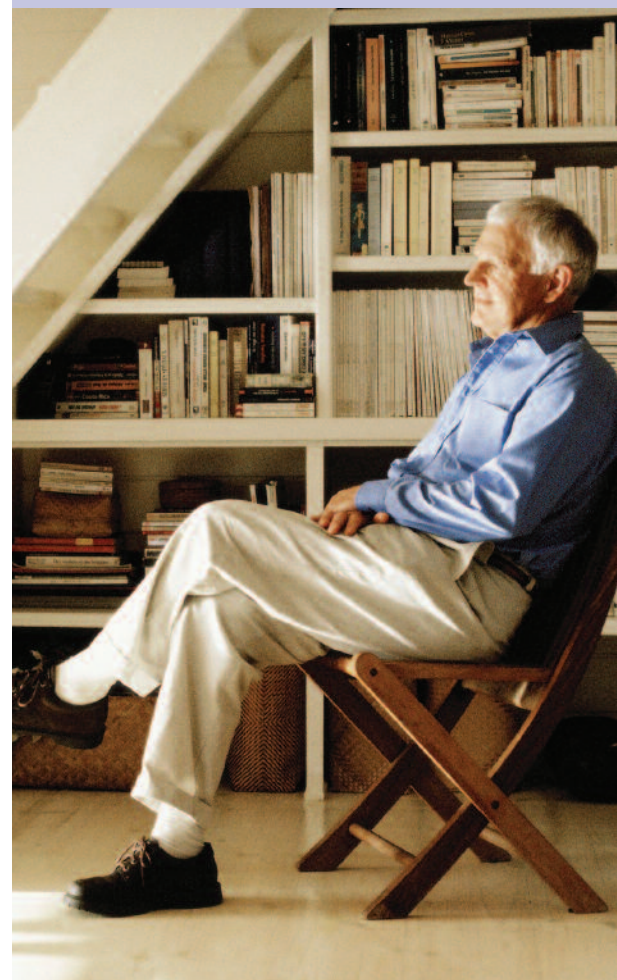
In a final salary scheme, you receive a pension related to your pensionable earnings in the years before retiring and your length of pensionable service.

#### Retirement capital

In a retirement capital plan, you build up a benefit related to your earnings each year (this is the 'retirement capital').

#### Defined contribution

In a defined contribution plan, the size of your pension will be determined by how much money goes into your individual 'account' (contributions from you and the Company), how much it grows (as a result of investment returns) and the cost of buying a pension when you retire. This type of arrangement is also known as a money purchase scheme.





## early retirement

### Early retirement information for contributing and deferred members

Following a review, the Trustee has agreed to lift the early retirement suspension by introducing a phased retirement policy. The Trustee has agreed to this providing there are no significant events which affect the Scheme's finances.

Different early retirement ages apply to different sections of the Scheme. In some sections Company consent is needed to take early retirement. The Company has said that they will not agree to members retiring before age 60.

If you are unsure as to whether you can take your pension early, then please refer to the announcement sent to you earlier this year or call the pensions department on the number shown on the back page.



### New early retirement factors

If you retire early from the Scheme, your pension will usually be reduced for early payment. We have recently reviewed the early retirement factors we use and made some changes. These changes will affect both deferred members and members who are still contributing to the 2006 Section of the Scheme.

If you would like a copy of the new factors, please call the pensions helpline number or visit our website. Contact details can be found on the back page.

### Results of valuation

The Trustee's actuary, Ian Skinner of Watson Wyatt Ltd, carried out a valuation using information as at 5 April 2006. A valuation is a formal 'health check' of the Scheme, which must happen every three years. The Trustee's actuary compares the value of the Scheme's assets with its liabilities to work out the funding level and the future level of contributions that might be required.

The draft results show that the deficit, when measuring the Scheme on an ongoing basis, has gone down from £406 million at 5 April 2003 to £227 million as at 5 April 2006. This represents a funding level of 85% on an ongoing basis. If the Scheme had discontinued on 5 April 2006 and no new benefits had built up from that date, the funding level would have been 63%. This lower funding level is because the fund is likely to be more conservatively invested if the Scheme were to be discontinued.

## STOP PRESS

## additional voluntary contributions (AVCS)

If you are currently contributing to the 2006 Section, you have the opportunity to increase your benefits at retirement by paying AVCs. AVCs are contributions paid by you, on top of your normal contributions, which have the same tax advantages as your normal contributions.

Under new legislation, you are now able to pay pension contributions (including AVCs) up to 100% of your earnings. However, there is a limit on the amount you can pay as AVCs to the ALSTOM Pension Scheme which is equal to a maximum of 10% of your Pensionable Earnings in each Scheme year. As a result of the new legislation, we have taken the opportunity to update the Scheme's AVC booklet. A revised booklet will be sent to all contributing members of the 2006 Section in the next few months.

## **nomination of trustees**

Next year the rules for nominating and selecting member nominated trustees are changing. This means that the ALSTOM Pension Scheme will need to review the arrangements it has in place. It is likely that following this review, pensioners will be allowed to stand and be selected as a Trustee Director. If you are a pensioner and are interested in applying then please write to Lorna Griffin-Smith in the pensions department.



## **service credits**

Current members of the 2006 Section will shortly be asked to choose what to do with their past service ALSTOM pension benefits. Members have the option to either keep their past service benefits as a deferred pension in their respective section of the Scheme, or to take a service credit in the 2006 Section.

An information pack will shortly be sent out to all current members of the 2006 Section, which will provide further details about the service credit, including a personal illustration.

## **trustee focus**

### **Changes to the Trustee Board**

David Thomas left ALSTOM and retired as a Trustee Director on 31 March 2006. We would like to thank David for his contribution to the running of the Scheme and we are pleased to welcome Xavier Langlois d'Estaintot to the Board as a Company nominated director. Xavier is the Senior Vice President of Treasury and Funding at ALSTOM's headquarters in France.

### **The new Pensions Executive**

Bryan Radford was appointed as the UK Pensions Executive on 6 February 2006. He joins ALSTOM from the employee benefits consultancy world where he worked for 25 years as a consultant and as a scheme actuary. Bryan is both a Fellow of the Institute of Actuaries (England) and the Society of Actuaries (USA). Bryan represents the actuarial profession on its Pensions Board Standards & Practice Committee and is also on the joint committee with the Institute of Chartered Accountants.



## keeping you informed

This document is designed to keep you informed with 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.

### Here to help

The ALSTOM UK Pensions Department is open between 8.30am and 5.00pm Monday to Thursday and 8.30am to 4.30pm on Fridays. They will be happy to help with any questions you have about your benefits.

#### Phone:

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

If you are receiving a pension:  
01788 557404

#### Or write to:

ALSTOM UK Pensions, PO Box 2229, Rugby, Warwickshire, CV21 2YP  
If you have access to the Company intranet or the internet, you can visit our website by opening your web browser and typing in:

**[iww.pensions.alstom.com](http://iww.pensions.alstom.com)**  
(from the intranet) or  
**[www.pensions.alstom.co.uk](http://www.pensions.alstom.co.uk)**  
(from the internet)

## expert help

Here are the current Trustee and professional advisers to the Trustee

### Administrators

ALSTOM UK Pensions Department

### Auditors

Deloitte & Touche LLP

### Bankers

HSBC Bank plc

### Custodians

State Street Bank & Trust Company

### Current Directors

A Bown  
P Bradshaw  
M Flicker  
N Khalife  
X Langlois d'Estaintot  
D O McKenzie  
J W Milner  
S Murray  
T M Ross (Chairman)

### Secretary to the Trustee

L Griffin-Smith

### Investment Committee

A Bown  
JW Milner  
D O McKenzie  
TM Ross  
S Roy  
L Griffin-Smith

### Investment Consultant

Watson Wyatt Ltd

### Investment Managers

Analytical Investors Inc.  
Barclays Global Investors Limited  
Capital International Limited  
CB Richard Ellis Investors Limited  
Equitable Life  
Friends Provident  
Goldman Sachs Asset Management  
Insight Investment Limited  
Standard Life

### Investment Adviser

Investment Solutions Inc.

### Medical Adviser

Dr P Fyans

### Scheme Actuary

Ian Skinner, Watson Wyatt Ltd

### Solicitors

Lovells  
Wragge & Co LLP  
Pinsents

### Trustee

ALSTOM Pension Trust Limited  
Newbold Road  
Rugby  
Warwickshire  
CV21 2NH