

Supplement for Active Members on the Company Proposals

MESSAGE FROM THE CHAIRMAN OF THE TRUSTEE BOARD

Dear Active Member

You will now be aware that the Company has taken account of representations made by the Trustee and of comments from Scheme members during the consultation process and has revised its proposals regarding pension contribution increases and the setting up of a Defined Contribution Section of the Invensys Pension Scheme.

The Trustee has spent a significant amount of time considering the Company's original proposals. At the same time as members have been making comments and suggestions, the Trustee has been engaged in discussions with the Company to ensure we carry out our duties and responsibilities to all members of the Scheme.

This supplement lays out our responsibilities in circumstances where the Company proposes changes to the Scheme which require the Trustee's agreement. We have followed advice from legal counsel and requested information supporting the proposals and made counter-proposals to ensure any changes to the Scheme were reasonable and proportionate.

We would have preferred the increases to member contributions to have been lower and introduced over a longer period of time, but the Company consider they have gone as far as they wish in accommodating revisions to their proposals. Changes made to the original proposals are noted overleaf.

In deciding to agree to the revised proposals the Trustee considered a number of factors including:

- a) increases in the costs of pension provision in UK industry generally and the trend for changes to be made to pension schemes to help alleviate these costs;
- b) there is a suitable option available for members who cannot afford the increases in contributions;
- c) the commercial position of the Company;
- d) the possibility that the Company could have introduced changes to the level of pension benefits and contributions by other methods which might have placed Active Members in a worse position; and
- e) the design of the new DC Section has advantages well beyond more standard DC Schemes.

This outcome provides that accrued benefit will remain linked to pensionable pay and also continues to ensure the future provision of pension benefits through the Scheme.

While increases to the levels of contribution payable by members are never welcome, your Trustee has sought to ensure that the increases made are proportionate and reasonable in all the circumstances.

This leaflet summarises the changes. I hope you find it useful.

Since becoming aware of the Company's proposals to increase Active Member contribution rates for the Scheme, your Trustee has been heavily involved in ensuring it has sufficient information to enable it to carry out its duties and responsibilities to its members. Activities were as follows:

- Trustee representatives have met several times with the Company and its advisers to discuss and to understand the proposals with regard to Defined Benefit (DB) contributions and to review the design and implementation of the Defined Contribution (DC) Section.
- The Trustee has engaged in ongoing communication with the Company regarding the proposals in order to gain as much information as necessary.
- The Trustee met regularly with its advisers and in particular met with Queen's Counsel specialising in pension law on 19 October in order to gain an authoritative view of the Trustee's responsibilities.
- The Trustee Board's Chairman met with the Company's Chief Financial Officer and Senior Vice President HR on 27 October in order to gain a further understanding into the Company's position, and has had subsequent correspondence and telephone contact.
- Board meetings were held on 1 and 23 November in order to discuss the information currently available and to agree what more is required in order to form its view.
- On 12 December, the Trustee Board met to consider and approve the revised proposals.

Major changes to original proposals:

- Employee Contribution (EC) increase to 10% delayed until April 2007.
- EC further increase to 15% reduced to 13% but advanced three months to April 2008.
- Capping of the Company Contribution (CC) to 15% in July 2008 (where future rises to be met by increased EC) removed from proposals; although member contributions generally will be reconsidered by the Company in 2009 following the 2008 valuation.
- DC Scheme to be contracted in to the State Second Pension.
- DC Scheme to carry death-in-service and disability benefits that are the same as the DB Section.
- Sliding scale introduced for EC and CC contributions to the DC Scheme.
- Top scale of CC to the DC Scheme at 13% (down from 15%) to match the DB CC rate.

Trustee responsibilities

Following advice received from its regular advisers and from a leading Queen's Counsel, your Trustee understands that it must adopt the following approach when considering the Company's proposals:

- The Trustee should consider the proposals in a practical and commercial manner.
- The Trustee is entitled to and should recognise the interests of the Company as well as the members.
- Members do not have an absolute right to maintain the same contribution rate, nor does the Company have the right to dictate contribution rates to the Trustee.
- The Company must justify its proposals and the Trustee must determine whether these justifications are "real and true".
- When reviewing the justification the Trustee must consider whether the proposals are "reasonable and proportionate".
- Having regard to the above the Trustee must exercise its discretion "fairly and reasonably".
- The Trustee must take account of the other alternatives the Company could pursue.

Following the above advice the Trustee requested further information from the Company including:

- The reasons for the Company proposing the changes.
- Details of other companies against which the Company compared itself.
- What alternative options the Company considered as possible ways of controlling its pension costs.

Summary of key proposals agreed

- Current contribution rates based on September 2005 Actuarial Valuation, finalised in March 2006 – 29.3%, split Company contribution (CC) 24.3% and Employee contribution (EC) 5%.
- From April 2007 EC to rise to 10%; CC to reduce to 19.3%.
- From April 2008 EC to rise to 13%; CC to reduce to 16.3%.
- Members who do not wish to remain in the DB Section can transfer to Company DC Section, which will be contracted in to the State Second Pension (S2P).

Summary of DC Section alternative

- As from April 2007 a gross employee contribution of 5% (including increased contracted in NI contributions).
- A gross employer contribution of 10% (including contracted in NI contribution and an allowance for Death and Disability benefits).
- From April 2008, the employee contribution can be increased up to 10% and the employer will rise correspondingly to 13%.
- The DC arrangement will be a Section of the current Invensys Pension Scheme.
- Death-in-service and disability benefits will be the same as those in the DB Section.
- The DB pension already built up will not be affected: it will continue to be based on final pensionable salary.
- Members can opt to join the DC Section at any time on or after 1 April 2007, but then cannot rejoin DB Section.
- A member's DC "pot" may be transferred out. On retirement it may be taken as part of the tax free cash entitlement, added to the DB benefits and form a single pension, or can be taken separately on the "Open Market".
- The proposed new arrangements will be administered by Invensys Pensions from the Newcastle office.

Next steps

- Members will receive an option form from the Company to be completed by 28 February 2007.
- On receipt of an application to join the DC Section, investment and contribution details will be circulated.
- New DC Section effective from 1 April 2007.

Should you have any further questions please contact us through your HR Department or at the Scheme's administration office in Newcastle.