THUS Group plc Pension Scheme ("the Scheme")

Announcement to all Members

You may have recently read in the press about the proposed changes in the way that statutory pension scheme increases will be calculated in the future. The Government has announced that for occupational pension schemes, statutory increases on pension between the date of leaving a scheme and retirement (called "deferred pension increases" or "revaluation") and increases on pensions once they are in payment after retirement (called "in payment increases"), may in future be linked to increases in the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI).

What are the changes?

The RPI calculates the increase in a "basket" of consumer products each year and includes housing costs such as mortgage interest payments, council tax and buildings insurance.

The CPI, that the Government has proposed will be used in future, again looks at prices of a "basket" of products but excludes housing costs and is calculated slightly differently. The Government feels that this better reflects how pensioners are affected by inflation.

Historically, in general, CPI has been lower than RPI, although it could be higher on certain occasions or during certain economic conditions in the future.

How is your Scheme affected?

Increases to deferred pensions before they come into payment

Based on the Rules of the Scheme, **future** revaluations applied to that element of a member's deferred pension, which is in excess of the Guaranteed Minimum Pension (GMP), will automatically switch from using RPI to CPI (subject to a maximum figure of 5%). This will take effect from 1 January 2011 and is in respect of 2011 onwards hence RPI will continue to be used as the revaluation measure for previous years which have counted to date.

It should be noted that C&W UK has the ability under the Scheme rules to change revaluation in respect of pensionable service after 31 December 2011. This would however be subject to a minimum of the percentage increase in the CPI, or, if lower, 2.5%.

There is no anticipated change to the existing revaluation basis for the GMP element of a member's deferred pension as a result of CPI.

Increases to pensions in payment

There will be no change to the way in which a member's pension, in excess of the GMP element, will be increased and this part of a member's pension will continue to receive increases of 5% or, if lower, by the percentage increase in the RPI.

That part of a member's pension in payment which relates to the GMP element earned after 5 April 1988 will continue to receive a maximum award of 3% but, if lower, the percentage increase in CPI (as opposed to RPI) will now apply.

Q. How does this affect me?

If you are currently an active member of the Scheme this change will not affect you until you retire or you become a deferred member.

If you are already in receipt of your pension then this change will affect you as some of the GMP element of your pension in payment will now be linked to CPI as opposed to RPI subject to a continuing statutory cap of 3%.

If you are currently a deferred member then for future years your pension in excess of the GMP element will be revalued in line with the increase in CPI from 1 January 2011 subject to a continuing statutory cap of 5% (unless C&W UK decide to change this in respect of pensionable service after 31 December 2011).

This announcement sets out what the Trustees expect the impact of the changes will be on the Scheme. However, please note that the Government is still consulting on some aspects of the change to CPI and further changes may still take place.

Further information

If you have any queries relating to this announcement, please contact the Trustees at:

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For & on behalf of the Trustees of the THUS Group plc Pension Scheme

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