

PRIVATE AND CONFIDENTIAL

Date: 24 February 2009
Our Ref: PM.CARE.LET.240209
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Dear

Career Average Revalued Earnings (CARE) Scheme

I am writing to provide you with an update on the Scheme review that has been taking place for the CARE Scheme.

You will recall that we undertook a consultation exercise during the autumn, which was supported by an Employer Day to which all participating Employers, such as yourselves, were invited. I would like to thank those Employers that were able to attend the Employer Day and all of you who have responded to the consultation.

The consultation period ended on 24 October 2008 and the Trustee considered the results at its meeting on 20 January 2009. A detailed breakdown of the consultation responses is set out in Appendix A. The remainder of the letter provides:

- a summary of the key responses,
- the conclusions we can draw from the responses; and
- the Trustee's decisions and next stages

1. Summary of the Key Responses

In summary, we received responses from 43% of the participating Employers, covering 77% of the active membership.

The Employer responses to the questionnaire are set out graphically in Appendix A attached, weighted by active membership representation.

From the responses received, we identified the following:

Employers are clearly concerned about the continued accrual of contingent buy-out liabilities.

67% of Employers were opposed to any increase in contribution rates.

There are no Employers in favour of retaining the bonus objective.

Only 24% are opposed to a reduction in pension accrual for future benefits.

There are no Employers in favour of closing the Scheme to new members.

Only 21% of Employers are in favour of closing the Scheme to future accrual. Indeed only one of the larger Employers favoured this approach.

Only 23% of Employers are supportive of the introduction of a Cash Balance accrual method as a form of risk sharing.

2. Conclusions we can draw from the responses

Our main conclusions were as follows:

There are several organisations for whom the build-up of defined benefits is a risk both to the organisation and to the Trustee (from its perspective of acting in the interests of all the members). But, there is a wide divergence of opinions as to the way forward amongst the diverse group of Employers within the CARE Scheme.

Whilst all Employers are concerned about the build up of contingent liabilities, most Employers strongly favour the continuation of defined benefits for their staff, favouring the CARE approach.

Some Employers are much more concerned about the build-up of liabilities.

Some did not feel able to comment on the technical issues that were raised.

There is no clear mandate from the Employers for a particular course of action, suggesting the need to investigate a range of possible solutions to address the concerns of the different groups.

3. Trustee Decisions and Next Stages

The Employer responses to the questionnaire, including the specific comments made by some Employers and our analysis and conclusions were considered at the Trustee meeting held on 20 January 2009.

The Trustee noted that there was strong support from Employers for the scheme to continue, but that, apart from the removal of the bonus objective, the responses suggested there was no clear mandate from Employers for a particular single course of action or benefit structure.

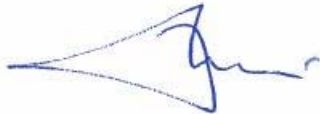
The Trustee therefore agreed the following actions:

1. That a working party should consider the responses in more detail and investigate a range of options to address the needs of the different Employer groups.
2. That the working party should bring a set of recommendations for consideration at the next Trustee meeting on 31 March 2009.
3. That Employers should be given an update on the findings of the initial consultation exercise and the decisions agreed at the Trustee meeting.

Following the Trustee meeting in April, a further communication will be issued to participating Employers. In the meantime, if you have any questions or concerns, please feel free to contact me.

Whilst writing, I can confirm that the valuation was finalised at the end of last year and copies of the valuation report and associated documentation are available on request.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Paul Milton', with a stylized flourish at the end.

Paul Milton
Account Manager