

AVX LIMITED PENSION SCHEME (“THE SCHEME”)

Varelco: Increases to pensions in payment

Similar to previous years, you will shortly receive information on the increase to be applied to the different elements of your pension. These increases will apply from April 2012 and will depend on when you were in service with AVX Limited (“the Company”). In advance of receiving this communication, the Trustees have requested that members are provided with an early indication of pension increases ahead of April 2012.

How will my pension increase?

As you will be aware, there may be a number of different elements which make up your pension and these elements will increase at different rates. Your pension increases will either be in line with the Retail Prices Index (“RPI”) or the Consumer Prices Index (“CPI”) and each element will be capped at a maximum percentage.

In his June 2010 budget, the Chancellor of the Exchequer announced that the Government would use the CPI, rather than the RPI, to determine increases to public sector pensions. The Department for Work and Pensions (“DWP”) confirmed that the statutory increases that apply to private sector pensions will also be based on the CPI.

The RPI and CPI both follow the progression in the prices of a ‘basket of goods’, although the basket differs slightly. For example, CPI excludes certain housing costs, mortgage interest payments and council tax – although the EU is considering changing this.

Since 1997, increases in the RPI have averaged around 0.9% per annum above increases in the CPI. The difference in the calculation methods explains a difference of about 0.5% per annum, with the remainder due to the different baskets of goods.

The Trustees have consulted with their legal advisors who confirmed that only statutory increases to Guaranteed Minimum Pension (“GMP”) would change to increase in line with CPI and that all other elements of pension would increase in line with RPI.

Description of Increases to Different Elements of Pension

The first distinction to be made is between the pension which you built up in respect of your service with the Scheme prior to April 1997 and any pension that you may have built up in respect of service after that date up to April 2006, and then the pension built up since this date.

There are up to three elements comprising your pre-April 1997 pension. The first is the Guaranteed Minimum Pension (GMP) which was accrued in respect of any service you had in the scheme prior to April 1988. This is your “pre-April 1988 GMP”. The second element is GMP which may have been built up between April 1988 and April 1997. This is your “post-April 1988 GMP”. The remainder is the pre-April 1997 pension over and above the GMP element of pension. This is your “excess over GMP”.

These different elements of pension are derived from pension legislation rather than by rules set by AVX.

Aside from this, another possible element of pension is AVC pension.

If you had been paying additional voluntary contributions, or AVC for short, whilst you were a member of the scheme, you may subsequently have converted that into an additional pension on retirement.

Please note that part of your pension is separately earmarked and referred to as GMP once you have reached age 65 for a man and 60 for a woman. Prior to that time, all of your pre-1997 pension is deemed to be non-GMP.

The following table explains the level of increases which are applied each year to the different elements of pension.

	Element of Pension	Basis of % Increase	Actual Increase This Year
1	Pre-April 1988 GMP	Nil	Nil
2	Post-April 1988 GMP	CPI up to a maximum of 3% where the CPI is calculated over the 12 months to the previous September	3.0%
3	Pre April 1997 Excess over GMP	RPI up to a maximum of 5%, where the RPI is calculated over the 12 months to the previous November	5.0%
4	Post April 1997 Pension	RPI up to a maximum of 5%, where the RPI is calculated during the 12 months to the previous November	5.0%
5	Post April 2006 Pension	RPI up to a maximum of 2.5%, where the RPI is calculated during the 12 months to the previous November	2.5%
6	AVC Pension	5.0% Fixed	5.0%
7	AVC Pension	RPI up to a maximum of 5%, where the RPI is calculated during the 12 months to the previous November	5.0%
8	AVC Pension	RPI up to a maximum of 2.5%, where the RPI is calculated during the 12 months to the previous November	2.5%
9	Non Escalating Pension	Nil	Nil

We hope you find this information helpful and you should expect to receive notification of your increased pension at the end of March 2012.

Paul McCarron, FIA

on behalf of the Trustees of the AVX Limited Pension Scheme