

SUMMARY OF STATEMENT OF INVESTMENT PRINCIPLES

The investment policy of the Fund is governed by two guiding principles, the central principle of appropriateness and the subsidiary principle of simplicity. Assets should be appropriate for all the circumstances of the Fund, and should be kept as straight forward as possible for the benefits of lower costs and better control. These principles determine the Fund's approach to all decisions about investments, including the nature of the investments made, the selection and timing of the investments and the way in which they are carried out.

The Kind of Investments to be Held, the Balance Between Investments and Risk

Four major factors govern the investment policy of the Fund:

- (a) The inflation linked nature of the Scheme's liabilities to pay pensions and other benefits.
- (b) The maturity of the Scheme as a long established scheme with a large number of pensioners relative to active members.
- (c) The nature of the Company's business, which is closely related to the economic cycle.
- (d) The value of the fund relative to the Company.

The inflation linked nature of the liabilities means that the bulk of the Fund's resources should be invested in real assets such as equities, index linked securities, and property, which can be expected to give an investment return which keeps pace with inflation. The maturity of the Scheme means that for security, the investment policy should be conservative, and a high proportion of index linked securities is held for this reason. The nature of the Company's business and the value of the fund relative to the Company also point to a conservative investment policy, and the Fund's approach can therefore be summarised as a conservative investment policy strongly orientated towards real assets. A balanced approach is taken recognising that lower risk investments generally yield lower returns.

Risk is addressed by the maintenance in accordance with the recommendation of the Actuary of a Maturity Portfolio of cash, fixed interest, and index linked securities to cover a large part of the pensioner and deferred pensioner liabilities of the Scheme, by an appropriate approach to the prudent diversification of the Fund's investment, by the quality of those investments, and by their liquidity. Risk is also limited by frequent review of policies and investments by management, adapting as appropriate to new circumstances. Asset/liability modelling has been and will in the future be used as appropriate to assist in the development of investment policy.

The Fund's investments in unquoted securities is very small, and the Fund does not invest in overseas property, alternative investments such as paintings and antiques, nor does it engage in stock lending, speculative property investments, or currency hedging. Derivatives are used only for asset allocation purposes. Social, environmental and ethical considerations are taken into account in the selection, retention or realisation of

investments to the extent that they are expected to affect long-term financial performance. Obligations and rights attached to investments are strictly enforced for the benefit of the Fund, and the Fund acts to maintain Shareholder rights, and engages with companies as appropriate to protect or enhance its investments. Care is exercised to ensure that no investment activity puts at risk the Fund's tax exempt status.

The custody of the Fund's assets is undertaken by the Trustee Company, with custody of securities worldwide delegated to JP Morgan Chase Bank. A list of high quality financial institutions approved by the Investment Committee is operated for UK cash deposits. Top quality triple "A" rated money market funds may also be used.

Investment Objective

The investment objective of the Fund is to provide a high level of security of pensions benefits at the lowest reasonable cost, taking account of the nature of the Scheme liabilities, the maturity of the Scheme, and the characteristics of the Company's business. This leads to two sub-objectives, security for the Maturity Portfolio, which seeks to substantially match the Scheme's pensioner and deferred pensioner liabilities with secure bonds, and performance for the Main Fund, which seeks to achieve a higher level of investment return from an equity orientated investment policy.

Expected Returns on Investments

For actuarial valuations a real return on investments of about 4% per annum has been assumed. This rate of return has been comfortably achieved in the past over long periods, and the assets of the Fund overall are invested to give every expectation of achieving close to that return over the long term in the future. Given the lower risk associated with the Maturity Portfolio, however, the expected return on that part of the Fund will be somewhat lower.

Returns are compared with the returns of other UK pension funds through both the major performance measurement companies, CAPS and WM. Because of the Fund's conservative investment policy, overall returns are unlikely to exceed the average or median in the long term, and a realistic performance objective is to achieve returns as close as possible to the WM 50 average return over the long term. The objective for the Main Fund, excluding the Maturity Portfolio, is to exceed the CAPS median return over the long term.

Realisation of investments

The Fund undertakes all investments with a view to them being long term investments, and only exceptionally when circumstances change radically or long term objectives are achieved in a short space of time will consideration be given to realising assets on a shorter time scale. Investments will be realised on a planned basis to cover the requirements of the Scheme to pay benefits, and will be realised from time to time to facilitate asset allocation changes.

Minimum Funding Requirement

The Pensions Act introduced a statutory minimum funding requirement to ensure that pension schemes are funded to at least a minimum level. Given the nature of the Scheme's liabilities, the cyclical nature of the Company's business and the desirability of retaining a measure of investment flexibility, it would be prudent to plan to maintain a reasonable margin of funding over and above the statutory minimum level. The Trustee Company will review its policies regularly to ensure continuing compliance with the Act.

Policy For Compliance

The Trustee's policy for compliance with the Pensions Act is through a dedicated internal investment management operation staffed by qualified professionals, reporting to the Investment Committee, a Sub-Committee of the Trustee Company Board. The Investment Committee is advised by three external advisers, one on property and two on general investments, who are experts of high standing in their respective areas. All investment policy matters are determined by the Investment Committee, which meets quarterly, with major issues requiring endorsement by the Management Committee.

The Investment Committee reviews policy formally from time to time as appropriate, and reviews the Fund's portfolio asset allocation guidelines annually. The Committee approves asset allocation moves on a quarterly basis, and monitors their implementation including any derivative positions, approving all investment transactions quarterly in arrears, and major transactions in advance, always having regard to suitability and diversification. The Committee monitors investment performance quarterly, and reviews performance annually based on the reports of the independent external performance measurers, CAPS and WM.

In specialised areas where internal expertise is not retained, external managers who report quarterly are employed to select investments and to keep all investments under review.

The suitability of individual investments, their diversification, and the review of existing investments is the responsibility of the internal investment management operation, and external managers where appropriate, within the framework laid down by the Investment Committee. The internal management company, Pension Services Limited, is regulated by the FSA.

It is the policy of the Trustee Company and the Investment Committee to refer to the statement as and when necessary to ensure that they perform their duties so as to give effect to the principles set out in this statement so far as reasonably practicable.