December 2010

Protecting the future of your Scheme

As you are aware, the Company has proposed a number of changes to the BOC Pension Scheme (the Scheme). The Company has now concluded its consultation with trade union and employee representatives on the proposed changes. This newsletter outlines the outcome of the consultation process and confirms the changes that will come into effect from 1 April 2011.

The original proposal

The full proposal was outlined in the special newsletter sent to you in June. As noted in the newsletter, the Company wants to continue to provide a very good defined benefit pension scheme for members. To do this, the Company needs to bring its pension costs under control so that members pay a more appropriate share of the cost of the Scheme. It also needs to make the cost of running the Scheme more predictable in order to reduce the risk to the Company.

The changes proposed by the Company were designed to address these needs and to make the Scheme financially sustainable over the long term. In summary, the proposed changes included:

- Increasing members' contributions;
- Introducing a cap on increases to pensionable earnings;
- Changing the cap on increases to pensions in payment; and
- Establishing a separate scheme providing identical benefits for future pensionable service to the current Scheme, specifically for Gist members. All changes outlined in this newsletter will be applied to the new Gist scheme as well as the current Scheme.

The special newsletter is available to download from the website. Just log on to **www.bocpensions.co.uk** and click on 'Information about the proposed Scheme changes'.

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Changes from 1 April 2011

The Company has completed a consultation process, during which there have been detailed discussions with trade union and employee representatives. The consultation process is now over, and the Company would like to thank all those who have contributed to this by giving their views and comments.

The Company has listened to the feedback from members and their representatives, and considered this carefully. In light of the views and comments expressed, the Company has made a number of amendments to the original proposal, which are detailed on pages 2-5. The amendments aim to address members' concerns and reduce the impact of the Scheme changes on them, whilst still achieving the Company's aims.

This newsletter outlines the final changes that will be made to the Scheme from 1 April 2011. The Trustees have been advised of the changes. There will, however, be a number of further communications to explain the changes and help you plan for your retirement. Full details of these further communications are included on the back page.

Amendments to the original proposal

The following section outlines the amendments the Company has made to the original proposal.

1. Phased increase to member contributions

Original proposal

Under the original proposal, members' contribution rates would have increased on 1 April 2011, from 5% to 8% of pensionable earnings (for Level 2 members) and from 3% to 4.8% of pensionable earnings (for Level 1 members).

Amendment to the original proposal

The increase to member contribution rates will now be phased in over three years:

	1 April 2011	1 April 2012	1 April 2013
	% of pensionable earnings		
Level 2 members	6.0%	7.0%	8.0%
Level 1 members	3.6%	4.2%	4.8%

Don't forget that the actual cost of the increase will be less than this (assuming you pay UK tax and National Insurance). This is because you make tax savings on your contributions and receive a National Insurance rebate due to the Scheme being contracted out of the State Second Pension. If you are in Salary Exchange, you also benefit from additional National Insurance savings.

You can see full details of the cost to you by using the contribution calculator on the Scheme website at
www.bocpensions.co.uk/contributioncalculator

This amendment is designed to reduce the financial impact of the increase in contribution rates on you, by giving you more time to adjust to the new contribution rates. It also meets the Company's aim of ensuring that members pay a more appropriate share of the cost of the Scheme.

At a glance

- Increases to member contributions will be phased in over three years, which will give members more time to adjust to the new contribution rates.
- The caps on increases to pensionable earnings and pensions in payment will be averaged over rolling five-year periods.
- Pension earned from 6 April 2009 to 31 March 2011 will be revalued in line with RPI, up to a maximum of 5%, which will provide greater protection against inflation.
- A special 'variable pensionable earnings cap' will provide protection for members on variable pensionable pay.

Revaluation measure

Since the original proposal to make changes to the Scheme, the Government has announced plans to allow pension schemes to use the Consumer Price Index (CPI) as the revaluation measure for increasing deferred pensions and pensions in payment.

The Company intends to use only the Retail Prices Index (RPI) as the revaluation measure for deferred pensions earned up to 1 April 2011, deferred pensions earned from 1 April 2011 and pensions in payment when the Government changes the statutory measure of pensions inflation at the end of this year, and not to use CPI. This intention is, of course, subject to overriding legislation and all references to RPI in this newsletter should therefore be interpreted accordingly. This applies to active members at 31 March 2011, and continues to apply to those who leave pensionable service subsequently (except for members who resign or are dismissed for cause, e.g. on the grounds of gross misconduct, in which case CPI would apply to the revaluation of the deferred pension).

Further details will be included in a new member booklet, and published on the BOC Pension Services website, once the Government has finalised its plans on the use of CPI.

Amendments to the original proposal (continued)

2. Caps on increases to be averaged over rolling five-year periods

Original proposal

Under the original proposal, increases to members' pensionable earnings from 1 April 2011 would be subject to an annual cap of 2.5%. Pensions earned from 1 April 2011 onwards would be increased in payment by the change in RPI up to a cap of 2.5% a year.

Amendment to the original proposal

The 2.5% caps will still apply but will now be averaged over rolling five-year periods. The first rolling five-year period will start in April 2011. The base point for the cap on increases to pensionable earnings will be pensionable earnings in the year to 31 March 2011. The averaging will work by crediting you with any difference between the actual increase in pensionable earnings or pensions in payment and the 2.5% cap when the actual increase is lower than the 2.5% cap. The credit can then be used to offset, in part or in full, the effect of the 2.5% cap in years when the increase in pensionable earnings or pensions in payment is higher than the cap. A credit will expire if not used within five years of being earned.

Example of averaging – increase in pensionable earnings

Year 1 – As the actual increase in pensionable earnings (1.09%) is below the 2.5% cap, a credit of 1.41% is earned. The increase applied to pensionable earnings is 1.09%.

Year 2 – No credit is earned as the actual increase in pensionable earnings (3.20%) is above the 2.5% cap. However, part of the credit carried forward from the previous year (0.70%) is used, so that the increase applied to pensionable earnings is 3.20%.

Year 3 – No credit is earned as the actual increase in pensionable earnings (3.58%) is above the 2.5% cap. However, the entire credit carried forward from the previous year (0.71%) is used, so that the increase applied to pensionable earnings is 3.21%.

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Actual increase in pensionable earnings	**1.09%**	**3.20%**	**3.58%**	**2.12%**	**3.86%**	**13.85%**
Credit at start of year	0.00%	1.41%	0.71%	0.00%	0.38%	N/A
Credit earned	1.41%	0.00%	0.00%	0.38%	0.00%	N/A
Credit used	0.00%	0.70%	0.71%	0.00%	0.38%	N/A
Credit at end of year	1.41%	0.71%	0.00%	0.38%	0.00%	N/A
Applied increase in pensionable earnings	**1.09%**	**3.20%**	**3.21%**	**2.12%**	**2.88%**	**12.50%**
Under the original proposal	1.09%	2.50%	2.50%	2.12%	2.50%	10.71%

Year 4 – As the actual increase in pensionable earnings (2.12%) is below the 2.5% cap, a credit of 0.38% is earned, taking the credit at the end of the year to 0.38%. The increase applied to pensionable earnings is 2.12%.

Year 5 – No credit is earned as the actual increase in pensionable earnings (3.86%) is above the 2.5% cap. However, the entire credit carried forward from the previous year (0.38%) is used, so that the increase applied to pensionable earnings is 2.88%.

Total – The member's total increase to his or her pensionable earnings over this five-year period would be 12.50%. Under the original proposal, this example would have resulted in an increase of 10.71% for the same period.

While still achieving the Company's aim of making the cost of the Scheme more predictable, this averaging could benefit members during periods of volatility. This will mean that, where increases to pensionable earnings (or RPI, for pensions in payment) are below the cap of 2.5% in some years and above 2.5% in other years during a rolling five-year period, the cap will average such increases.

3. Increases to pension earned from 6 April 2009 to 31 March 2011

Original proposal

Under the original proposal, pension earned before 1 April 2011 would be calculated separately from the benefits built up from this date. Pension earned up to and including 31 March 2011 would be based on final pensionable earnings and pensionable service at this date. This pension would then be revalued each year from 1 April 2011 until retirement. Broadly, the part of the pension earned before 6 April 2009 would be revalued by RPI up to 5% a year and the part of the pension earned from 6 April 2009 to 31 March 2011 would be revalued by RPI up to 2.5% a year.

What are final pensionable earnings?

Your final pensionable earnings are broadly the highest of:

- The average of your final three years' annual pensionable earnings;
- The average of your highest three consecutive tax years' annual pensionable earnings in your final thirteen years' pensionable service; and
- The average of your pensionable earnings over your entire pensionable service, revalued to take account of inflation.

Amendment to the original proposal

Pension earned before 1 April 2011 will still be calculated separately from the benefits built up from this date. However, if you are an active member of the Scheme on 31 March 2011, your pension earned from 6 April 2009 to 31 March 2011 will now increase in line with RPI, up to a maximum of 5% a year (i.e. in the same way as pension earned before 6 April 2009). This 5% cap will continue to apply until you take your pension, even if you leave pensionable service in the meantime*.

This amendment provides greater protection to your benefits against inflation during this period.

If you leave pensionable service after 31 March 2011 and do not take your pension immediately, then any pension you earn from 1 April 2011 onwards will be revalued in line with RPI up to 2.5% a year*.

* See the section headed 'Revaluation measure' on page 2 for an explanation of the above references to RPI and the conditions that apply.

4. Protection for members on variable earnings

During the consultation process, concern was expressed that members who receive overtime, shift payments and other variable pay may be unfairly affected by the cap on increases to pensionable earnings, if they experience significant temporary drops in their variable pay. The concern was that such temporary drops in variable pay could be 'locked in' by the cap on increases to pensionable earnings.

In order to address these concerns, the Company has agreed to provide protection for members with an element of variable pensionable pay. This will mean that the pensionable earnings of a member with variable earnings will be capped by the higher of the 'normal' pensionable earnings cap or a special 'variable pensionable earnings cap'.

The special 'variable pensionable earnings cap' will work as follows:

- A 'base point' will be set, based on your final pensionable earnings as at 31 March 2011.
- This base point will then be increased annually by the amount of the increase to your basic salary, capped at 2.5%.
- If your total pensionable earnings fall (for example, because you work less overtime), then in future years your pensionable earnings can increase up to the 'variable pensionable earnings cap', even if this would take your earnings increase for that year above the normal cap of 2.5%.
- Even though you are protected in this way, you would make pension contributions based on your actual pensionable earnings rather than the 'variable pensionable earnings cap'.

Special 'variable pensionable earnings cap' example

- A member has final pensionable earnings of £30,000 as at 31 March 2011. In this member's case, final pensionable earnings are the average of the last three years' annual pensionable earnings. The member's final pensionable earnings are used as the base point for the special 'variable pensionable earnings cap'.
- The member's total pensionable earnings for 2010 were £31,000 (£26,000 of which were basic pay and £5,000 of which were variable earnings).
- A detailed description of each year is given below the table.

This is the 'base point', which is the member's final pensionable earnings at 31 March 2011. The 'base point' increases by the annual increase to basic salary, up to 2.5%, to give the 'variable pensionable earnings cap'.

Figure used for pensionable earnings

	At 31 March 2011 (starting point)	Year 1	Year 2	Year 3	Year 4	Year 5
Basic pay	£26,000	£26,650	£27,316	£28,135	£28,838	£29,559
Variable pay	£5,000	£5,125	£5,253	£0	£5,300	£5,433
Total pay	**£31,000**	**£31,775**	**£32,569**	**£28,135**	**£34,138**	**£34,992**
Basic pay rise on previous year	N/A	2.50%	2.50%	3.00%	2.50%	2.50%
Pensionable earnings (calculated on the basis of the normal pensionable earnings cap)	**£31,000**	**£31,775**	**£32,569**	**£28,135**	**£28,838**	**£33,943**
Variable pensionable earnings cap	**£30,000**	**£30,750**	**£31,519**	**£32,307**	**£33,115**	**£33,943**

Year 1 – the member receives a 2.5% pay increase, with their total pay increasing from £31,000 to £31,775. The 'normal' pensionable earnings cap of 2.5% applies, so the 2.5% increase is fully allowed and pensionable earnings increase to £31,775.

Year 2 – the member receives a 2.5% pay increase. The 'normal' pensionable earnings cap of 2.5% applies, so the 2.5% increase is fully allowed and pensionable earnings increase to £32,569.

Year 3 – the member receives a 3.0% increase to basic pay but does not work any overtime and as a result total pay drops to £28,135. Pensionable earnings also drop and the member pays contributions on this lower amount. Even though the member has received a 3.0% increase (which is above the 2.5% cap on increases to pensionable earnings), this still counts towards pensionable earnings.

Year 4 – the member starts to work overtime again and as a result total pay increases significantly. The increase in pensionable earnings is now subject to the 'variable pensionable earnings cap' and so the member's pensionable earnings increase to £33,115. If the 'variable pensionable earnings cap' was not in place then the member's pensionable earnings would have been restricted to £28,838 (£28,135 plus 2.5%).

Year 5 – the member receives a pay increase of 2.5% to total pay. The 'normal' pensionable earnings cap of 2.5% applies, so the 2.5% increase is fully allowed and pensionable earnings for the year increase from £33,115 to £33,943.

Final changes to the Scheme from 1 April 2011

The final changes to the Scheme that will take effect from 1 April 2011 are as follows:

At a glance

- Changes to the Scheme will take place from 1 April 2011.
- The changes are:
  - increasing members' contributions;
  - introducing a cap on increases to pensionable earnings;
  - changing the cap on increases to pensions in payment; and
  - establishing a new scheme for Gist members.

1. Increasing members' contributions

Your contribution rates will increase as follows:

	1 April 2011	1 April 2012	1 April 2013
	% of pensionable earnings		
If you are a Level 2 member	6.0%	7.0%	8.0%
If you are a Level 1 member	3.6%	4.2%	4.8%

You can use the contribution calculator on the Scheme website at **www.bocpensions.co.uk/contributionscalculator** to see how much the phased increase in the contribution rate will cost you.

Remember that your contributions will cost you less than this (assuming you pay UK tax and National Insurance). This is because you make tax savings on your contributions and receive a National Insurance rebate due to the Scheme being contracted out of the State Second Pension. If you are in Salary Exchange, you also benefit from additional National Insurance savings.

2. Introducing a cap on increases to pensionable earnings

Increases to your pensionable earnings (which are used to calculate your contributions and benefits) will be capped at 2.5% a year. So, in effect, only pay rises of up to 2.5% will count towards your future pensionable earnings and the resulting pension. This 2.5% cap will be averaged over rolling five-year periods (as described on page 3).

There will also be protection in place to prevent members with variable earnings from being disadvantaged by the cap (as described on pages 4-5).

The cap will not affect your actual pay – only the earnings on which your pension contributions and benefits are based.

The changes will not affect the pensionable service you have built up in the Scheme before 1 April 2011 – this will still count towards your pension. The benefits you earned before 1 April 2011 will be calculated separately to the benefits built up from this date. Pension earned up to and including 31 March 2011 will be based on final pensionable earnings and pensionable service at this date. This pension will then be revalued from 1 April 2011 until you retire by, broadly, the increase in RPI capped at 5% a year*.

If you leave pensionable service after 31 March 2011 and do not take your pension immediately, then any pension you earn from 1 April 2011 onwards will be revalued in line with RPI up to 2.5% a year*.

* See the section headed 'Revaluation measure' on page 2 for an explanation of the above references to RPI and the conditions that apply.

3. Changing the cap on increases to pensions in payment

Pensions earned from 1 April 2011 will increase in payment in line with RPI capped at 2.5%. This 2.5% cap will be averaged over rolling five-year periods (as described on page 3).

The changes will not affect the pension earned before 1 April 2011, which will continue to be increased by RPI up to a maximum of 6% a year compound.

4. Establishing a new scheme, providing identical benefits, specifically for Gist members

A new scheme is being established for Gist members, providing identical benefits to the current Scheme, for future pensionable service. All changes outlined in this newsletter will be applied to the new Gist scheme as well as the current Scheme.

Impact on your other benefits

The Scheme provides you with a number of other benefits in addition to your pension on retirement. These other benefits will continue to be provided; the formula for calculating these benefits will not change, and neither will your eligibility for them.

However, many of these benefits are calculated based on your pensionable earnings or your final earnings, increases to which will be capped under the changes. Please note, however, that for the purpose of calculating death-in-service lump sums, the cap on increases to pensionable earnings will not apply and uncapped final earnings would be used instead.

A summary of these additional benefits is provided in the special newsletter issued to you in June. This is available to download from the website at **www.bocpensions.co.uk/proposedschemechanges/newsletter.pdf**. Full details of these additional benefits will also be provided in your new member booklet, which will be issued in the new year.

Your options

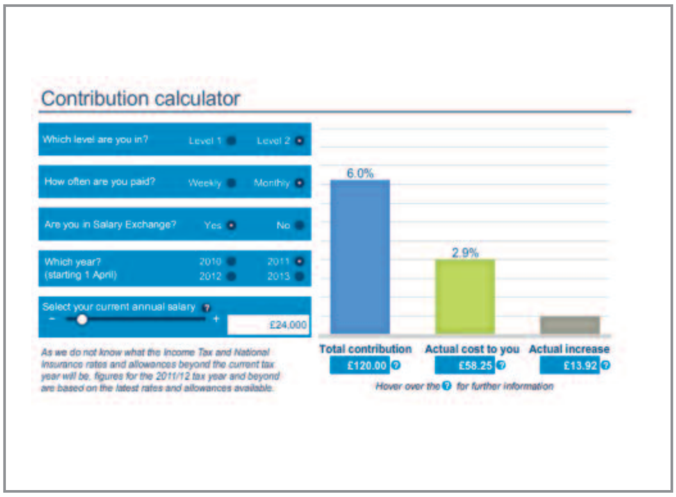
If you are worried about the increase in the cost of your contributions

You should use the contribution calculator on the Scheme website at **www.bocpensions.co.uk/contributioncalculator** to see how much the phased increase in contribution rates will cost you.

Unless you choose not to, you will continue to be a member of the Scheme at your current membership level, in which case your contribution rate would increase as described on page 6.

However, if you cannot afford, or do not want, to continue at your current membership level, you have a number of options:

- If you are in Level 2, you could drop to Level 1 and your contribution rate would reduce – but you would earn future pension at a lower rate;
- You could opt out of the Scheme and join the BOC Retirement Savings Plan – but it is unlikely you would achieve a better pension; or
- You could opt out of the Company's pension arrangements and join a personal pension – but again it is unlikely that you would achieve a better pension, as you would not receive Company contributions.



You should seek independent financial advice before deciding to change your membership level or opt out of the Company's pension arrangements.

Opting into Salary Exchange

If you are not already in Salary Exchange, you could consider opting in. Salary Exchange is a smarter way to pay for your pension – it can increase the amount of your take-home pay by enabling you to reduce the National Insurance contributions you pay.

If you opt to join Salary Exchange, you agree to accept a salary reduced by the amount of your regular contributions (instead of making contributions directly to the Scheme). This means that you could pay less in National Insurance contributions, so your take-home pay may increase. The Company makes its normal contributions and, on your behalf, also pays the amount you would have contributed.

You can download an opt-in form from the Salary Exchange section of the Scheme website at **www.bocpensions.co.uk**

At a glance

- You can continue to build up your benefits at your current membership level.
- You have various options if you are concerned about the increase in the cost of your contributions.
- You can top up your pension if you are worried about a shortfall.
- If you need financial advice, you should speak to a financial adviser.

If you are worried about a shortfall

There are several ways you can top up your pension if you are worried about a shortfall.

Switching to Level 2

If you are in Level 1, you could move to Level 2 for future pensionable service. Your contribution rate would be higher (see page 6), but you would also build up future pension at a higher rate. Level 2 members will receive a pension which is about 67% higher for future pensionable service (assuming pensionable earnings and pensionable service are the same) compared to if they remained in Level 1 from 1 April 2011.

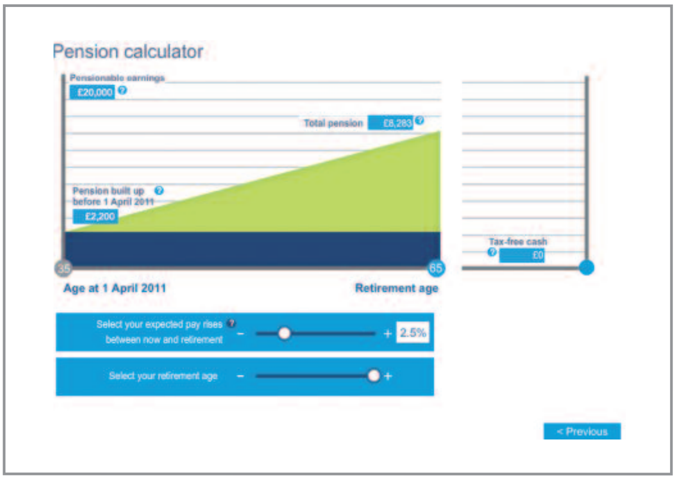
You can change your membership level by completing a 'Change from membership Level 1 to Level 2 form' and returning it to BOC Pension Services. Forms are available on request or downloadable from the website at **www.bocpensions.co.uk**

Making or increasing Additional Voluntary Contributions

If you are already in Level 2, but think your retirement income is not going to be enough, you could consider making or increasing Additional Voluntary Contributions (AVCs). AVCs are extra payments you can choose to make (or have made through Salary Exchange on your behalf) on top of your Scheme contributions in order to receive additional benefits on retirement.

For more information about making or increasing AVCs, visit the Scheme website at **www.bocpensions.co.uk/avc** A special AVC newsletter will also be issued in the new year and the pension calculator will be updated so that you will be able to model the impact of making or increasing AVCs on your pension benefits.

You can use the pension calculator on the Scheme website at **www.bocpensions.co.uk/pensioncalculator** to see how much pension you could receive at retirement.
This will help you to understand the effect of the Scheme changes on your benefits. Your annual benefit statement, which you should have received in July, will contain all the information you need to use the pension calculator.



If you need advice

Nothing in this newsletter should be taken as advice – it is information of a general nature only. Neither the Trustees nor BOC Pension Services are authorised to give you advice. If you need advice, you should speak to an independent financial adviser. You can find one in your area by visiting **www.unbiased.co.uk**. In particular, you should speak to an independent financial adviser if you are considering opting out of the Scheme.

What's next?

Communications to help you understand the changes

You will receive a new member booklet in the new year, which will outline the benefits provided by the Scheme from 1 April 2011. The Scheme website will also be updated to reflect the revised rules of the Scheme, and the pension calculator will be updated to include AVCs.

There will also be roadshows for you to attend – these will be run at locations around the UK and will explain how you can make use of the retirement planning tools. You will be provided with full details of when and where the roadshows will take place in due course.

Regular communications

As well as the communications to help you understand the changes, you will also receive a number of regular communications.

You will continue to receive:

- An annual benefit statement;
- An annual newsletter showing the Scheme's financial development during the year; and
- Issue-driven newsletters.

Contact details

BOC Pension Services is responsible for running the Scheme.
If you have any queries, please contact BOC Pension Services at:

BOC Pension Services
The Priestley Centre
10 Priestley Road
The Surrey Research Park
Guildford
Surrey GU2 7XY

Helpline: 0800 096 3214 (BOC TEL 750 4745)

If you have any questions about the changes, please contact pensions.changes@boc.com

Legal notes

1. The descriptions of the Scheme's benefits and the benefits to be provided from the new Gist scheme are only a summary. This newsletter confers no rights to benefits. If there is any discrepancy between the description of benefits in this communication and either scheme's formal governing documents (as amended from time to time) then the formal governing documents will prevail.
2. This communication is issued by The BOC Group Limited on behalf of all employers of affected Scheme members – The BOC Group Limited, BOC Limited, BOC Healthcare Limited, Gist Limited and Linde CryoPlants Limited.
3. The changes to benefits described in this newsletter are subject to the agreement of the Trustees.