

10th June 2010

Dear All,

Conclusion of Collective Consultation

I can confirm that our 90-days consultation, in accordance with TULR(C)A 1992, has now concluded.

The response to our 60-days pensions' consultation was confirmed to all employees on 19th May.

The Company can confirm that in addition to the other changes to our original proposal, it is our intention to introduce a new category of member in the KCPS and KC (DATA) schemes.

Additional benefit for KCPS and KC (DATA) Scheme members - "Active deferred" status

During consultation, both employees and the Trustees requested that the current early retirement factors to be applied to members of either scheme deciding to take early retirement, be reviewed.

Currently, if a member decides to take early retirement, his or her pension is reduced by an early retirement factor. Those factors differ, depending on whether a member is active (making contributions until retirement) or "deferred" (no longer making contributions but not retired). A deferred member's pension is reduced more than that of an active member.

Following the closure of these Schemes, all current members would become deferred and subject therefore to this higher level of scaling back on pension entitlement.

Following consideration, a new type of deferred member, "active deferred" will be created. Under this new "active deferred" status, should a member of those schemes, who is still employed by the Group, decide to retire early (between age 55 to 65), the scaling back for early retirement will be applied at a reduced rate, similar to that of an active member. Further information will be provided to employees and representatives shortly.



Trustee consent

During the consultation the Company has been in active discussion with the Trustees of the KCPS and KC (DATA) scheme regarding closure of the Schemes to future accrual and deficit repair payments. The Trustees have agreed to the Company's proposals, as they believe these are reasonable measures to take in order to protect accrued members' benefits. This agreement was on the basis also that the Company had considered all the options available and had conducted a transparent and open process of consultation.

During the discussions, approval was sought also on funding proposals to repair the current deficit on the KCPS. The result is an agreement to increase the Company's deficit contributions from the current £2.9 million, to £5.9 million for the next three years, plus a single additional contribution in July 2010 of £3.3 million, making a total of £21 million over the period to 2013.

Non Consenting Employees

As previously communicated to you earlier this year it has always been the Group's intent and wish that the changes to our pension arrangements were implemented with the consent of employees. It was however, envisaged that, in the absence of a consensual outcome, we may need to terminate the existing contracts of affected employees and offer re-engagement on revised terms reflecting any new pension arrangements. This proposal has been the subject of our collective consultation.

We have received from the representative body two alternative suggestions to our proposal to terminate existing contracts and offer re-engagement; firstly to allow employees to continue to work after the new arrangements are introduced and their consent to the changes to be implied as a result of this conduct, and secondly to allow employees to continue to work under the new terms but under protest.

We have carefully considered both alternative suggestions to our proposal. However, it is our view that neither provide the Company with the appropriate level of certainty for the future. A fundamental objective for the business is that, if change is to be implemented, legal certainty in relation to the basis of that implementation is essential.

In relation to your two proposals, neither generates any legal clarity for either the company or employees.

Allowing employees to consent by way of continuing to work is not sufficiently clear given that any changes to the pension scheme may not directly impact on employees until much later in their working life. In our view, if the intent of employees is ultimately to consent to the changes, such consent needs to be express not implied. Opportunity has been given to all employees to consent to the change.

In relation to the proposal to allow people to work under protest, as discussed and noted during the meeting, this prospectively enables employees to bring legal action against the Company at any point in the future, which for reasons I am sure you will appreciate, is not acceptable to us.

Therefore, it is our view that where consent cannot be reached with affected employees, and meaningful individual consultation has been concluded, we will need to consider terminating the existing contracts and offering re-engagement.

Collective consultation has now concluded. We shall, therefore, shortly commence individual consultation with those employees who have not yet consented to the changes.

Yours sincerely,

Gemma Reucroft
Employee Relations and Policy Manager

