



ARLA FOODS



**Arla Foods Pension Scheme**  
*Annual Review 2008*

## A message from the Chairman



Scheme funding position continues to improve with good investment returns and strong Company support. Welcome to your new look Annual Review.

The good news is that the Scheme's funding position is improving. In addition to extra funding from the Company, investments performed well. The increase in the value of the Scheme during the year was £18.9m. On pages 6&7 you will find the Scheme's second annual Funding Statement which shows how the Scheme's financial health has improved in the past year.

The year has been a relatively quiet one in the 'world of pensions', a welcome relief after all the legislative issues we've had to deal with recently.

The Trustees and their advisers work hard to make sure that we have a well-run Scheme. We had an excellent response to our Member Nominated Trustee (MNT) elections – thank you to all who participated. You can learn more about the Trustees' duties on page 10.

During 2007, the Trustees and their investment advisers carried out a review of the investment strategy, which resulted in the appointment of new investment managers and the restructuring of assets across a broader range of funds. The aim of this is to further improve the funding position of the Scheme. You can find more details on page 8.

Finally, you will notice that on the next page Jan Pedersen, Business Group Director - Finance, gives his comments from a Company perspective. The Scheme receives excellent support from the Company and we welcome Jan's update.

David Firth  
Chairman of the Arla Foods Pension Scheme



## A word from Jan Pedersen

I am delighted to have been invited by the Trustees to provide you with a message from the Company.

First of all, I would like to emphasise Arla's continued commitment to provide financial support to the Scheme. I hope the contributions paid so far, in addition to those promised in the future, demonstrate how important the Scheme's funding position is to the Company.

Whilst the funding position has improved in the last year, this has not prevented the Company from continuing to contribute additional funds. It is still fully committed to paying extra monies into the Scheme in order to reduce the deficit, with the aim of achieving 100% funding (on an ongoing basis), by 2017.

It is vital that your benefits remain safe and protected and the Company believes the Trustees are doing an excellent job in this regard.

I hope you enjoy reading this Annual Review and please be assured that the Company and Trustees are working closely together to ensure continued security of your benefits.

Jan Pedersen  
Business Group Director - Finance

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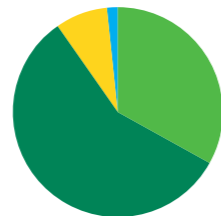
# Financials

The Trustees are required by law to produce a set of accounts known as the 'Annual Report and Financial Statements'. A shorter and less technical version of this, for the year ended 30 September 2007, is shown here.

All money that came into the Scheme (Income) and went out of the Scheme (Expenditure) during the year to 30 September 2007 is illustrated below.

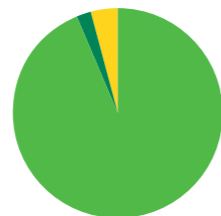
## Income

Employer's normal contributions	£4.5m
Employer's deficit contributions	£7.8m
Members' contributions	£1.1m
Other income	£0.2m
<b>Total (A)</b>	<b>£13.6m</b>



## Expenditure

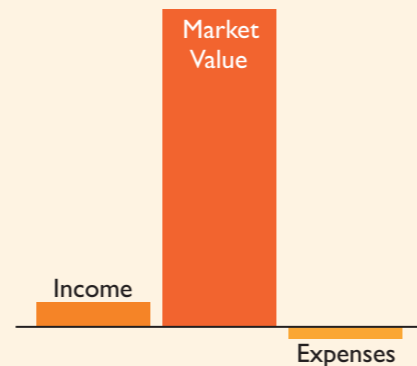
Pensions and lump sum benefits paid	£4.6m
Transfers out	£0.1m
Administration expenses	£0.2m
<b>Total (B)</b>	<b>£4.9m</b>



## Increase in the value of the Scheme

Income - Expenditure (A-B)	£8.7m
Return on investments (C)	£10.2m
<b>Total increase for the year</b>	<b>£18.9m</b>

## Return on investments

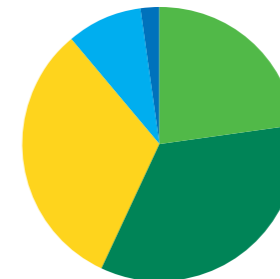


Investment income	£0.2m
Change in market value of investments	£10.1m
Investment management expenses	(£0.1m)
<b>Total (C)</b>	<b>£10.2m</b>

## Scheme assets

The investment managers appointed by the Trustees invest the Scheme's funds in a range of different assets. The percentage invested in each type of asset, as at 30 September 2007, is shown below.

UK equities	23%
Overseas equities	34%
Bonds	32%
Property	9%
AVCs, cash and debtors	2%
<b>Total</b>	<b>100%</b>



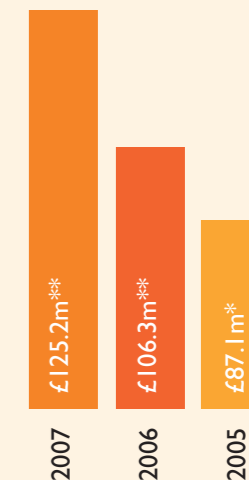
## Scheme membership

The Scheme had 2,830 members as at 30 September 2007. The diagram below shows how the membership was made up and how this has changed since the previous year.

2007	Active 315	+	Pensioner 857	+	Deferred 1,658	=	Total 2,830
2006	Active 391	+	Pensioner 811	+	Deferred 1,571	=	Total 2,773

## The value of the Scheme's assets

The Scheme's value is growing year on year as shown below.



\* Figure as at 5 April  
\*\* Figure as at 30 September

# Summary Funding Statement

The Trustees of the Arla Foods Pension Scheme are responsible for looking after the Scheme and providing you with updated information about the level of funding that supports your pension.

## What is the purpose of this Statement?

This Statement has been produced on behalf of the Trustees. Its purpose is to:

- summarise the result of the most recent actuarial valuation of the Scheme carried out as at 30 September 2006; and
- explain how the funding position has changed since that valuation.

## How does the Scheme work?

Active members and the Company pay contributions into the Scheme. The money is invested with the aim of producing a return each year. Benefits for all members are paid from the Scheme.

## Has the position changed since 30 September 2006?

Since 30 September 2006, the funding position of the Scheme has improved as a result of the Company's continued commitment to financially support the Scheme, in addition to favourable investment returns. The Scheme's assets achieved a return of 10.3% gross of fees against a benchmark return of 9.7%.

### Ongoing valuation

The table below shows the change in the Scheme's funding position between the valuation as at 30 September 2006 and the updated position at 30 September 2007. You will note that there has been a significant improvement in the funding position of the Scheme over the year, with the shortfall reducing by £16.4m.

Shortfall		Funding at 30 September 2007*	
Assets	Liabilities	Assets	£125.2m
		Liabilities	£173.7m
		Shortfall	£48.5m
		Funding level	72%

Shortfall		Funding at 30 September 2006*	
Assets	Liabilities	Assets	£106.3m
		Liabilities	£171.2m
		Shortfall	£64.9m
		Funding level	62%

\* Calculated on an 'ongoing valuation' basis which is defined in the Jargon Buster on page 9.

### Winding-up valuation

Certain pension arrangements, such as the Arla Foods Pension Scheme, are legally required to provide members with an indication of what the funding position would be if the Scheme had to wind-up and the benefits were bought-out with an insurance company. **Giving this information does not mean that Arla is considering this – it is simply for legislative purposes.** Although there is currently a deficit in

the Scheme, hopefully you will be reassured by the Company's commitment to pay extra monies with the aim of eliminating the deficit (calculated on an ongoing basis) by 2017.

If the Scheme had been wound up on 30 September 2007, there would have been a shortfall of around £135.6m. This means that the assets of the Scheme would have been sufficient to provide, on average, 48% of members' full benefits (compared to 40% in 2006). Although this figure may appear low, pensions legislation would require the Company to finance the shortfall in the event of a wind-up.

If there isn't enough money to cover the cost of buying all members' benefits with an insurer, then the Trustees can call upon the Pension Protection Fund (PPF). The PPF was set up as a 'lifeboat' fund by the Government in 2005 and its main function is to provide compensation to members of schemes where the company has become insolvent and where there are insufficient assets in the scheme to cover a certain level of benefits. This is to ensure that a minimum level of benefit is provided to members.

### Is there anything else I need to know?

Regulations ask us to confirm that the Company has not taken any money out of the Scheme in the last 12 months. We are happy to confirm this.

### Where can I find out more information?

For more information on the Scheme, or your individual benefits, please contact the Pension Administrators. Please see the back page for details.

We will be sending you a Summary Funding Statement each year, so if you change your contact details please inform the Pension Administrators, MNPA Limited, so that your record can be updated.

## Investment update

Following a detailed review of the Scheme's investment strategy in 2007, the Trustees made a number of changes to the allocation of the Scheme's investments and the structure of the investment managers.

In order to reduce the risk of an increase in the Scheme's funding shortfall, the Trustees, after taking advice from their advisers, decided to reduce the amount of assets invested in equities (stocks and shares). As a result, a proportion of the Scheme's assets has been transferred to less risky investments (Corporate and Government bonds). This is set to be a continued objective, with further assets moving to 'safer' funds over the coming 2-3 years.

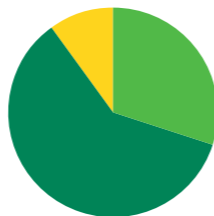
The pie charts opposite show the current split of investments and the planned split in the short-term.

The reallocation of the investments took place in December 2007. At the same time, the Trustees have decided to appoint additional investment managers (who are specialists in the asset classes they manage), in order to spread the risk and diversify the portfolio.

A copy of the Scheme's Statement of Investment Principles is available on request – see back page for details.

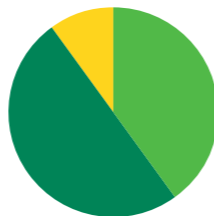
### Current

■ Bonds	30%
■ Equities	60%
■ Property	10%



### Planned

■ Bonds	40%
■ Equities	50%
■ Property	10%



## Budget update

The Budget was announced on 12 March 2008. Here is a summary of the income tax changes:

The basic rate of income tax has been reduced from 22% to 20% from 6 April 2008 and the 10% band has been removed.

The 2008/09 income tax allowances and tax bands are as follows:

### For the under 65s

Basic personal allowance	£5,435
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### For those aged 65-74

Personal allowance	£9,030
Married couple's allowance	£6,535

### For those aged 75 or over

Personal allowance	£9,180
Married couple's allowance	£6,625

### Over these allowances, the tax payable is:

Basic rate 20%	£0 - £36,000
Higher rate 40%	over £36,000

## Jargon Buster

### Ongoing valuation

A valuation which assumes that contributions will continue to be made and benefits will continue to build up.

### Winding-up valuation

A valuation estimating the amount required to secure the earned benefits of the members if Arla wound-up the Scheme.

### Scheme assets

The funds accumulated from monies invested, together with returns on the Scheme's investments.

### Scheme liabilities

The estimated costs of providing the benefits earned to date by all the active members and those who have left the Scheme, together with the pension benefits already in payment.

### Funding level

An expression of the amount of assets in relation to liabilities (eg a fully funded scheme would have a funding level of 100%).

## Trustees' news

The Arla Foods Pension Scheme is run by a Board of individual Trustees. The Company appointed Trustees are David Firth, Anthony Allinson, Geoffrey Fuller and Colin Lyness and the Trustees nominated by members are Colin Hall and Joe Johnson.

The Trustees meet on a regular basis to discuss the running of the Scheme. Issues such as investments are delegated to a newly formed Investment Sub-Committee. The Investment Sub-Committee's main responsibilities include:

- developing the Scheme's investment strategy;
- monitoring and reviewing investment performance and the continued suitability of investment managers; and
- recommending any investment changes to the full Board of Trustees.

### Trustee Knowledge and Understanding

The Pensions Act 2004 introduced new requirements for trustees of pension schemes to have a good level of Trustee Knowledge and Understanding of:

- pensions and trust law;
- occupational pension scheme funding; and
- scheme investment.

The Trustees of our Scheme have always taken their training responsibilities seriously. All Trustees are currently completing an online training aid run by the Pensions Regulator called the 'Trustee Toolkit'. This is aimed at helping pension scheme trustees meet the requirements of Trustee Knowledge and Understanding and help reduce any skill gaps they may have.

In addition, the Trustees attend training courses, seminars and conferences and receive regular updates and publications to help them to keep up to date with current pensions issues.

All the Trustees are members of the Pensions Management Institute (PMI) and have gained the Trustee Certificate of Essential Pensions Knowledge through examinations.

### Trustees' appraisal

The Board of Trustees is currently undertaking an appraisal to assess current performance and identify areas where any improvement may be required.

### New Member Nominated Trustee (MNT) regulations

There were some technical issues around Colin Hall's continuation as a Trustee because of the procedures required under the new MNT regulations. These have been raised formally by the Trustees with the Pensions Regulator who has confirmed that it is appropriate for Colin to serve out his term of office (provided there are no objections), particularly in light of his experience to date as a Trustee and his willingness to continue in office.

## The Pension Administrators

### Who are the Pension Administrators?

The Trustees outsource the administration of the Scheme to MNPA, a specialist third-party administrator which is responsible for the day-to-day administration of the Scheme.

### What are their responsibilities?

MNPA is responsible for:

- dealing with member queries;
- making sure member records are kept up to date; and
- calculating member benefits.

The Company and the Trustees have an agreement in place with MNPA to ensure all members are provided with a good quality service. This means that, in addition to its main responsibilities, MNPA is obliged to provide a service which makes members feel valued; deals with members in a courteous way; and ensures members are kept up to date about their pension.

### News from the Pension Administrators

Over the past year, MNPA has made significant improvements in the level of service it provides. This has been achieved through a combination of monitoring progress, improving processes, continued communication and dedication from the

administration team responsible for the Scheme. Member satisfaction is one of the key measures of our service and from 1 January 2008 Member Satisfaction Surveys have been, and will continue to be, issued as and when member requests are responded to.

This Survey gives the member the opportunity to comment and rate four important aspects of the service they have received. The four aspects are: Timeliness, Clarity, Accuracy and how any Telephone Calls were handled. Members are asked to rate each of these four aspects as Excellent, Good, Satisfactory or Poor. Any poor ratings received give MNPA the opportunity to understand what went wrong from the member's perspective and take the necessary steps to avoid the issue happening again.

The results of the Survey will be reported back to the Trustees every quarter and we will keep members updated on the results via future Annual Reviews.



Tony Brown  
Client Manager at MNPA

## Pension Tracing Service

If you think you may have other pension benefits, but are unsure of the details, the Pension Tracing Service (which has access to a database of over 200,000 occupational and personal pension schemes) may be able to help! Contact them in writing at: Pension Tracing Service, Tyneview Park, Whitley Road, Newcastle upon Tyne NE98 1BA, by telephone on: 0845 600 2537 or by visiting: [www.thepensionservice.gov.uk/tracing/](http://www.thepensionservice.gov.uk/tracing/)

## Did you know?

From 2010 there are changes to when you can receive pension from an employer's arrangement, like the Arla Foods Pension Scheme. Before 6 April 2010, the earliest age a member can take a pension from an employer's scheme (subject to individual scheme rules) is age 50. From 6 April 2010, a member must be aged 55 or over.



## Where to get further information

The following documents are available on request from the Pension Administrators:

Annual Report and Financial Statements / Actuarial Valuation Report as at 30 September 2006 / Statement of Investment Principles

## Contact

- a: Arla Foods Pension Scheme,  
MNPA Limited, Leatherhead House,  
Station Road, Leatherhead, Surrey KT22 7ET
- t: 01372 200 392
- e: [arla.pensions@mnpa.co.uk](mailto:arla.pensions@mnpa.co.uk)