


In this issue

In this issue of  we provide you with:

- Information about our new look benefit statements;
- Details of how to access your AVC information online;
- A guide to obtaining a retirement benefit quote;
- A summary of the Trustee Report and Accounts for 2007/8; and
- An annual funding update providing information about the Scheme's funding position.

News



Welcome to our new Trustee Director

We welcome Bernard Walsh to the Trustee board. Bernard, who is "HR Director – Operational Delivery" at SELEX GALILEO and is based at Capability Green, will act as a Company nominated Trustee Director. Bernard has been a trustee of an occupational pension scheme before and we are pleased to add his experience to the Trustee board.

The Trustee board would like to thank the outgoing Trustee Director, Rob Shorrick, for his services from the inception of the Scheme until March of this year.

Scheme funding valuation

The Scheme's second triennial actuarial valuation is now due. The valuation, which has an effective date of 5 April 2008, is being prepared by our Scheme actuary, Danny Vassiliades of Punter Southall.

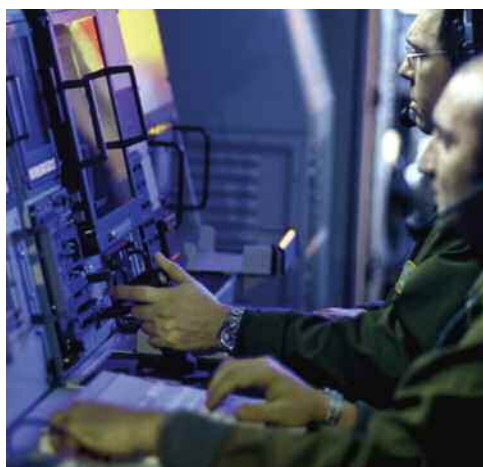
Indications from the Scheme actuary are that there will be pressure on funding.

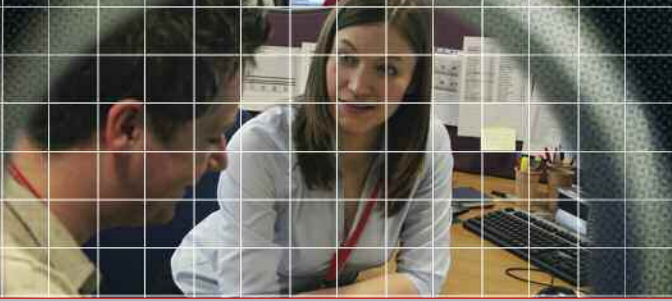
The Trustee will receive the results in the near future and will work with the Company during the following months to ensure that suitable funding arrangements are put in place. You will be kept informed of progress.

Improved communication

During this Scheme Year the Trustee is planning to provide members with more information about their pension benefits.

- We are working with the Pension Administrator, Aon, to provide new information in your annual benefit statements. Further information about your 2008 benefit statement is set out on page 2.
- We have also been developing the Scheme website and are now able to offer you online access to your AVC pension information. Further information about accessing your AVC pension information is set out on pages 4 and 5.
- It is planned that in the near future you will also have online access to information relating to your pension within the Scheme, including access to online retirement quotes. Further information will follow in due course.





New look benefit statements



The Trustee has worked with Aon, the new pension administrator, to re-design your annual benefit statement.

We are pleased to be able to provide improved information this year. Most notably, we are now able to provide details of:

- your benefits from the SELEX Pension Scheme alone; and
- your maximum tax-free cash sum from the SELEX Pension Scheme.

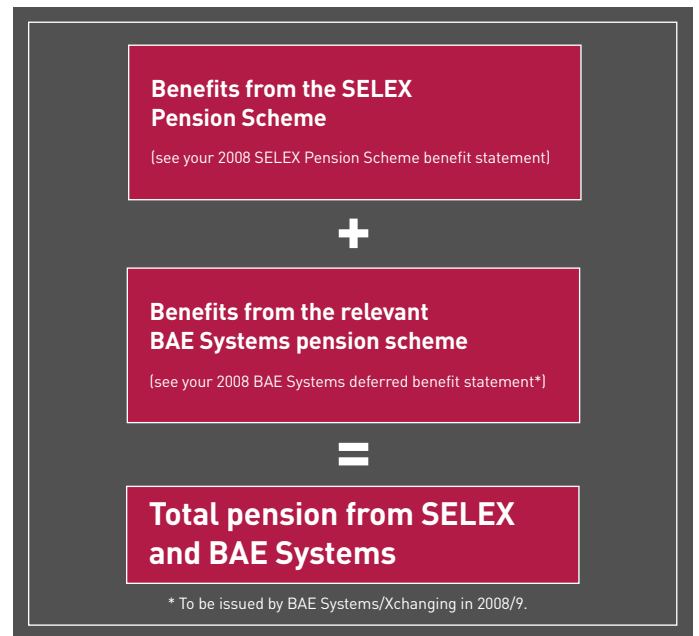
The new benefit statement is shorter than in previous years and is intended to set out key information clearly and concisely. We hope that you find the new format easier to read and informative.

Benefit statements will be issued to all active members in the coming months.



For employees who were members of a BAE Systems scheme on 29 April 2005 and joined the SELEX Pension Scheme on 30 April 2005:

You should remember that if you want to work out what benefits you could receive from both the SELEX and the BAE Systems pension schemes:



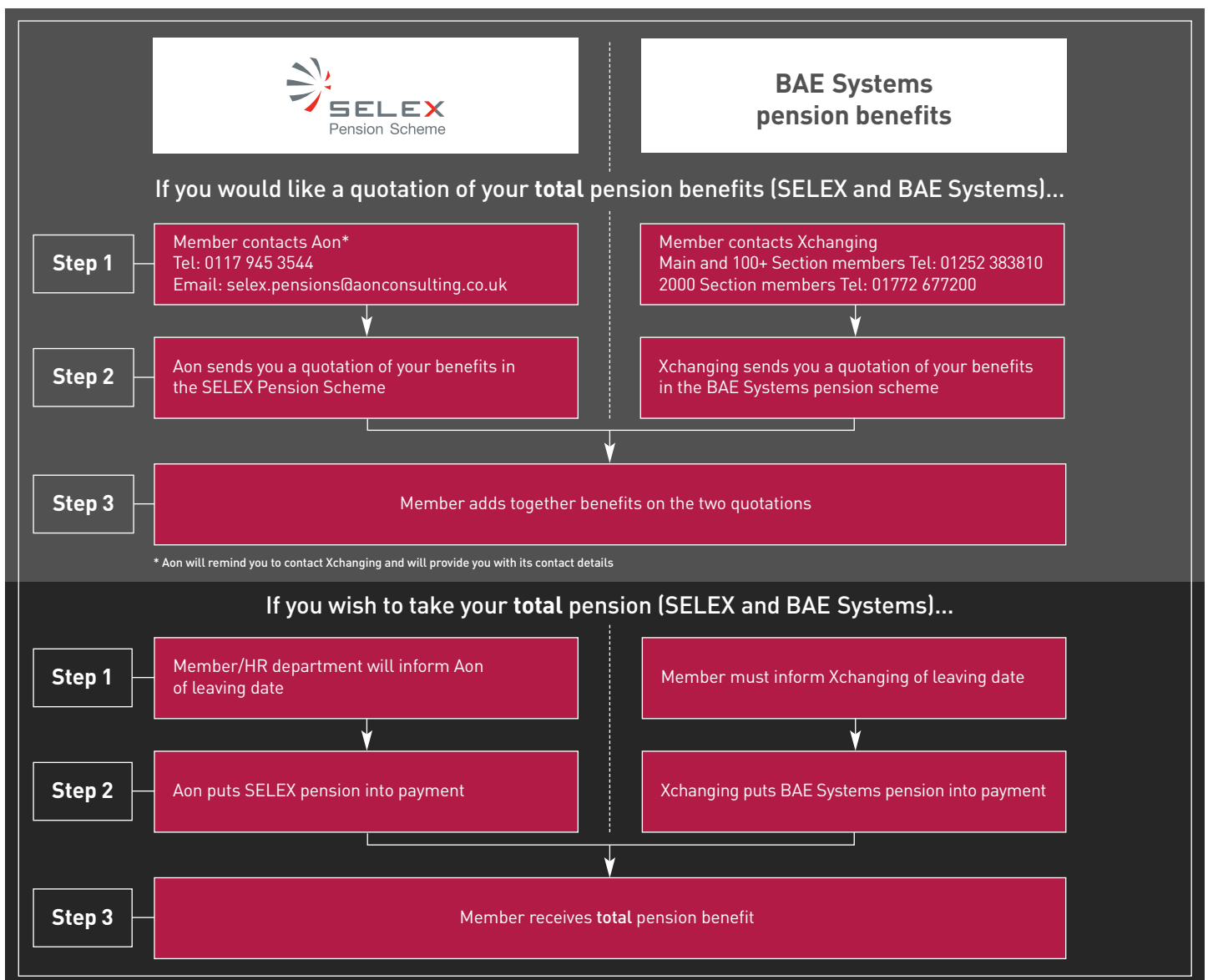
We will continue to quote your “gross pension benefit” – which is calculated using both your SELEX and BAE Systems pensionable service. This is the figure that was quoted in both your 2006 and 2007 benefit statements.

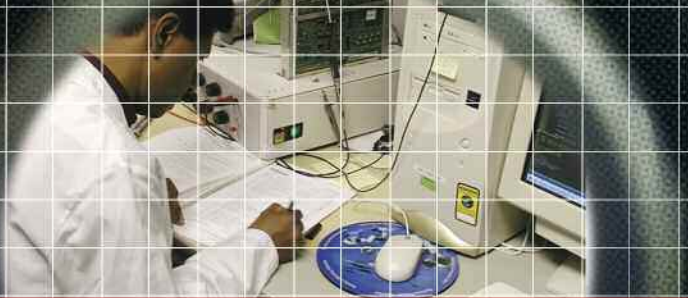
How do I obtain a quote of my total pension benefits (SELEX and BAE Systems)?

If you transferred from BAE Systems to SELEX on 30 April 2005 you are likely to have pension benefits in two pension schemes – the SELEX Pension Scheme and a BAE Systems pension scheme.

Every year you will receive a benefit statement from each of the SELEX Pension Scheme and the relevant BAE Systems pension scheme setting out details of the pension you are entitled to at retirement.

If you are thinking of retiring in the next 12 months you may wish to obtain a quotation of your pension benefits to enable you to plan your retirement.





Listening to our members

With every item of work sent out to members, Aon send a feedback form asking for the member's view of its services. In the first five months' of Aon performing the role of administrator, 17 forms were returned. We are pleased to find that the average rating for their service was "very good".

Set out below are some of the suggestions received from members and the action we have taken in response:

- A number of members have requested that benefit statements show the amount of tax free cash that you could take on retirement. In previous years, due to the systems in place, it was not possible to provide this information. We are pleased to be able to confirm that on this year's benefit statement we will be able to provide you with the amount of tax free cash that you can take from the SELEX Pension Scheme.
- After a request from two of our members, the Trustee has investigated and is now able to offer members access to online information about your AVC funds (all sections) and Retirement Account (100+ Section) – see the article headed "Instant access to information about your AVCs and Retirement Account" opposite.



Launch of SELEX Pension Scheme/



Click on the Standard Life logo on the SELEX Pension Scheme website (www.selexpensions.co.uk) to access the Scheme's personalised Standard Life website.

What does the website offer?

The website offers you:

- advice about whether you should start to pay or increase the amount of voluntary contributions to AVCs (all sections) or your Retirement Account (100+ Section);
- access to up to date information about the funds in which you can invest; and
- instant access to personal information about your AVCs and Retirement Account (see page 5).



Standard Life website

Retirement Planner

In order to assist you with your retirement planning, a Retirement Planner tool on the website enables you to calculate what your retirement savings may be worth at retirement. You can then assess whether you should consider paying additional contributions.

Retirement Planner
Tell us a little about yourself

Your Details

Your age: 30

Your salary: £ 35000

Your gender: Male Female

How much as a percentage of your current salary do you pay into your pension? 10

How much as a percentage of your current salary does your employer pay into your pension? 0 %

Reset Calculate

Enter amount of voluntary contributions to AVCs or your Retirement Account only.

Enter your total forecasted pension from your latest benefit statements here.

The black bar shows your pension from voluntary contributions.

The grey bar shows your pension from the State and the SELEX Pension Scheme.

This figure should be left at nil as this figure only applies to the amount contributed to AVCs and not salary related benefits in the SELEX Pension Scheme.

Retirement Planner - Your Projected Retirement Income

your total projected income on retirement (p.a.): £12,900

your target retirement income (p.a.): £26,000

your salary (p.a.): £35,000

your age now: 30

your weekly income from age: £0

your pension projection (p.a.): £8,450

your retirement income shortfall (p.a.): £13,009

age you want to retire: 65

your initial monthly payment (€): 10

if you increase your payment by 50%: 0

which is an initial payment of: £291

your employer payments (30%): 0

which is an initial payment of: £0

Calculate Reset

You can alter your target retirement income, your retirement age and how much you could pay in voluntary payments.

Instant access to information about your AVCs and Retirement Account

The Trustee is pleased to be able to offer online access to information about your AVCs (all sections) and Retirement Account (100+ Section) to assist you in your retirement planning.

It's easy to see your benefits online

Step 1: Go to the SELEX pensions website www.selexpensions.co.uk and click on the Standard Life logo on the bottom right hand side of the home page – this will take you to the SELEX Pension Scheme/Standard Life website.

For first time users, to obtain a User ID, either click on the "register" link (below the Customer Login box) or call Standard Life on 0845 60 60 092 between 9am - 5pm on Monday - Friday. You will be asked for some security information (including the plan number – which is H93787 for AVC account holders and H93788 for 100+ Retirement Account holders). You will be emailed a User ID immediately and your temporary password will follow by post.

Step 2: Enter your User ID into the Customer Login box on the right hand side of the page to access your account.

What can I do online?

- Check the current fund value of your AVC fund/ Retirement Account.
- Check key data (e.g. your retirement date).
- Check which investment fund(s) your money is invested in.
- Check the payments made to your plan.
- View all your Standard Life products (you will be able to see the balance of personal pensions and AVC funds from previous employments – including at BAE Systems).



Report and Accounts

Each year the Trustee is required to publish a report and audited accounts for the Scheme. The summary below is based on the accounts for the year to 5 April 2008, which have been signed off by our independent auditors Ernst & Young LLP.

If you would like to see a copy of the full annual Report and Accounts, a copy will be placed on the Scheme's website, www.selexpensions.co.uk

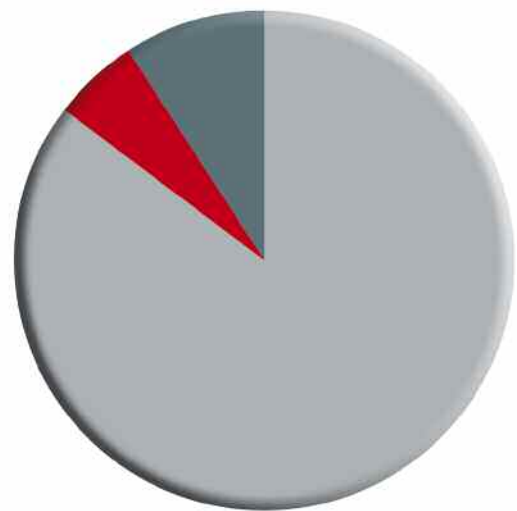
Scheme assets

The assets of the Scheme have grown since the inception of the Scheme to £111.1 million. Further information is set out below:

	Assets of Scheme at 5 April 2007	£53.8 million
+	Income (Company contributions, member contributions and other income)	£36.9 million
-	Outgoings (Pensions, lump sums, death in service insurance and administration expenses)	£3.2 million
+	Net return on investments (Market value of investments after allowing for expenses)	£23.6 million
=	Assets of Scheme at 5 April 2008	£111.1 million

Membership numbers

The majority of our members are employees who are paying contributions and building up benefits. This chart shows that out of a total of 4,777 members, 85.5% are employed (active) members.



Membership as at 5 April 2008

- Employed (active) members **4,085**
- Pensioners **256**
- Deferred Pensioners **436**

Investing the assets of the Scheme

The Trustee has continued to work with the Scheme's investment manager, PSigma Investments Limited, to develop and refine the Scheme's investment strategy. The Trustee is pleased to report that our investment strategy enabled us to generate positive returns this Scheme Year during what is generally considered to have been a turbulent and difficult period for investors.

We receive detailed investment reports which show how each of our investments has performed and whether our managers have met our benchmarks.

The Trustee's investment strategy is set out in the Statement of Investment Principles, a copy of which is available on request from the Pension Administrator, Aon.

Swaps arrangements

In order to protect the Scheme against changes in long term interest rates and inflation, the Trustee entered into a portfolio of swap contracts. The Trustee regularly considers whether the swaps need "topping up" in order to ensure the Scheme's liabilities remain suitably matched. In December 2007 and June 2008, the Scheme's swap portfolio was further refined and a swap restructure took place.

By entering into the swap contracts, the Trustee has ensured that:

- when inflation rises and the deficit of the Scheme increases, the value of the Scheme's assets will also increase; and
- when long term interest rates fall and the deficit of the Scheme increases, the value of the Scheme's assets will also increase.

Linking our assets to our liabilities has enabled us to be more certain about the size of our deficit. £21.0 million of the £23.6 million return on investment shown in the Scheme asset summary on page 6 is derived from gains in the value of the swap contracts. These gains will broadly offset an increase in the value of the Scheme's liabilities due to the net effect of increases in inflation expectations and changes in long term interest rates.

TIGS performance

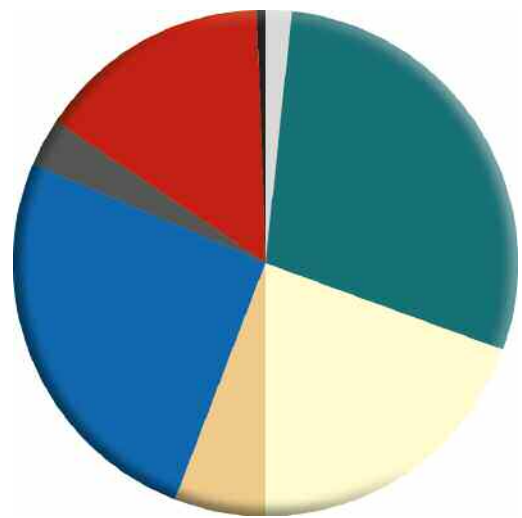
The majority of the assets of the Scheme continue to be invested in the Total Investment Governance Solution (TIGS) provided by PSigma Investments Limited. TIGS is a managed service designed to deliver performance in excess of a client specific target through exposure to diversified investment arrangements. PSigma Investments Limited invests and manages the Scheme's assets on the Trustee Directors' behalf.

The service reduces the risks and costs of decision delay and provides access to a broader range of asset allocation and increased investment specialisation, such as commodities, high yield bonds, leveraged loans and other alternative asset classes as well as currency hedging, that would ordinarily not be available to many schemes. As well as the delegated responsibility for dynamic asset allocation, PSigma Investments Limited are also responsible for selecting and replacing active fund managers.

The investment objective for TIGS is a return of LIBOR + 3% per annum, after the deduction of fees, over rolling three year periods. Over the year, TIGS has returned 3.46% against an objective of 9.19%. Since inception the TIGS fund has returned 6.75% against an objective of 8.76% per annum. Therefore, whilst the TIGS investment has produced positive returns, it has fallen short of the Trustee's targets. The underperformance of the TIGS fund should be considered in the context of the investment returns from the major asset classes. Over the year, UK equities, overseas equities, UK property, alternative assets, high yield bonds and global bonds all performed at a lower level than the TIGS fund.

TIGS investment portfolio

The allocation of assets varies each month but our assets in TIGS were invested as follows as at 5 April 2008:



TIGS Assets as at 5 April 2008

UK equities 1.7%	Global bonds 25.7%
Overseas equities 29.1%	European property 3.1%
Alternative asset classes (including hedge fund of funds) 19.3%	Cash 15.0%
Commodities 5.8%	Currency hedge 0.3%



Annual Funding Update



The Pensions Act 2004 has introduced a requirement that the Trustee informs you on an annual basis about the funding of the Scheme. Set out below are details of the Scheme's funding position as at 29 April 2005 (the date of the most recent formal funding valuation of the Scheme). In addition, we have included information confirming the approximate funding position of the Scheme, based on an interim funding update as at 5 April 2008.

What would be the funding position of the Scheme at the current date?

The Scheme actuary provides the Trustee with regular updates of the funding position of the Scheme. The approximate update as at 5 April 2007 showed that the ongoing Scheme deficit was around £48.0 million. This reflected a reduction in the deficit compared to the deficit calculated in the previous year but an increase from the first actuarial valuation of the Scheme as at 29 April 2005.

The Scheme actuary has produced a further update of the funding position of the Scheme as at 5 April 2008. The calculations show that the ongoing deficit at this date was £54.7 million. Indications from the Scheme actuary show the funding position has worsened since 5 April 2007 for a number of reasons: firstly, the Scheme's investments in TIGS have underperformed their benchmark; secondly, the liabilities have increased in value by a greater amount due to changes in inflation and interest rates than the swaps gained in value over the period; and thirdly, salary increases were higher than expected.

The next detailed calculation of the Scheme's funding position will occur as part of the formal actuarial valuation as at 5 April 2008. The Trustee expects to receive the results of this valuation in the latter part of 2008 and will work with the Company over the following months to ensure that suitable funding arrangements are put in place.

What was the position under the last formal funding valuation?

The Scheme actuary carried out a funding valuation of the Scheme as at 29 April 2005. The Scheme had no assets at that time as it had only just been set up and no members had accrued any benefits.

What is the Trustee doing to eliminate the deficit?

As a result of the 29 April 2005 valuation, the Trustee and the Company agreed that the participating employers will pay additional contributions each year (in addition to the cost of funding future benefits) to eliminate the shortfall over the next ten years.

When the valuation was carried out on 29 April 2005, the actuary valued the Scheme on three different bases:

- **Minimum Funding Requirement (MFR) basis**

This is the amount of money needed to ensure the Scheme has enough assets to comply with the law. The actuary valued the Scheme as 100% funded on a MFR basis.

100% funded

- **Ongoing basis**

This is the amount of money needed to pay pensions as they fall due. The actuary valued the Scheme as underfunded by £40.9 million on an ongoing basis. The assets were nil at 29 April 2005 and therefore the Scheme had a deficit of £40.9 million.

Underfunded

- **Buy out/discontinuance basis**

This is the amount of money needed to buy an insurance policy to pay your benefits. This would only be relevant if it was decided to wind up the Scheme. The actuary valued the Scheme as 100% funded on a buy out basis.

100% funded



We anticipate that you will have questions about the funding of the Scheme. We hope the following information will answer your questions.

How is my pension funded?

Active members and the participating employers pay contributions to the Scheme based upon members' pensionable salaries. The Scheme holds the money in a common fund from which it pays members' pensions when they retire.

If you pay additional voluntary contributions to the Selected Benefit Scheme then these contributions are also held in this common fund. Other AVCs and your Retirement Account (100+ Section) are held separately with Standard Life.

How is the amount of money the Scheme needs worked out?

The Trustee obtains regular valuations of the benefits earned by members. Using this information and recommendations from the Scheme actuary, the Trustee and the Company must agree on the future contributions that must be paid to ensure there is sufficient money in the Scheme to pay the benefits.

Which funding basis is used?

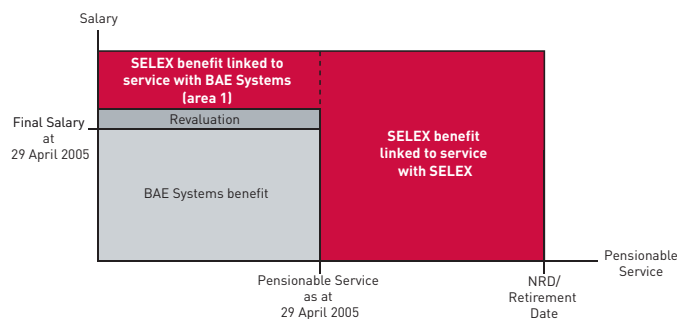
The ongoing funding basis is used to assess the amount needed to ensure the Scheme is adequately funded and to determine how much needs to be paid into the Scheme by participating employers and members. It assumes that SELEX will continue in business and support the Scheme.

The buy out basis is not used as it assumes that benefits will be secured by buying insurance policies. Insurers need to make a profit and therefore charge more to insure pensions than it costs the Scheme to provide benefits. This basis would be relevant if the Scheme wound up and the benefits needed to be insured.

Why did the Scheme have a deficit when it was set up?

You may be wondering why the Scheme had a deficit on an ongoing basis on 29 April 2005, even though no one had accrued any benefits. The reason is that members who joined the Scheme on 29 April 2005 have SELEX benefits which are linked to their BAE Systems benefits.

The following diagram shows how these benefits are structured:



The SELEX Pension Scheme will pay the benefits shaded red. The BAE Systems pension schemes will pay the benefits shaded grey.

You will see that the SELEX Pension Scheme will pay some benefits which are linked to your service in the BAE Systems scheme (marked as area 1 on the diagram). The amount of area 1 will depend on how much pensionable salaries of SELEX employees grow compared to inflation.

The actuary has estimated that the cost to the Scheme of paying the benefits highlighted in area 1 of the diagram will be £40.9 million, resulting in the deficit.



What would happen if the Scheme started to wind up?

We are legally required to tell you what would happen if the Scheme were to wind up. This does not mean that there is any intention to wind up the Scheme in the foreseeable future.

If the Scheme were to start to wind up, SELEX is required to pay enough into the Scheme to enable the members' benefits to be insured with an insurance company. If SELEX is not able to pay the deficit (if any), the Pension Protection Fund (PPF) might be able to take over the Scheme and pay some compensation to members.

The PPF's main function is to provide compensation to members of eligible defined benefit (final salary) pension schemes, when there is a qualifying insolvency event in relation to the employer, and where there are insufficient assets in the pension scheme to cover the Pension Protection Fund level of compensation.

Other Information

The law requires the Trustee to inform you that no payments have been made from the Scheme to any participating employers in the last 12 months.

If you are thinking of leaving the Scheme for any reason, you should consult a professional adviser, such as an independent financial adviser, before taking any action.

If you require any further information about the Scheme then please contact the Pension Administrator, Aon, using the details below.

Remember, if you move house, please keep the Pension Administrator informed so you can continue to receive up to date information.

Contact details

Telephone: 0117 945 3544

Email: selex.pensions@aonconsulting.co.uk

Pensions Website: www.selexpensions.co.uk

Address: SELEX Pension Scheme, Aon Consulting Limited, 25 Marsh Street, Bristol BS1 4AQ

Disclaimer

The content of this newsletter is given for the purpose of providing you with information about the Scheme only and has no legal effect. The rules of the Scheme govern how the Trustee must act and if the rules of the Scheme are inconsistent with the information given in this newsletter, the rules will prevail. Copies of the rules are available from the Pension Administrator, Aon.