IN FOCUS

SELEX Pension Scheme

A newsletter for the members of the SELEX Pension Scheme

Issue 5. September 2007

In this issue

In this issue of IN FOCUS we provide you with:

- Notification of forthcoming member-nominated director elections
- Details of our new PCC pensioner representative
- A summary of the Trustee Report and Accounts for 2006/07
- An annual funding update providing information about the Scheme's funding position
- An update on the Scheme's administration service provider
- An update on your 2007 annual benefit statement

News

Member-nominated trustee director elections

The Pensions Act 2004 introduces changes to the way in which member-nominated trustee directors (MNDs) are selected. These changes take effect from October 2007.

As you may be aware, the Pensions Consultative Committee (PCC) elects four of its Representatives to stand as MNDs. In order to comply with the new legislation, a pensioner Representative has been chosen and appointed to sit as a Representative on the PCC (see further opposite).

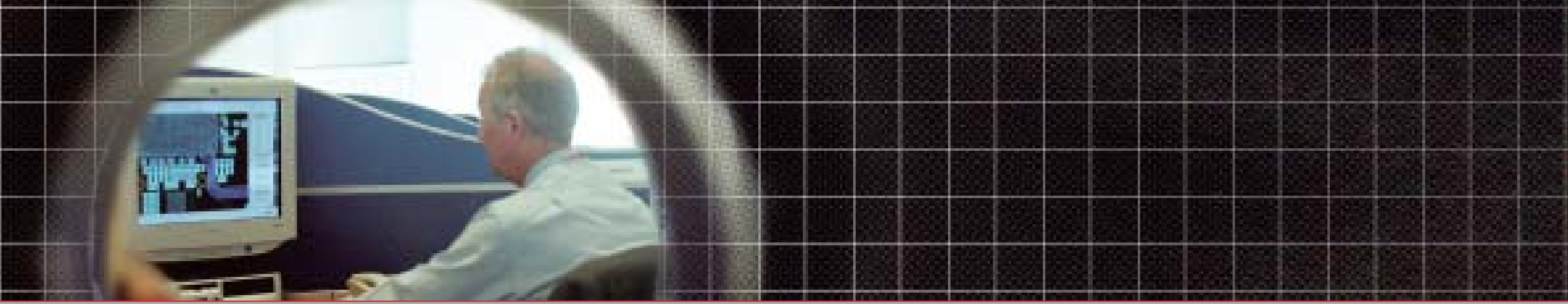
- The PCC will be nominating four of its Representatives to stand as MNDs with effect from 31 October 2007. They will be appointed for a three year term of office and the existing MNDs are each eligible to be re-elected.
- The election will be conducted by secret ballot either at a meeting of the PCC or by post or electronic communication.
- Each PCC Representative has one vote per MND vacancy. The Representatives with the most votes shall be considered elected.
- In the event that there are too many Representatives nominated for the vacancies, those with the most votes shall be elected and any with equal votes shall be put forward for a further ballot of the PCC.
- If there are insufficient nominations, the nomination and selection process will be repeated at each PCC meeting. If a vacancy remains outstanding after a year, the Trustee Directors will consider whether to adopt an alternative method of nomination and selection.

Welcome to our new PCC Pensioner Representative

Ken Thompson has been selected and appointed by the PCC as a pensioner Representative.

Ken joined the company in 1968 and worked in Stanmore and later on the Luton site until he retired in April 2006. Since retiring he has been able to devote more time to nature conservation and has obtained his Amateur Radio Transmitting Licence. Ken is married with one daughter. Ken hopes to be able to provide a valuable service to the PCC and Scheme members by sharing his experience of going through the retirement process.

If you wish to contact Ken, please e-mail: **SelexPen@whl.co.uk.** All other PCC Representatives' contact details can be found on the Scheme's website at **www.selexpensions.co.uk.**



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 2007, 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 has been placed on the Scheme's website, **www.selexpensions.co.uk**.

Scheme assets

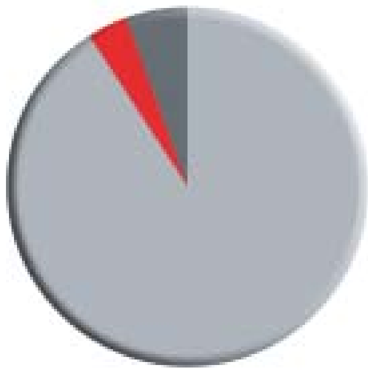
The assets of the Scheme have grown since the inception of the Scheme in 2005 to £53.8 million. Further information is set out below:

	Assets of Scheme at 5 April 2006	**£26.274 million**
+	**Income** (Company contributions, member contributions and other income)	£34.848 million
-	**Outgoings** (Pensions, lump sums, death in service insurance and administration expenses)	£2.736 million
-	**Net return on investments*** (Market value of investments after allowing for expenses)	£4.541 million
=	**Assets of Scheme at 5 April 2007**	**£53.845 million**

* There has been a positive return on the TIGS investments but a fall in the value of the swaps contracts. With regard to the swaps, page 3 gives further information on the corresponding reduction in the level of the Scheme's liabilities.

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 4,538 members, 91% are employed (active) members.



Membership as at 5 April 2007

- Employed (active) members **4,126**
- Pensioners **170**
- Deferred Pensioners **242**

Investing the assets of the Scheme

In May 2006, the Trustee implemented the second stage of the investment strategy and assets were transferred into the Total Investment Governance Solution (TIGS) investment product, run by PSigma Investments Limited. The first stage of the investment strategy was the implementation of a program of swaps contracts in December 2005.

The Trustee Directors rely on investment advice provided by PSolve Asset Solutions. Our overall aim is to achieve a fully funded Scheme (using the Scheme Actuary's funding basis) over 10 years from inception of the Scheme, i.e. by 29 April 2015. The Trustee's strategy to achieve this aim is to stabilise the Scheme's deficit and aim for regular investment returns each year. The Trustee's investment strategy is set out in the Statement of Investment Principles, a copy of which is available on request from the Pensions Service Centre.

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

Swaps arrangements

In order to protect the Scheme against changes in long term interest rates and inflation, the Trustee entered into a portfolio of swaps contracts. In December 2006, the Scheme swaps portfolio was refined and a swap restructure took place. The Trustee regularly considers whether the swaps need "topping up" in order to ensure the Scheme's liabilities remain as closely matched as possible.

By entering into the swaps 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.

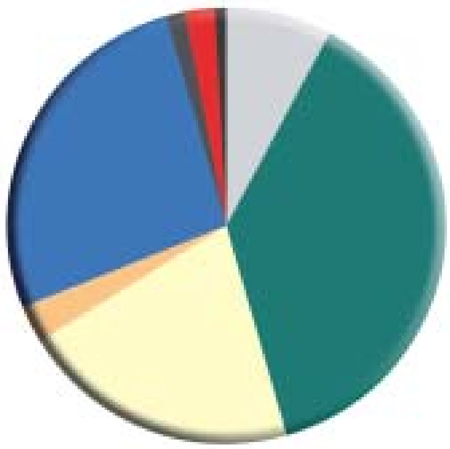
Linking our assets to our liabilities has enabled us to be more certain about the size of our deficit. The negative returns on investment shown in the Scheme asset summary on page 2 represent falls in the value of the swaps contracts. These reductions have been offset by reductions in the level of the Scheme's liabilities.

TIGS performance

Over the year, TIGS has returned 8.44% against an objective of 6.84%. Since inception the TIGS fund has therefore outperformed its objective by 1.6%.

TIGS investment portfolio

The allocation of assets varies each month but our assets in TIGS were invested as follows as at 5 April 2007:



TIGS Assets as at 5 April 2007

UK Equity **8.0%**	Global Bonds **26.7%**
Overseas Equity **37.6%**	Property **1.4%**
Alternative **20.6%**	Cash **2.4%**
Commodities **2.7%**	Currency Hedge **0.6%**

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 2007.

What would the funding position of the Scheme be 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 2006 showed that the ongoing Scheme deficit was around £55.5 million. This reflected an increase in the deficit compared to the deficit calculated in the first actuarial valuation of the Scheme as at 29 April 2005.

As set out in last September's IN FOCUS, the deterioration in the Scheme deficit over the period 29 April 2005 to 5 April 2006 occurred largely because of falling interest rates and increasing inflation over the period until the swaps were put in place to protect the Scheme from such changes. In addition, employers' and members' contributions to the Scheme were not increased until 1 May 2006 to reflect the amount that needed to be paid into the Scheme to reduce the shortfall and to meet the cost of benefits accruing.

The Scheme Actuary has produced a further update of the funding position of the Scheme as at 5 April 2007. The calculations show that the ongoing deficit at this date was £48 million. The funding position has improved since 5 April 2006 for a number of reasons; firstly, the Scheme's investments in TIGS have outperformed their benchmark and secondly, the liabilities have fallen in value by a greater amount due to changes in inflation and interest rates than the swaps fell in value over the period. In addition, there have been a number of membership movements (such as retirements and leavers) and differences in the level of increases of accrued pensions which have ultimately resulted in the cost of providing Scheme benefits being less than had been expected at the start of the year.

The Scheme Actuary will continue to provide the Trustee with approximate updates of the Scheme's funding position. The next detailed calculations of the Scheme's funding position will occur as part of the formal actuarial valuation as at 5 April 2008. The Trustee is monitoring the funding of the Scheme on a quarterly basis and will take action at an earlier date if necessary.

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.

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

What is the Trustee doing to eliminate the deficit?

As a result of the 29 April 2005 valuation, it was 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.

We anticipate that you will have questions about the funding of the Scheme. We hope the information below 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 only) are held separately with Standard Life.

How is the amount 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, a decision is made 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?

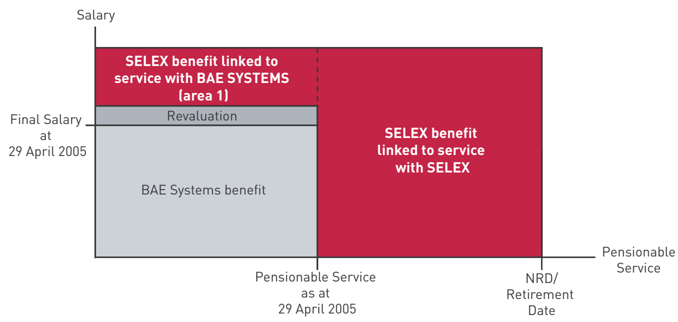
The ongoing funding basis is used to assess the amount needed to ensure the Scheme is adequately funded and to determine how much needs to be paid into the Scheme by participating employers and members. It assumes that SELEX will continue in business and support the Scheme.

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.

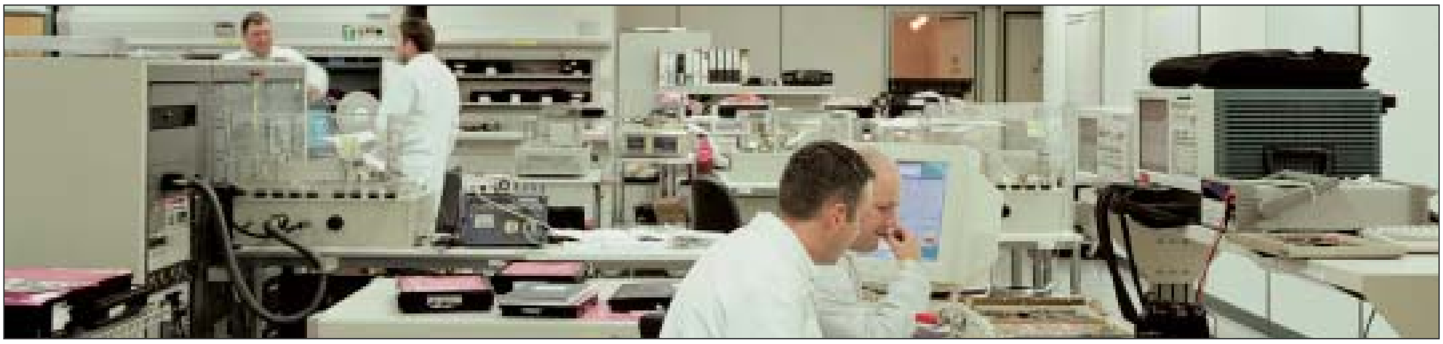
The following diagram shows how these benefits are structured:

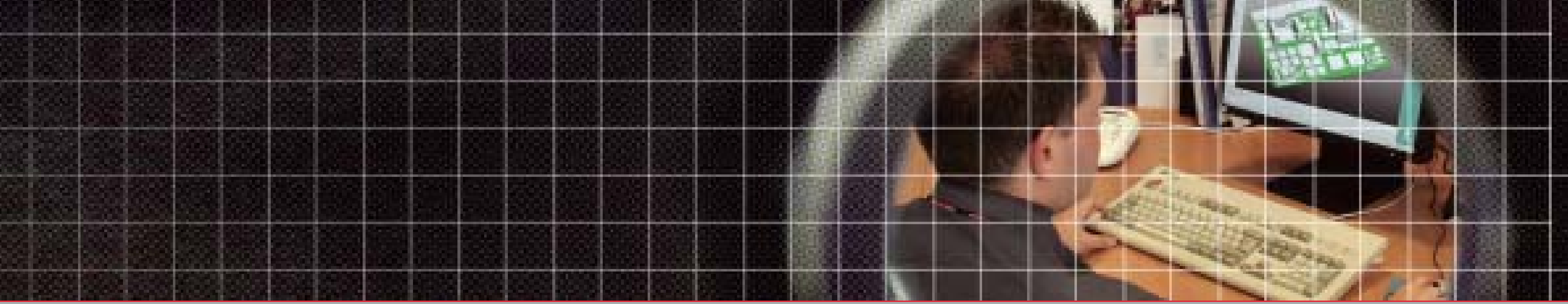


The SELEX Pension Scheme will pay the benefits shaded in red. The BAE Systems pension schemes will pay the benefits shaded grey.

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 was to wind up. This does not mean that there are any plans to wind up the Scheme.

If the Scheme was 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 Pensions Service Centre using the details below.

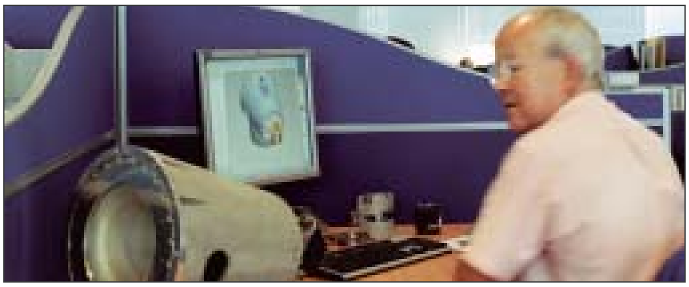
Remember, if you move house, please keep the Trustee informed so you can continue to receive up to date information.

Administration provider

The Trustees are keen to continue to improve the overall service provision associated with the Scheme. All service providers are regularly reviewed and subject to a competitive tendering process. As a result of an administration review, it has been decided to move to an alternative provider for pensions administration during 2008. In the meantime, members should continue to contact the Pensions Service Centre at Xchanging as normal. We will keep you updated with further developments in this area.

2007 annual benefit statements

Work is underway on the 2007 annual benefit statements. We will keep you updated with progress in this area.



Contact details

Pensions Helpline: **01772 677300**

Email: **selex.pensions@hr.xchanging.com**

Pensions Website: **www.selexpensions.co.uk**

Address: **SELEX Pension Scheme, Pensions Service Centre, Fulwood Park, Caxton Road, Fulwood, Preston, PR2 9NZ.**

The majority of queries addressed to Xchanging are dealt with in two weeks. Some queries may take longer to process.