

Welcome

Welcome to the first edition of **IN FOCUS**, the bi-annual newsletter keeping you informed about the SELEX Pension Scheme. In this edition, we:

- introduce the people who will be looking after your pension scheme
- explain the new pension legislation that will come into force in April
- inform you about the Trustee's investment strategy
- tell you about some important changes on which the company is currently consulting the Scheme's trustee board.

Please ensure you take the time to read and understand this newsletter as it contains important information about your pension scheme.

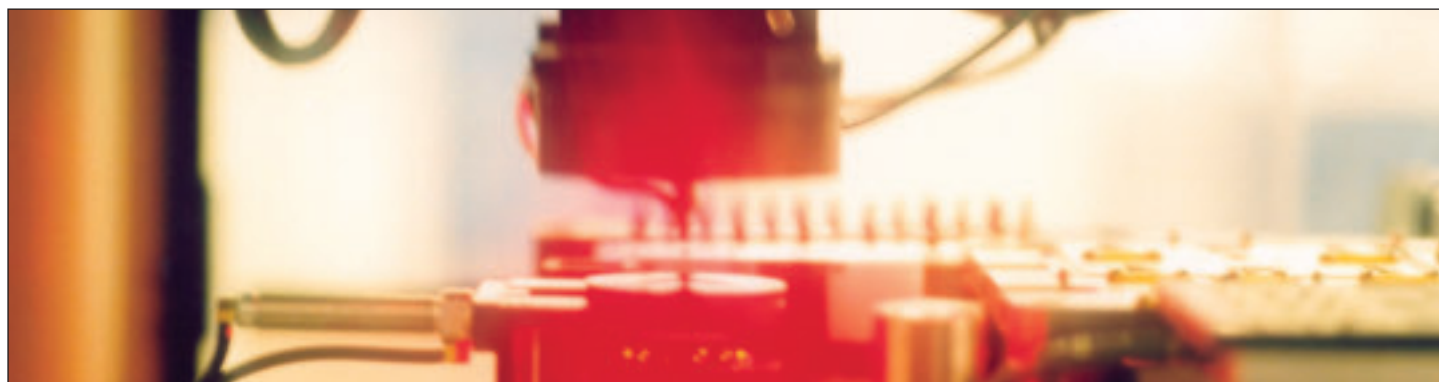
Important News

Funding and Contributions

Following the setting up of the SELEX Pension Scheme in April last year, the Trustee commissioned a valuation. As a result, discussions are taking place on the implementation of changes to contribution levels and other aspects of the Scheme. Please see page 6 for further details.

Expression of Wish form

You must fill in the enclosed Expression of Wish form. For further details see page 5.



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Trustee Directors

The SELEX Pension Scheme is administered by a trust company, SELEX Pension Scheme (Trustee) Limited. The board of Trustee Directors, who in effect act as trustees, are responsible for supervising the correct operation of the pension scheme. They are assisted by pension managers and a number of professional advisers.

The role of the Trustee is to look after the assets of the pension scheme and to ensure that the correct benefits are paid to the members when they are due.

The board comprises 8 Trustee Directors: 4 elected by the SELEX Pensions Consultative Committee (PCC) and 4 appointed by the employers.

Four new Trustee Directors have been appointed this year – the PCC has elected Stuart Rushworth and Jim Thomson and the company has appointed Martin Flavell and Dave Evans.

Stuart, Jim, Martin and Dave join the existing Trustee Directors: Geoff Munday (Chairman), Rob Shorrick, Jim Cull and Martin Johnson.

Your consultative committee

The Pensions Consultative Committee (PCC) has been set up to discuss pensions and to advise and represent your views. The PCC has thirteen representatives nominated by the Site Consultative Committees drawn from sites with over 150 employees. Details of the current representatives are set out below.

Representatives will have a number of roles, including acting as a communication point for members – therefore if you have any questions about current issues, please feel free to contact your representative for information.

The members will develop a good understanding of the Scheme's benefits and procedures so they will be able to assist you in initial queries (although they are not able to give personal financial advice).

The PCC meets quarterly, shortly after the Trustee Directors' meetings, or more frequently if required, and after each meeting a summary of the points discussed will be published on the pension scheme website.

*Also a Trustee Director

Site	Representatives	Telephone	Email
Basildon	Martin Johnson*	01268 887074	martin.h.johnson@selex-sas.com
	Scott McMillan	01268 887094	scott.mcmillan@selex-sas.com
	Kevin Brooks	01268 887394	kevin.brooks@selex-sas.com
Christchurch Edinburgh	Paul Murrell	01245 242163	paul.murrell@selex-comm.com
	James Fordyce	0131 3434658	james.fordyce@selex-sas.com
	Colin Wyllie	0131 3438136	colin.wyllie@selex-sas.com
	Scott Wallace	0131 3434134	scott.wallace@selex-sas.com
	Jim Thomson*	0131 3435551	jim.thomson3@selex-sas.com
Luton	Jim Cull*	0131 3435256	james.cull@selex-sas.com
	Phil Slade	01582 886580	phil.slade@selex-sas.com
	Tony Kingsbury	01582 886052	tony.kingsbury@selex-sas.com
Southampton	Stuart Rushworth*	01582 886258	stuart.rushworth@selex-sas.com
	Paul Wilton	02380 316775	paul.wilton@selex-sas.com

Administration and pensions management

Day to day administration of the pension scheme will continue to be carried out by Xchanging and if you have any queries you should contact Xchanging by calling the Pensions Helpline on **01772 677300** or by emailing selex.pensions@hr.xchanging.com.

However, we are pleased to announce that the overall responsibility for running the pension scheme will be managed by the Pension Policy Team at Yeovil (a shared service for Finmeccanica employees in the UK). The team includes 5 pension professionals: Mike Nixon **(A)** is the head of the team and Kate Webber **(B)** is the manager for the SELEX Pension Scheme. Mike and Kate are assisted by Helen Pass **(C)**, Sue Johnson **(D)** and Sue Smith **(E)**.



The Scheme's advisers

The Trustee has appointed a number of specialist advisers to assist in the running of the pension scheme. These include:

Actuary	Caroline Pearson, Punter Southall
Lawyers	Allen & Overy LLP
Auditors	Ernst & Young LLP
Administrators	Xchanging HR Services
Investment advisers	PSolve Asset Solutions
Investment managers	PSigma Investment Limited

Your Scheme actuary

Caroline Pearson is a principal of Punter Southall and has been a practising scheme actuary since the position was first introduced in 1997. She has worked exclusively in actuarial and pensions consultancy and has experience in all aspects of UK private pension provision. The Scheme actuary is responsible for advising the Trustee on the financial status of the Scheme and for identifying the funding level necessary to sustain the Scheme.

In the next edition of the newsletter, we will tell you about another of the Scheme's advisers.

Launch of website

We are pleased to announce the launch of the SELEX Pension Scheme website www.selexpensions.co.uk.



The website has been created to provide quick and easy access to information about your benefits. Visitors to the site will be able to access information about the Scheme including copies of the Scheme booklets. Forms can also be downloaded from the website.

The site will be expanded over time to contain announcements, newsletters, news and frequently asked questions. In addition, it will be updated regularly to give Scheme members the latest information about the pension scheme.

We hope you enjoy using the website and would welcome any feedback. If you have any comments, please email Kate Webber: webberk@whl.co.uk

Transfer of benefits

We are aware that a number of members have enquired about the possibility of transferring benefits that they have earned in other pension schemes into the SELEX Pension Scheme.

The Trustee has carefully considered the issue of whether to accept individual transfers-in and taken advice on this matter from its professional advisers. In view of the advice received, the Trustee has formed a current policy of not accepting individual transfers-in.

The Trustee was advised that the calculation of the additional benefits to be granted to a member following a transfer-in could result in the member being treated unfairly. In making transfer calculations, the actuary will rely upon assumptions about future items such as investment returns, salary increases and life expectancy. If the assumptions are not borne out in practice, either:

- the individual would receive benefits which were less valuable than the benefits he/she held in the other pension scheme and be worse off for making the transfer; or
- the individual would receive benefits which were more valuable than the benefits he held in the other pension scheme and the SELEX Pension Scheme would have to meet the additional costs.

Therefore, in fairness to all members, the Trustee's current policy will be to not accept individual transfers-in.



Benefit Statement and State Benefit For

The SELEX Pension Scheme will be issuing benefit statements in August/September. The Trustee is currently deciding the content and format of those statements.

It is possible for your benefit statement to include State benefits information to give you a better picture of your total income in retirement. We believe that it would be beneficial to obtain a full statement including your State benefits: therefore we propose to automatically apply for your State benefit information on your behalf and include it on your benefit statement.

In order to do this, we need your agreement to provide specific information to the Department of Work and Pensions (DWP) and in return the DWP will provide the information we will need to include your State benefits in your benefit statement.

We will provide the DWP with your:

- surname and family name,
- first names,
- sex,
- date of birth,
- National Insurance number, and
- pension member number.

The DWP will then provide details of:

- the amount of State Pension you have earned so far;
- the earliest age at which you can receive your State Pension; and
- the amount your State Pension is likely to be when you reach State Pension Age.

We will only use the information we get from the DWP to provide you with a combined pension forecast of your SELEX Pension Scheme and State Pension entitlement.

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If you are happy for us to give the DWP the details listed above, you do not need to do anything. We will provide the information about you to the DWP, and receive State Pension information from them for as long as you are a member of this Scheme. We will include the information the DWP gives us in the next and future annual benefit statements we send to you.

If you do not want us to give the DWP the information about you shown above, please telephone the Pensions Service Centre on **01772 677300** or email **selex.pensions@hr.xchanging.com** before 31 March 2006 to confirm that you do not want the SELEX Pension Scheme to give you a combined pension forecast statement including a State Pension forecast. If you do this, your next annual benefit statement will not include any information on your State Pension entitlement.

Even though you may agree to us giving information about you to the DWP, if you change your mind, you can contact the Pensions Service Centre at any time to stop us sending this information.



You need to fill in an Expression of Wish form

It is important that you ensure your family and dependants are provided for in case something unfortunate should happen to you. Your pension scheme provides that a lump sum is paid upon your death at certain times. You will certainly be eligible for a lump sum to be paid on your behalf if you die while you are a contributing member of the Scheme. Your dependants may also be entitled to a lump sum if you die as a pensioner or before your pension starts. (If you would like further details about your benefits you should check your Scheme booklet which is available on the pension scheme website, www.selexpensions.co.uk)

The rules of the pension scheme provide that the Trustee Directors have the discretion to decide who the lump sum is paid to after your death. The main reason the rules require this is to avoid the unnecessary payment of inheritance tax. However, you can help the Trustee Directors in making their decision by completing an Expression of Wish form.

The Trustee Directors are keen to know your wishes and will follow them where possible (although they cannot be legally bound to follow your requests). They would refer to the information contained in your Expression of Wish form for guidance when making a decision.

You may well have completed an Expression of Wish form when you were a member of a BAE Systems pension scheme. However, as the SELEX Pension Scheme is an entirely separate scheme, it is necessary to complete another Expression of Wish form. The SELEX Trustee Directors cannot rely upon your BAE Systems pension scheme Expression of Wish form.

An Expression of Wish form is enclosed with this newsletter. Please complete this form and return it in the freepost envelope to Xchanging. If you have any questions, you should call the Pensions Service Centre on **01772 677300**. Further copies of the Expression of Wish form are available on the pension scheme website.

You may also wish to consider updating your BAE Systems pension scheme Expression of Wish form. Copies can be obtained from Xchanging.



The Trustee's approach to investments

As the SELEX Pension Scheme is new, the Trustee has had to formulate a strategy to protect the interests of the Scheme. This strategy has taken into account the unusual nature of the Scheme, with its link to BAE Systems pension scheme benefits.

After consultation with its advisers, PSolve Asset Solutions, the Trustee has implemented an approach designed to substantially reduce the potential volatility of the Scheme's liabilities. In summary, the investment strategy consists of two parts:

- first, the Trustee has taken steps to reduce the risks that the pension scheme faces due to adverse changes in inflation and interest rates; and
- second, the Trustee will look to invest in a range of products which produce returns which are hopefully better than those produced by bonds.

The first stage, which was implemented in December 2005, uses financial instruments called derivatives to protect against changes in interest rates and inflation. This approach is designed to reduce the impact of changes in interest rates and inflation on the cost of providing your pension. (A fall in long term interest rates or a rise in long term inflation increases the cost of providing pensions). The Trustee has entered into an agreement with a highly-rated bank to implement these instruments. This helps to reduce the volatility of the Scheme deficit and reduces future uncertainty.

The second stage, which is the asset investment strategy, has been implemented on an interim basis pending the build up of assets since the Scheme has been established. It is now possible to formulate the longer term strategy and the Trustee is actively working on this. Further details will be provided in due course.

Funding and Contributions

Following the setting up of the SELEX Pension Scheme in April last year, the Trustee commissioned a valuation.

The valuation shows that current contribution levels are insufficient to meet the increased costs of funding pensions in the future. The Trustee and company are very keen to maintain a strong and viable pension scheme and are discussing implementing changes along the following lines:

Contributions – It is likely that the company and employee contribution level will be increased from April 2006 in order to adequately fund the Scheme. This reflects the increasing cost of providing pensions in the current environment within the UK and the funding challenges almost all pension schemes are facing. Contribution increases are necessary to protect the Scheme and ensure that it is properly funded.

Pension Reform

You may be aware that the Government is introducing significant pension reforms in April 2006. The reforms are aimed at simplifying the tax treatment of pensions and making company pensions more secure.

The company are looking at the impact of this new legislation and making decisions about what changes should be made to the SELEX Pension Scheme. It is consulting with the Trustee and the Pensions Consultative Committee in reaching its final decisions.

This article sets out a summary of some of the key changes in the legislation. More detail about the changes to the SELEX Pension Scheme will be given to you in a special edition of the newsletter (which will be issued in March) when the decisions are finalised.

Flexible pensions

An approved pension scheme like the SELEX Pension Scheme receives valuable tax concessions. In return, the Revenue has always placed limits on the amount of contributions that may be paid into a pension scheme



The company is taking into account that the current levels of contributions for different sections of the Scheme are not necessarily equitable and will also seek to address this issue.

Details of changes to contribution levels will be communicated to members over the coming weeks, following further discussions with the Trustee and the Pensions Consultative Committee.

SMART Pensions – SMART stands for “Save More And Reduce Tax”. It is a mechanism for reducing the National Insurance contributions of both employees and the company. All employees will be encouraged to participate in this new arrangement where appropriate. Further details on SMART will be issued over the next few weeks.

Price Indexation – The legislation introduced by the government requires pensions in payment to be increased by inflation capped at 2.5%. In line with most companies, it is planned to adopt this change to pension increases for future pension benefits accrued from April 2006. Pensions accrued before that date will continue to be subject to existing arrangements – currently the rate is inflation capped at 5%. The new rate reflects the lower inflation environment and will help to alleviate the need for contribution increases.



and the benefits that may be paid by the scheme. From 6 April 2006, these limits will be replaced with a new regime.

Under the new regime there will no longer be a limit on the total amount you can save towards your pension or the amount of pension you can receive. However, you will have to pay substantial tax charges if you exceed two new allowances. Both allowances are high and will not apply to the vast majority of our members. The two allowances are a lifetime allowance, which limits the total value of pension which you can draw tax free, and the annual allowance, which limits how much you may put into your pension each year.

In addition, the new tax rules aim to make saving for your pension simpler and more flexible and, amongst other provisions, allow a larger tax free cash lump sum to be taken on retirement.

It should be noted that these new limits do not automatically apply to your benefits under the SELEX Pension Scheme. You do not have the right after 6 April 2006 to draw a larger tax free cash lump on retirement

or to put unlimited contributions into the Scheme. It will depend upon the rules of the individual pension scheme. Many of these rules will only apply to the SELEX Pension Scheme if the company and Trustee decide to amend the Scheme rules.

The company is still making decisions about how the changes will impact on the SELEX Pension Scheme. However, the company can say that, at this time, it is its intention to take advantage of the increased flexibility of the new regime and is looking favourably at, amongst other proposals, introducing the new rules regarding tax free cash lump sums on retirement which would result in an increase in lump sum entitlement for most members.



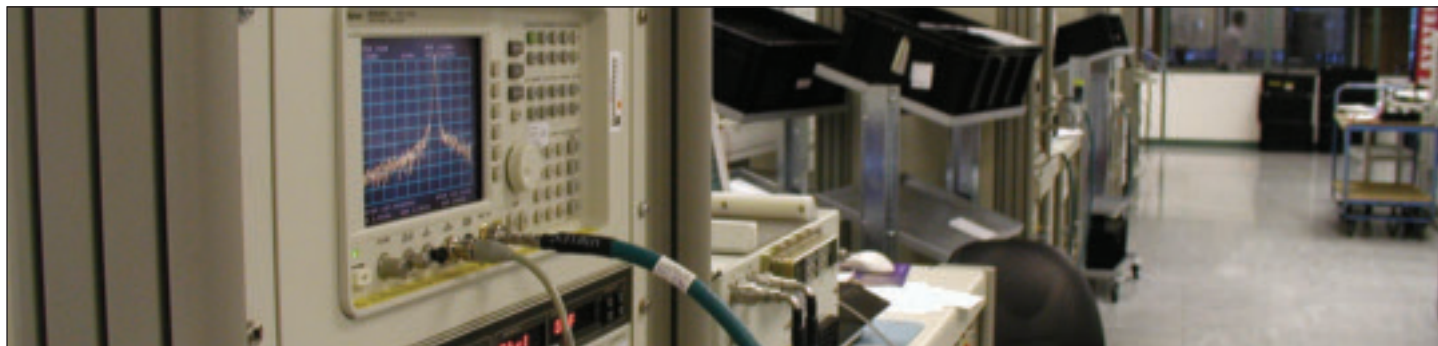


Pension Reform (continued)

Increased protection

There are a number of provisions which aim to increase protection for members of pension schemes. These include:

- Setting up a new Pensions Regulator which has the task of identifying and reducing risks to work-based pension schemes, like the SELEX Pension Scheme.
- Introducing a new funding framework to ensure that trustees fund their pension scheme at a sufficient level.
- Setting up a Pension Protection Fund (PPF) which will compensate members of pension schemes that wind up with insufficient money to pay members' benefits.
- Increasing the number of member nominated representatives on trustee bodies to at least one half of the trustees. The SELEX Pension Scheme already enables the members to appoint half of the board of Trustee Directors.
- Introducing a requirement for your Trustee Directors to obtain a sufficient knowledge of your pension scheme and the issues surrounding pensions in order that they may carry out their duties. The SELEX Pension Scheme is implementing a structured training plan for all Trustee Directors.



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.**

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 Xchanging.