

**PENSIONS CONSULTATIVE COMMITTEE
REPORT TO MEMBERS FOLLOWING THE MEETING ON 18 OCTOBER 2011**

A meeting of the Pensions Consultative Committee (PCC) took place in London on 18 October 2011.

The PCC has been set up to discuss, co-ordinate, advise and represent the views of the members of the SELEX Pension Scheme. There are fourteen representatives on the Committee and their contact details are attached to this Report.

The meeting was attended by:-

Tony Kingsbury	Capability Green	Chairman
Jim Cull	Edinburgh	
James Fordyce	Edinburgh	
Christopher Guertin	Basildon	
Martin Johnson	Basildon	
Scott McMillan	Basildon	
Paul Murrell	Christchurch	
Stuart Rushworth	Capability Green	
Phil Slade	Capability Green	
Ken Thompson	Pensioner Representative	
Jim Thomson	Edinburgh	
Scott Wallace	Edinburgh	
Paul Wilton	Southampton	
Colin Wyllie	Edinburgh	
Martin Flavell	HR – Finmeccanica UK Ltd	
Mike Nixon	Head of Pensions	
Rachael Skuse	Pensions Manager	
Helen Pass	Pensions Advisor	

The meeting was held to receive feedback from the Trustee meeting held on 27 September 2011 and to provide training on contracting-out.

Scheme Report and Accounts

The Scheme Report and Accounts as at 5 April 2011 have been signed and a copy is available on the Scheme website at www.selexpensions.co.uk. In Focus, issued on 10 October 2011, included a summary of the key information.

Quarterly Funding Update to 30 June 2011

The quarterly funding update showed that the Scheme remained ahead of the deficit recovery plan with an estimated surplus of £14 million. This was an increase in surplus of £3 million from the position at 31 March 2011. It was reported that the funding position had deteriorated since 30 June 2011, primarily due to volatility in the investment markets.

Abolition of contracting-out of the State Second Pension on a defined contribution basis

The Main Section of the SELEX Pension Scheme is currently contracted-out of the State Second Pension (S2P) which is the earnings-related part of the State Pension benefit. This means that Main Section members do not build up an entitlement to S2P and instead have a protected rights account in the SELEX Pension Scheme which acts as an underpin to their pension benefits.

From April 2012 the Government has decided to cease contracting-out on a defined contribution basis. As part of the actuarial valuation considerations, the Company is currently discussing whether to contract back into S2P or contract out on the alternative “reference scheme” basis. Both options will involve an additional cost when compared to the current basis. The PCC received a training session on the history of contracting-out and the options available from April 2012.

Actuarial Valuation as at 5 April 2011

The Scheme’s third valuation is currently underway. The Scheme Actuary has done the preliminary work in relation to the 2011 valuation and the results have been presented to the Trustee. There have been discussions between the Trustee and the Actuary regarding the appropriate assumptions to use. The valuation results have now been released to the Company. The final figure will not be known until the Trustee and Company have agreed on the assumptions to be used, however the results show that there is very likely to be a funding surplus.

The cost of future accrual, which is separate from the surplus and looks at the cost of funding each year’s pension into the future, has increased since the last valuation in 2008.

An approximate funding update to 31 August 2011 has shown that the funding position has significantly worsened since April 2011, primarily due to volatility in the investment markets.

Investment Performance

- The market value of the total assets at 30 June 2011 was £329 million.
- The value of the swaps at 30 June 2011 was £72 million.
- Performance of the return-seeking assets over the quarter was -0.1% which was 1.05% behind the objective.
- The total investment strategy (both the return-seeking and the matching assets) returned 16% over 12 months.

Inflation hedge amendments

The inflation hedge is to be reduced to 90% of the liabilities from its current level of 95%. The Scheme will benefit from this lower hedging level if inflation expectations reduce.

New “Condor 2” Strategy

The Trustee has entered into a new investment product known as “Condor 2”. A previous Condor strategy, which terminated in August 2011, provided a good return for the Scheme. The Condor 2 strategy aims to provide a targeted return based on the level of the FTSE100 Index whilst providing a level of capital protection.

Administration

Work levels at Aon Hewitt have increased over the quarter but they continue to perform at or above agreed service levels.

Benefit Statements were issued on 30 September 2011 and In Focus was issued on 10 October 2011.

The Trustee is currently considering whether to adopt some proposed improvements to the Scheme website with a view to making it more user-friendly.

Annual Allowance

The Trustee is establishing a ‘Scheme Pays’ facility for members affected by the annual allowance charge. The annual allowance has been reduced to £50,000 from April 2011

and members whose benefits increase in excess of this level will incur a tax charge. In broad terms, the Scheme Pays facility means the Scheme will meet the tax charge and is then required to adjust the member's pension benefits to reclaim this.

Insurance

The Trustee has decided to renew its insurance policy with Aviva as they continue to offer the most competitive terms for life cover.

Date of the Next Meeting

The next meeting of the PCC will be held on 17 January 2012.

Contact Details

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Ken Thompson	Pensioner Representative	Contact via Tony Kingsbury	