Chairman’s Statement

Welcome to the 2013 Pension News, which includes a summary of the Trustee Report and Accounts and the Actuarial Valuation as at 5th April 2013.

On this tenth anniversary of the Scheme, membership continues to grow. While we had less than 2,000 members transferring from legacy schemes at the outset in 2003, there are now over 7,000 members of which over 350 are drawing pensions. Assets have grown from £80m at the outset to the current value in excess of £450m.

More importantly the results of the actuarial valuation carried out with effect from 5 April 2013 show that the deficit has virtually been cleared by the end of this year. However, because underlying costs have increased the contribution rates will be kept at their current levels for members and employers until the next valuation which will be carried out in 2016.

It was announced that a defined contribution section of the Scheme for new employees recruited after 1 November 2013 has been introduced. Further details are inside.

The government has introduced new legislation to automatically enrol employees into a workplace pension scheme. Airbus Operations Limited was the first employer to be affected on 1 April 2013. The remaining participating employers will follow through 2013 and 2014.

Tax allowances for pensions have changed and will continue to do so next year. A summary of the changes and how they may affect you is on page 5.

Inside this issue:

- Trustee report
- Information on membership and the Scheme finances.
- Investments
- Commentary on investment performance and strategy.
- Defined contribution investments
- Returns for each of the funds available with Standard Life are shown.
- Funding
- Report on the Scheme’s funding level.
- Changes to tax allowances
- Reduced Annual and Lifetime Allowances.
- Developments
- New Trustee Director, automatic enrolment.

Throughout this summary report all figures and values are effective as at 5th April 2013 unless stated otherwise.
Scheme membership
Overall membership numbers have continued to increase – up 13% on last year. The number of pensioners is increasing as older legacy members retire.

Contributions by employer
- Astrium 56.03%
- Airbus 21.62%
- Paradigm 7.83%
- Infoterra 3.29%
- SSTL 5.13%
- Eurocopter 2.16%
- Cassidian 1.83%
- EADS UK 2.05%
- Cimpa 0.05%

Membership by type
Total membership 6,697
- Active members – 5,367
- Deferred pensioners – 979
- Pensioners & Dependents – 351

Key changes this year
- 877 new joiners to Schedule 1
- 292 members becoming entitled to a Deferred Pension on leaving service
- 57 members starting to draw their pension

Scheme finances
Total income to the fund: £90m
- Contributions: £50.4m
- Investment returns: £47.1m
- Other income: £0.3m
- AVCs: £2m
- Members: £9.5m
- Employers: £30.4m

Total assets
- UK Equities: £88.3m
- Overseas Equities: £88.6m
- UK Index Linked Gilts: £151m
- UK Corporate Bonds: £41.2m
- UK Property: £51.4m
- Cash and other assets: £2.2m

Outgoings from the fund: £10.7m
- Benefits: £7.5m
- Pensions & annuity purchase: £2.95m
- Cash on retirement: £3.4m
- Death payments: £0.35m
- Refunds of contributions and transfer out: £1.7m

Assets of the Defined Benefit section of the Scheme: £433.4m
- UK Equities: £88.3m
- Overseas Equities: £88.6m
- UK Index Linked Gilts: £151m
- UK Corporate Bonds: £41.2m
- UK Property: £51.4m
- Cash and other assets: £2.2m

Assets of the Defined Contribution section of the Scheme: £31.5m
- Standard Life policies:
  - Retirement account: £18.7m
  - AVCs: £12.8m

Total income to the fund: £90m
Total assets
Outgoings from the fund: £10.7m
Assets of the Defined Benefit section of the Scheme: £433.4m
Assets of the Defined Contribution section of the Scheme: £31.5m
INVESTMENTS

Strategy

The Trustee Board continued to keep its investment strategy under review to meet its long-term objective to seek extra return but with little added risk, particularly through greater diversification of asset classes.

During the year, the Trustee Board made slight changes to its investment allocation, increasing the allocation to equities and reducing the allocation to index-linked gilts and property.

Comprehensive details of the Trustee Board’s investment strategy are set out in the Statement of Investment Principles (SIP) a copy of which can be obtained from the Pension Manager.

The charts to the right show how the investments were split between asset classes and the investment performance for the year to 5th April 2013.

During the year all the major investment markets delivered positive returns, with equities recording the largest gains. The global economy continued to show signs of improvement, but the pattern of recovery remained uneven. Equities performed well over the year, with US markets leading the way mainly led by the services sector and a recovery in consumer spending. Bond yields remained historically low. UK property returns were largely offset by modest capital declines.

Defined contribution investments

The Trustee Board provides a range of funds in which you can invest Additional Voluntary Contributions (AVCs) or Retirement Account contributions. It is important that you keep your defined contribution investments under review. Whilst there may be a gain (or fall) in your investments over a short period, e.g. one year, it is the long-term value of your investments to retirement that matters. You should be aware of the type of investment funds your contributions are invested in and remember that you can move your investments between funds.

Balanced Lifestyle Fund – the automatic fund choice

Most members are invested in the Balanced Lifestyle Fund as this is the automatic choice made available by the Trustee for those members who have made no personal selection. This fund starts with investments held in the Managed fund then gradually moves the investments to more cautious funds as you approach retirement.

Performance of individual funds

The Trustee Board regularly monitors the performance of each of the Standard Life funds. The return on each fund during the year and over the last three and five years is shown in the graphs below.

The return on both the With Profits Fund and the With Profits 2006 Fund for the year to 31 January 2013, which is reflected in the Unit Price for these funds, was 2.9%. The underlying Bonus Growth rate declared by Standard Life for these two With Profits funds was 1%. 

Investment performance

Asset allocation
Summary Funding Statement including valuation results as at 5 April 2013

The Scheme Actuary has reported to the Trustee Board on the actuarial valuation carried out with an effective date of 5 April 2013.

How is the financial security of the Scheme measured?

It is important to remember that the Scheme’s aim is to honour the Employer’s promise to pay you certain defined benefits on retirement or earlier death. An indication of these benefits is provided in either the benefits statement that you receive each year, or notified to you when you left the Scheme or retired.

The cost of these benefits is met through contributions paid by you and the Employer spread over your working life. These contributions are held in a Trust Fund held separately from the Employer. The Trust Fund is looked after by the Trustees, who are responsible for deciding on the investment policy, after consulting with the Principal Employer. Every three years a valuation of the Scheme is carried out by the Scheme’s Actuary. An objective of this valuation is to compare the value of the assets held by the Scheme with the estimated value of the liabilities, i.e. the cost of meeting all the benefits promised up to the date of the valuation. This process will either show a surplus or a shortfall – the funding level.

It is normal practice to adjust future contributions to deal with any surplus or deficit. In rare circumstances surplus can be paid back to the employers, but this has never been done under this Scheme.

Valuation results as at 5 April 2013

Before completing the valuation the Trustee Board and the Principal Employer, Astrium Limited, reviewed the Statement of Funding Principles (“the SFP”) which governs the method and assumptions used within the actuarial valuation. The SFP includes the statutory funding objective that the Scheme should have sufficient and appropriate assets to cover its technical provisions. The SFP sets out the Trustee Board’s policy for securing that this objective is met.

The assumptions adopted in the SFP were adapted to reflect some of the actual Scheme experience and current financial and demographic forecasts. The expected investment return assumption adopted was lower to reflect market forecasts, and was slightly closer to the best estimate for investment returns than the previous valuation assumption. There was also an adjustment to reflect the likelihood that more stable assets would be held as the Scheme matures.

The results show that the Scheme had a small deficit relative to its statutory funding objective of £1.9m at 5 April 2013 and that the assets of the Scheme covered about 99% of its technical provisions. This represents an improvement in the funding level since the last actuarial valuation, which was largely due to increased employer contributions and higher investment returns than expected, although this was offset in part by lower expected future investment returns. The results, together with those of the previous valuation can be summarised as follows:

<table>
<thead>
<tr>
<th>2013 Valuation</th>
<th>2010 Valuation</th>
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<tbody>
<tr>
<td>Assets</td>
<td>£454.2m</td>
</tr>
<tr>
<td>Amount needed to provide Scheme benefits</td>
<td>£456.1m</td>
</tr>
<tr>
<td>Shortfall</td>
<td>£1.9m</td>
</tr>
<tr>
<td>Funding level</td>
<td>99.6%</td>
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</tbody>
</table>

Contributions and Recovery Plan

The Trustee Board and the Principal Employer have agreed a Recovery Plan that contributions will be paid to the Scheme by the employers, in addition to the cost of benefit accrual and expenses, with the objective of clearing the funding shortfall. The rates of Recovery Plan employer contributions are 6.5% of pensionable earnings for Schedule 2 members and 5.9% of contribution earnings for Schedule 3 members.

The ongoing cost required to fund future benefits on the assumptions adopted in the SFP have increased relative to the last actuarial valuation. The members’ and the employers’ contributions will however remain the same as before because deficit contributions have reduced. The rates of contributions are recorded in the Schedule of Contributions dated December 2013. The next actuarial valuation of the Scheme will be carried out with an effective date of 5 April 2016. However in the intervening years the Trustee Board will obtain annual actuarial reports.

The role of the Trustee

The Trustee’s main objective is to have enough money in the Scheme to be able to pay the pensions and other benefits due to members. In addition to taking actuarial advice on the funding of the Scheme and agreeing contributions with the Employers, the Trustee is responsible for the Scheme’s investment policy. The Scheme’s funds are currently invested in a broad range of assets, as shown in the Investments section of this newsletter.

The Trustee has appointed an investment manager to manage the assets by tracking appropriate indices and an investment adviser to give professional advice on its investment policy. Details about the Trustee’s investment policy are shown in a Statement of Investment Principles.

The importance of the Employers’ support

The funding of the Scheme does rely on the continuing support of the Employers. If an employer goes out of business any shortfall in its share of a pension scheme would become a debt on that employer. The employer would be required to pay enough money to enable the trustee to buy insurance policies to meet that employer’s share of the benefits promised.

The cost of buying insurance policies is very expensive, especially for younger members. For example, if the Astrium Scheme had been wound up and insurance policies purchased in April 2013 the assets would have met 54% of the estimated cost. Under normal circumstances it is unlikely that a pension scheme would be forced to wind up immediately – the Trustee could continue to keep the scheme open and pay the benefits as they become due, although further benefits would not accrue.

The worst that can happen is that the employer goes into liquidation whilst a scheme has a shortfall and there were not sufficient proceeds from the liquidation to meet the cost of the buy-out policies. The Government has set up the Pension Protection Fund to cover such eventualities, subject to certain limits and qualification conditions. Details can be found on the following website: www.pensionprotectionfund.org.uk

How can I get more information?

Your pension is an important benefit and you can obtain more information about the Scheme and how it is managed by contacting the Scheme Secretary at the address shown on the back page of this newsletter. A copy of the full Trustee Report and a copy of the Statement of Investment Principles can also be obtained from the same source.
Governance
The Trustee Board regularly reviews and assesses the performance of the Scheme’s professional advisers to ensure they provide a high quality of service. Following the review in February 2013, the services of Ernst & Young were retained as auditor to the Scheme.
Changes to the rules of the Scheme have been made to ensure the Scheme was compliant with automatic enrolment legislation.

Pension Increases
On 1 April 2013, pensions in payment were increased by 2.6% on benefits accrued before 5 April 2006 and 2.5% on benefits accrued thereafter. An increase of 2.2% was applied to Guaranteed Minimum Pension (GMP) earned after 6 April 1988. Pensions purchased from AVCs were increased by 2.6%.

EADS Group UK Retirement Fund
Following consultation by the employers and involving the Pensions Consultative Committee, a new defined contribution pension scheme has been introduced for new employees with effect from 1 November 2013. This is called the “EADS Group UK Retirement Fund” and is part of the same trustee structure but with assets completely ring-fenced from the existing schemes.
New employees who are recruited or join from 1 November 2013 will be enrolled into the EADS Group UK Retirement Fund.
This announcement does not affect employees who are already members of the EADS Astrium Pension Scheme.

Pension liberation
‘Pension loans’ or cash incentives are being used alongside misleading information to entice people to transfer their pension benefits out of company schemes. This activity is known as ‘pension liberation fraud’ and it’s on the increase in the UK.
Tax charges of over half the value of your pension could fall on you for taking an ‘unauthorised payment’ from your pension fund in this way. In addition, fees deducted by the adviser from your pension for the transfer are unlikely to be recovered. Such fees tend to be very high and could be 20% or more of your pension savings in some cases.
You can find out more about pension liberation by downloading the Pensions Regulator’s ‘Predators stalk your pension’ leaflet from www.pensionsadvisoryservice.org.uk

New Airbus trustee
Following Bob Graham’s retirement, Keith Davies has been appointed as a trustee director of the Scheme. Keith is the Company Secretary and Head of Legal for Airbus in the UK.

Changes to Tax Allowance
HMRC has published reductions to the tax-free allowances that apply to registered pension schemes. The Annual Allowance, which represents the amount of pension value that you can add in a tax year – presently £50,000 per tax year – will be reduced to £40,000 with effect from 6 April 2014. So, if your pension benefit increases by more than around £2,500 plus inflation in a year, you are likely to exceed the Annual Allowance. If you currently make large AVCs you may wish to review this to avoid exceeding the reduced Annual Allowance.
If you do exceed the Annual Allowance, you can offset the excess against any unused Allowances from the three previous tax years (known as ‘carry-forward’). If then you still become liable to a tax charge of £2000 or more, you can ask the Scheme to pay the tax on your behalf, but with reduced Scheme benefits – this facility is called ‘Scheme pays’.
The Lifetime Allowance (LTA) reduction in April 2014 from £1.5M to £1.25M means that if you start receiving a pension of £62,500 or more you could become liable to a tax charge. You may, however, register with HMRC for ‘protection’ of a higher LTA.
Individuals who think they may have built up tax-relieved pension rights of at least £1.5M by the time they take their pension can apply for Fixed Protection (FP14) by registering with HMRC before 6 April 2014. Thereafter no further pension contributions may be made. Individuals with FP14 will be entitled to a personal LTA of the greater of £1.5M and the standard LTA at the time they take their pension.
Individuals who have already built up tax-relieved pension rights of at least £1.25M by 5 April 2014 can register with HMRC after 5 April 2014 but before 6 April 2017 for Individual Protection (IP14). Pension contributions may continue to be made. Individuals with IP14 will be entitled to a personal LTA of the greater of the value of their pension funds at 5 April 2014 (but limited to £1.5M) and the standard LTA at the time they take their pension.
If you think that you may be affected by these changes, please contact the Pension Services Manager: oliver.porter@astrium.eads.net

Automatic Enrolment
You may have read about the automatic enrolment legislation which has recently been introduced. We are pleased to confirm that the EADS Astrium Pension Scheme has been certified as a qualifying scheme for automatic enrolment. As an existing member, this legislation does not affect you in any way.

Getting in touch
If you are an active member of the Scheme, we have made our email address a bit easier to type and remember. If you have any queries regarding your pension benefits our new email address is: pensions@astrium.eads.net
The Pensions Consultative Committee (PCC), whose members are nominated and elected from the whole active and pensioner membership as appropriate, is responsible for selection of Member Nominated Directors (MNDs).

Carol Tiplady and Ian Westall were re-elected as PCC members with Ian also being re-elected as a Member Nominated Trustee.

There have been five new members elected this year; David Hobbs for Oxford, Matthew Johnson for Broughton, Ken Johnson for Guildford, Keith Gifford for Stevenage and Craig Musker for Newport.

<table>
<thead>
<tr>
<th>Name</th>
<th>Constituency</th>
<th>Status</th>
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<tbody>
<tr>
<td>Steve Chafer</td>
<td>Leicester, Newcastle, Farnborough</td>
<td>Chairman of the PCC</td>
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<tr>
<td>Peter Cheney</td>
<td>Stevenage</td>
<td>Trustee</td>
</tr>
<tr>
<td>Keith Gifford</td>
<td>Stevenage</td>
<td>PCC member</td>
</tr>
<tr>
<td>David Hobbs</td>
<td>Oxford</td>
<td>PCC member</td>
</tr>
<tr>
<td>Ken Johnson</td>
<td>Guildford</td>
<td>PCC member</td>
</tr>
<tr>
<td>Matthew Johnson</td>
<td>Broughton</td>
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</tr>
<tr>
<td>Bill Mullin</td>
<td>Broughton</td>
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<tr>
<td>Craig Musker</td>
<td>Newport</td>
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<tr>
<td>Guy Newham</td>
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<td>Steve Parker</td>
<td>Portsmouth</td>
<td>Trustee</td>
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<tr>
<td>Mario Schiavo</td>
<td>Filton</td>
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<tr>
<td>Carol Tiplady</td>
<td>Poynton</td>
<td>PCC member</td>
</tr>
<tr>
<td>Phil Wadey</td>
<td>Corsham/Hawthorn/Oakhanger</td>
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<tr>
<td>Ian Westall</td>
<td>Pensioners</td>
<td>Trustee</td>
</tr>
</tbody>
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Trustee and Advisers

Trustee
EADS Astrium Pension Scheme Trustees Limited

Trustee Board of Directors
Bill Newman (Chairman) – Independent
Peter Cheney – Member Nominated Director
Keith Davies – Airbus
Andreas Drabert – EADS
Nigel Ede – Astrium
Steve Parker – Member Nominated Director
Ian Westall – Member Nominated Director

Pensions Manager and Secretary to the Trustee
Clive Bugeja
Astrium Limited, Gunnels Wood Road, Stevenage, SG1 2AS

Principal Employer
Astrium Limited

Scheme Actuary
Stephen Rees, Towers Watson Limited

Administrator
Towers Watson Limited

Auditor
Ernst & Young LLP

Banker
HSBC Bank

Investment Consultant
Lane Clark & Peacock LLP

Investment Managers
State Street Global Advisors Limited
Aviva Investors Pensions Limited

AVC/Retirement Account Provider
Standard Life plc

Solicitors and Legal Adviser
Sacker & Partners LLP

If you have difficulty reading this document you can obtain an audio copy by contacting the Pensions Manager.