

PENSIONS News

EADS Astrium Pension Scheme

OCTOBER 2008

SUMMARY REPORT FOR THE YEAR ENDED 5 APRIL 2008

Chairman's Statement



Bill Newman
Chairman of the Trustees

As we approach the 5th anniversary of the Pension Scheme, the last year has been focussed very much on the financial well-being of the Scheme. The Trustees completed an actuarial valuation which, in spite of showing that pension costs have increased, has shown continued improvement in the overall funding of the Scheme. The reason for the improvement was largely due to extra contributions made by the employers; you can read more about this inside.

The ongoing funding will be helped by the introduction of Smart Pensions by the employers and by strategic investment changes made by the Trustee Board which is seeking to reduce risk by greater diversification of the Scheme's assets. We believe the Scheme is well placed to deal with the current volatile economic conditions, by pursuing a cautious long term investment strategy, even though the funding level has fallen back within the last year.

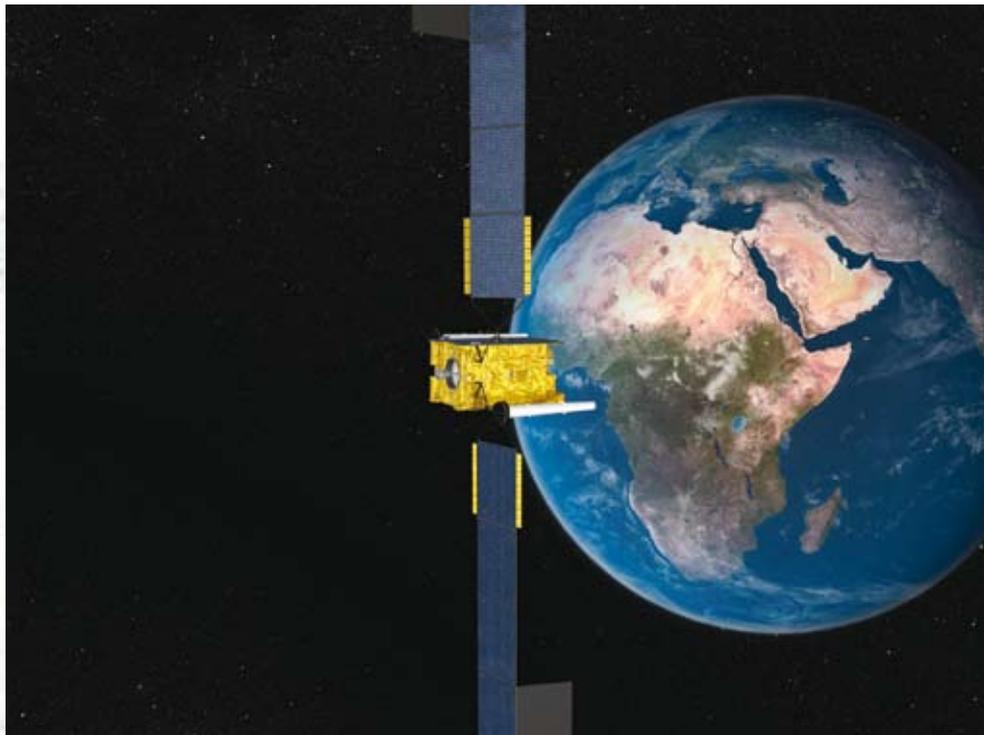
The change of administration service provider to Watson Wyatt went ahead as planned. We also made an on-line facility available to active members and this has greatly increased member access to personal information about their pension. It is important that the data we hold about you and in your expression of wish form is accurate as it could affect the amount of any benefits and the speed with which they are paid. Please take a few minutes to check all of the data on your part of the Scheme's websites hosted by Watson Wyatt and, if applicable, Standard Life. Any errors or queries on either site should be communicated to the Pensions Team at Watson Wyatt.

The Pensions Consultative Committee (PCC) has been instrumental in broadening the choice of investment funds with Standard Life for members' investment contributions and of increasing opportunities for new employees to join the Scheme.

Membership continues to grow with the open section, Schedule 1, now making up the largest number of active members in the Scheme. Eurocopter UK Limited has become the seventh EADS employer in the UK to join the Scheme. More regulatory compliance issues have been considered including the implementation of rule changes in light of the age discrimination regulations, which we reported last year.

Throughout the year the Directors of the Trustee Board have attended various courses and seminars, and have continued to study using the training provided online by the Pensions Regulator. I am pleased with all the Trustees progress and I am satisfied that Scheme members are well served by a Board of dedicated and conscientious individuals who have been drawn from a wide background. However the development of individual and collective capability is a nonstop process and we all look forward to another year of further progress in this area.

The following pages provide important information about the Scheme – membership statistics, how the assets are invested and how the Scheme is funded. I urge you to read the report and, if you have any questions, please contact either the Pensions Manager or approach any pensions representative on the PCC who will ensure that your queries are addressed.



Skynet 5

Throughout this Summary Report all figures and values are effective as at 5 April 2008 unless stated otherwise.

This Newsletter announces some changes to the pension scheme that may affect you. It is therefore important that you read the contents carefully and if you are unsure about any matter, please contact the Pensions Manager or call the pensions administration team at Watson Wyatt.

Scheme Membership

Membership of the Scheme continues to grow, with Schedule 1 now making up the largest section of membership. This reflects both increased recruitment within Astrium and the inclusion of new participating employers – Airbus UK Limited and Eurocopter UK Limited joined in the last year. Discussions are also taking place with other EADS employers in the UK.

Membership Movements

Active Members – 2529

- Schedule 1: 1108 (2007 – 678)
- Schedule 2: 931 (2007 – 956)
- Schedule 3: 490 (2007 – 564)

Deferred Pensioners

■ 264 (2007 – 205)

Pensioners

■ 106 (2007 – 97)

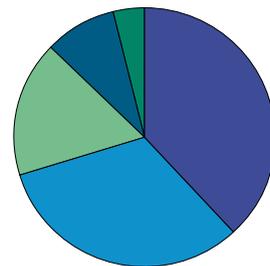
Key Changes

457 new joiners to Schedule 1
68 leavers becoming deferred pensioners
15 retirements from active membership
2 deaths in service



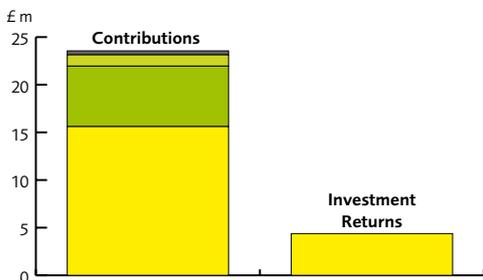
Eurocopter

Eurocopter acquired a new business based in Oxford and formed Eurocopter UK Limited, which became a Participating Employer in the Scheme with effect from 1 November 2007. All employees were invited to join Schedule 1 of the Scheme from that date, but no previous benefits were transferred.

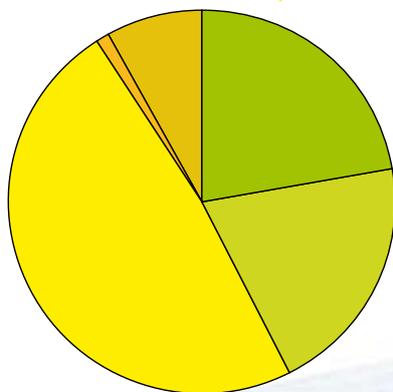


Scheme Finances

Increases to the fund: £27.9m



- **Other Income:**
£420,000
(2007: £272,000)
- **AVC's:**
£1,182,000
(2007: £1,190,000)
- **Members:**
£6,347,000
(2007: £5,136,000)
- **Employers:**
£15,608,000
(2007: £15,791,000)



Assets of the Defined Benefit section of the Scheme: £170m

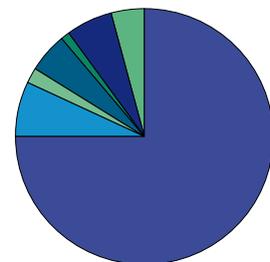
- UK Equities: £41.45m (2007: £36.87m)
- Overseas Equities: £37.13m (2007: £36.23m)
- Fixed Interest: £89.29m (2007: £70.61m)
- Cash & other assets: £2.07m (2007: £2.37m)

Assets of the Defined Contribution section of the Scheme: £14.4m

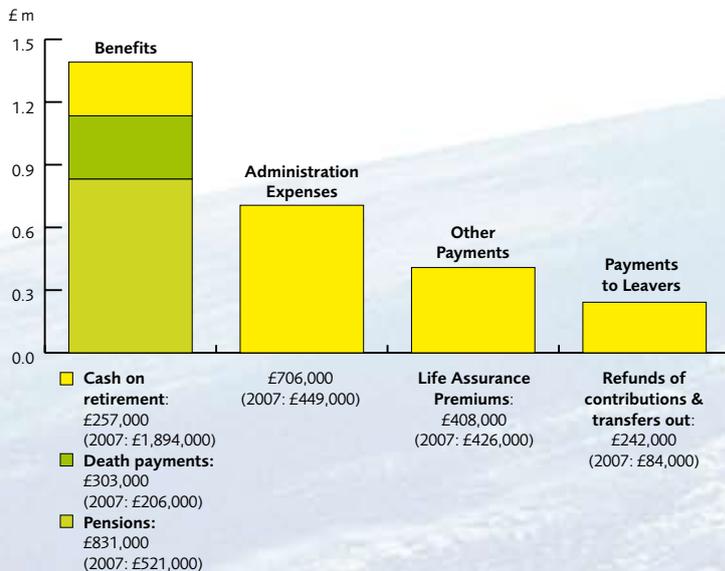
- Standard Life policies: £14.4m (2007: £12.9m)

Membership by Employer

- Astrium Limited 75%
- Paradigm Services Ltd 7%
- Paradigm Secure Communications 2%
- Infoterra Limited 5%
- EADS UK 1%
- Airbus UK 6%
- Eurocopter 4%



Outgoings from the Fund: £2.8m



- **Cash on retirement:** £257,000 (2007: £1,894,000)
- **Death payments:** £303,000 (2007: £206,000)
- **Pensions:** £831,000 (2007: £521,000)
- **Refunds of contributions & transfers out:** £242,000 (2007: £84,000)

Valuation Results as at 5 April 2007

The Scheme Actuary has reported to the Trustee Board on the actuarial valuation carried out with an effective date of 5 April 2007. The actuarial valuation was compiled under the new scheme specific basis prescribed by Part 3 of the Pensions Act 2004.

Before completing the valuation the Trustee Board and the Principal Employer agreed a Statement of Funding Principles ("the SFP") which governs the method and assumptions used within the actuarial valuation. The SFP includes a statutory funding objective that the Scheme should have sufficient and appropriate assets to cover its liabilities. The SFP sets out the Trustee Board's policy for securing that this objective is met.

The assumptions adopted in the SFP were consistent with those used at the last actuarial valuation but updated to take account of some Scheme experience and current financial and demographic forecasts. Of particular concern to the Trustee Board was to include allowances for:

- the ageing of Schedule 2 and 3 membership as these sections were effectively closed to new entrants;
- improvements in life expectancy at the constant rate of 1% per annum;

- reducing the length of the recovery period to eliminate the deficit shortfall; and
- increased expenses because of higher expected Pension Protection Fund levies.

The results show that the Scheme had a deficit relative to its statutory funding objective of £33.42m at 5 April 2007. This means that the assets of £158.98m (including AVCs and Retirement Accounts) covered about 83% of the Scheme's liabilities. This represents an improvement in the funding level which was 70% at the previous actuarial valuation.

To eliminate this funding deficit, the Trustee Board and the Principal Employer have agreed a Recovery Plan such that contributions will be paid to the Scheme, in addition to the cost of benefit accrual and expenses, at the rates set out below:

% of Pensionable Earnings from 1 July 2008	
Schedule 1	0%
Schedule 2	7.4%
Schedule 3	8.1%

The ongoing cost required to fund future benefits on the assumptions adopted in the SFP have also increased relative to the last actuarial valuation. The Employers' contributions will therefore increase. Other than for members of Level 200 under Schedule 3, member contribution rates remain unchanged. The overall contribution rates, including an allowance for expenses of the Scheme which are met from the resources of the Scheme, are set out below:

	% of Pensionable Earnings from 1 July 2008	
	Member	Employer
Schedule 1	4.00	12.5
Schedule 2	8.00	24.0
Schedule 3 – Level 125	7.29	24.0
– Level 167	9.29	24.0
– Level 200	17.00	24.0

These rates are in accordance with the Schedule of Contributions dated 8 July 2008. The next actuarial valuation of the Scheme will be carried out with an effective date of 5 April 2010. However in the intervening years the Trustee Board will obtain annual actuarial reports. The first of such reports, which was prepared with an effective date of 5 April 2008 is set out below.

Summary Funding Statement

This Summary Funding Statement provides you with information about the financial security of the Scheme.

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 full 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.

What is the current funding position?

As detailed above, the most recent formal valuation of the Scheme took place as at 5 April 2007. The results (together with those of the previous valuation) can be summarised as follows:

	2007	2004
Value of assets	£158.9 million	£71.93 million
Amount needed to provide Scheme benefits	£192.40 million	£102.48 million
Shortfall	£33.42 million	£30.55 million
Funding level	83%	70%

Note that these two sets of results were calculated on slightly differing bases so it is not possible to make direct comparisons.

Recovery Plan

Additional contributions are being paid by the Employers with the objective of clearing the shortfall by February 2017.

Up to date information

The latest annual report by the Scheme Actuary showed that on 5 April 2008 the funding level of the Scheme was estimated to be 78%. The position has improved since the last Summary Funding Statement, which was included in the October 2007 Pensions News, largely as a result of additional employer contributions. However the funding level has got worse relative to the 2007 valuation results as a result of low investment returns and a more pessimistic outlook.

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 were invested throughout the past year in a range of assets, as follows:

Assets Class	% of Scheme's Fund
UK Equities	25%
Overseas Equities	25%
UK Government Bonds	50%

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. The Trustee is currently in the process of reviewing the 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 EADS Astrium Scheme had wound up and insurance policies purchased in 2007 the assets would have met 59% of the 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.

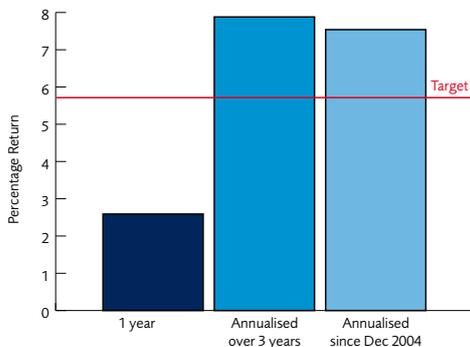
The worst that could happen is that the employer goes into liquidation whilst a scheme has a shortfall and there were not sufficient proceeds from the liquidation to meet the cost of the buy-out policies. The Government has set up the Pension Protection Fund to cover such eventualities, subject to certain limits and conditions. Details can be found at: 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. A copy of the full Trustee Report and a copy of the Statement of Investment Principles can also be obtained.

Investment Performance to 5 April 2008

The chart below shows the investment performance of the Scheme's assets to 5 April 2008. The performance over the last year was affected by equity market falls and poor currency exchange. Whilst the Scheme was able to track its benchmark returns over the year, performance was below the target for the year but remains on track over the long term. The Scheme benefitted from a high bond allocation.



The red line shows the long term investment target assumed in the actuarial valuation.

Strategy

The Trustee Board has reviewed its long term investment strategy. After taking investment advice and consulting with the Principal Employer, the Trustee Board has decided upon a number of asset allocation changes.

The key driver for the changes was to seek extra return but without adding risk, particularly through greater diversification of asset classes. The Trustee Board examined a number of options over a series of meetings. Use of analytical modelling to predict possible outcomes helped to examine the long term impact on the Scheme's funding and to assess the sensitivity of the investments to market volatility.

Comprehensive details of the Trustee Board's investment strategy are set out in the Statement of Investment Principles ("the SIP") which has been updated with these changes.

Implementation

The Trustee has delegated day to day management of the Scheme's investments to its investment managers, primarily State Street Global Advisors Limited ("SSgA").

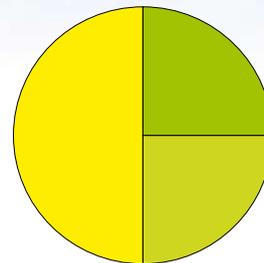
The investment mandate given to SSgA is to manage the Scheme's investments in unit linked insurance policies which provide returns linked to internal funds invested in assets of a particular asset class. Each fund's investment objective is to perform in line with its respective index (passive tracker funds).

When the Trustee Board introduced Index Linked Gilts (December 2007) and Corporate Bonds (May 2008) it decided to hold these on a passive basis and SSgA was selected to manage the new asset classes.

Property is a specialised asset class and a selection process was held to appoint suitable investment managers, with the help of the Scheme investment adviser. It was decided that for European Property a fund of funds approach would ensure an appropriate spread of the property amongst countries and sectors to generate diversified growth. DTZ Asset Management was selected as the preferred manager and their Aurora Property Fund the pooled vehicle. For the UK Property allocation Aviva Investors Pensions was selected with their own pooled fund the vehicle. However, the Trustee Board was concerned about timing of the investment as property markets were experiencing much volatility. So the decision over when to invest in the property funds has been delayed pending further advice over the state of the market. In the meantime new contributions are being accumulated as Cash in both a UK Sterling fund and a Euro-denominated fund, both managed by SSgA, in readiness for the property investment.

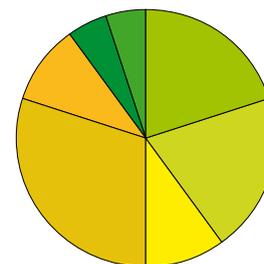
Asset Class – Previous Allocation

- UK Equities 25%
- Overseas Equities 25%
- UK Gilts 50%



Asset Class – New Target Allocation

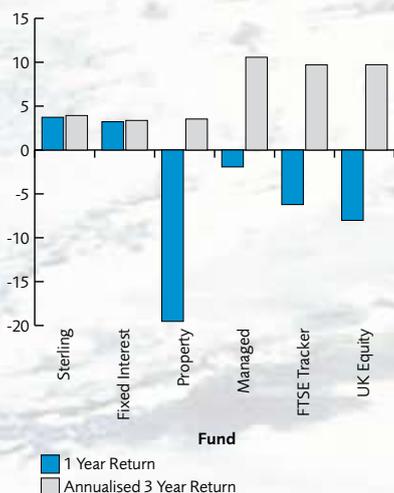
- UK Equities 20%
- Overseas Equities 20%
- UK Gilts 10%
- Index Linked Gilts 30% (December 2007)
- Corporate Bonds 10% (May 2008)
- UK Property 5% (pending)
- European Property 5% (pending)



Defined Contribution Investments

Investment performance of Standard Life funds

The Trustee Board offers a range of funds with Standard Life in which members can invest their Additional Voluntary Contribution (AVC) or Retirement Account contributions. The Trustee Board monitors the performance of the Standard Life funds. The return on each fund during the year and over the last 3 years are shown in the table below. The annual bonus rate at 31 December 2007 for the With Profits fund was 2%.



It is important that you keep your defined contribution investment under review. Whilst there may be falls in values (or gains) over a short period, it is the long term value of your investment to retirement that matters. You can change your investment funds by switching current investments or re-directing future contributions. Forms are available for you to download from the Standard Life website and send to Watson Wyatt for them to re-allocate the investments for you.

New Standard Life funds

Following representations made by the Pensions Consultative Committee the Trustee Board added three new funds to the range made available with Standard life, as follows:

- **US Equity Tracker** – This fund is designed to closely track the performance of the FTSE All-World USA Index, and will invest in a broad spread of US equities holding the same proportion as the FTSE All- World USA Index.
- **European Equity Tracker** – This fund is designed to closely track the performance of the FTSE World Europe ex UK Index and will invest in a broad spread of European Equities held in the same proportion as the FTSE World Europe ex UK Index.
- **Far East Equity** – This fund will hold a broad exposure to Japanese and Pacific Basin equities The Pacific portfolio will include areas such as Australia, Hong Kong, Singapore and Korea.

Administration

The new administration service provider, Watson Wyatt, fully began their operations from 15 August 2007. A Steering Group, including the Chairman of the Trustee Board, the Pensions Manager and representatives of Watson Wyatt was set up to manage the implementation phase. In February the on-line facility called ePA went 'live' and was greeted with much enthusiasm by members. More than 800 members have registered to use ePA and the facility has received 15,000 'hits' with members running over 1700 benefit quotations on-line.

Whilst Watson Wyatt will provide the day to day administration service for the Scheme, management of the Scheme continues to be delegated to the Pensions Manager, Clive Bugeja APMI. He is joined by a new assistant, Christine Hewitt (pictured) who replaced Eleanor Dennis in February 2008.



Your Pension On-line

Watson Wyatt's ePA Facility

Go on-line to access your core pension records using ePA – Watson Wyatt's self-service pensions administration system.

How?

<https://epa.watsonwyatt.com/doc/AST/login.htm>

Username: **'AST'** followed by your payroll or SAP number.

Password: if you have forgotten your password use the link to ask for this again.



The booklet pictured above, which was issued to members, is available from Watson Wyatt.

Standard Life's Mini Site



Go on-line to find out information about extra saving through the Standard Life funds. The dedicated mini site will give you general information and application forms for paying Additional Voluntary Contributions (AVCs) as well as access to Standard Life's Customer Services on-line.

How?

<http://mypensioninfo.com/viewer/login.do?username = ASTRIUM>

There is a link on the home page to enable you to logon or register for Customer Services. Please note that if you register for the first time half way through the process you will be prompted to call a help-line number, this is because you will need to provide them with your home address for them to send you a password.

Rule Changes

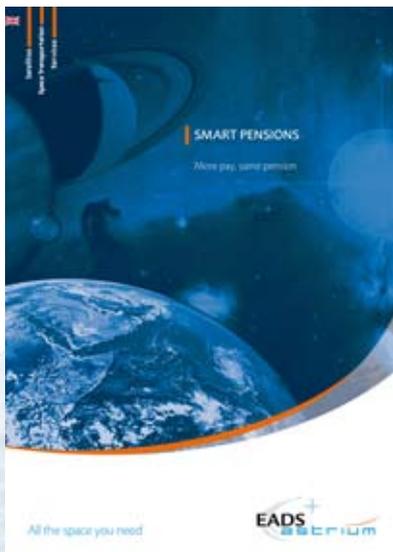
A Deed of Variation was executed to deal with the rule changes to comply with the Employment Equality (Age) Regulations 2006.

The restriction on risk benefits for late joiners to Schedule 1 will only now apply for employees who delay their decision to join the Scheme for six months or more.

Smart Pensions

The Participating Employers have introduced a new facility for payment of member contributions to the Scheme using salary sacrifice – called SMART Pensions. A Deed of Variation to the Scheme rules was executed with effect from 1 July 2008 so that the benefits payable to members will be unaffected by SMART Pensions.

These rule changes allow for members who participate in SMART Pensions to pay no contributions to the Scheme. The Schedule of Contributions does however require the Employers to pay an amount equal to the rate of Member Contributions for members who participate in SMART Pensions. Where the rules previously referred to Member Contributions for the purpose of calculating benefit payments such benefits for a "SMART Pensions Member" would be calculated as though the member had paid contributions. The relevant definitions for Basic Salary, Earnings and Contribution Earnings in the rules now refer to the Reference Salary for the purpose of calculating benefits.





PENSIONS CONSULTATIVE COMMITTEE

USEFUL CONTACTS

... your voice on pensions

The Pensions Consultative Committee (PCC), whose members are nominated and elected from the active and pensioner membership, is responsible for selection of Member Nominated Directors (MNDs) on the Trustee Board.

In April 2007 the PCC re-selected Ian Westall as a MND following his retirement from employment and subsequent election to the PCC as the pensioner representative. In September 2007, and following confirmation by the Trustee Board that the existing nomination and selection process for MNDs was

compliant with new regulations for appointment of MNDs, the PCC re-affirmed that the existing 3 MNDs would continue in office. In June 2008 Paul McAllister and Steve Parker, both based at Portsmouth and Stephen Chafer, based at Infoterra were all three re-selected as PCC representatives for another term of office. Steve Parker was also reselected as an MND.

The constitution of the PCC has been changed to allow further constituency sites to be represented at Airbus in Broughton and Eurocopter in Oxford.

Scheme contacts

Contact Watson Wyatt to raise queries about your pension or to obtain forms, booklets etc. using the following postal address:

EADS Astrium Pensions Scheme
Watson Wyatt Limited
PO Box 545, Redhill, RH1 1YX

Tel: 01707 607618

E-Mail: eadspensions@watsonwyatt.com

If you wish to contact the Trustee Board or you have queries about the management of the Scheme or you require details of the dispute resolution procedure, please contact Clive Bugeja, Scheme Secretary and Pensions Manager at:

EADS Astrium Pension Scheme Trustees Limited
Gunnels Wood Road, Stevenage, SG1 2AS

Tel: 01438 773319

E-mail: clive.bugeja@astrium.eads.net

Trustee and Advisers

Trustee	EADS Astrium Pension Scheme Trustees Limited
Trustee Board of Directors	Bill Newman (Chairman)
	Peter Cheney – Member Nominated Director
	Andreas Drabert
	Nigel Ede
	Robert Graham
	Steve Parker – Member Nominated Director
	Ian Westall – Member Nominated Director Resigned 20 December 2006 – Re-appointed 11 June 2007
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
Actuarial Advisers	Watson Wyatt Limited
Administrator	Xchanging HR Services – (Contract terminated 31 August 2007) Watson Wyatt Limited – (Initial engagement 19 March 2007; administration services commenced 15 August 2007)
Auditors	Ernst & Young LLP
Banker	Lloyds TSB Bank plc until 30 November 2007 HSBC Bank plc from 15 August 2007
Investment Consultant	Lane Clark & Peacock LLP
Investment Manager	State Street Global Advisors Limited
AVC/Retirement Account Provider	Standard Life plc
Solicitors and Legal Adviser	Sacker & Partners LLP



Independent Financial Advice

The EADS Astrium pensions team, the Trustee Directors, the PCC members and the Watson Wyatt administration team are not authorised nor qualified to give you financial or investment advice. To obtain impartial financial advice, members are advised to contact an Independent Financial Adviser (IFA).

You can find a list of the IFAs in your postal area by contacting IFA Promotion on 0117 971 1177 or visiting www.unbiased.co.uk

The Department for Work and Pensions

Details or a personal quotation of your State pension can be obtained from the internet at www.thepensionservice.gov.uk or by phoning 0845 60 60 265

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