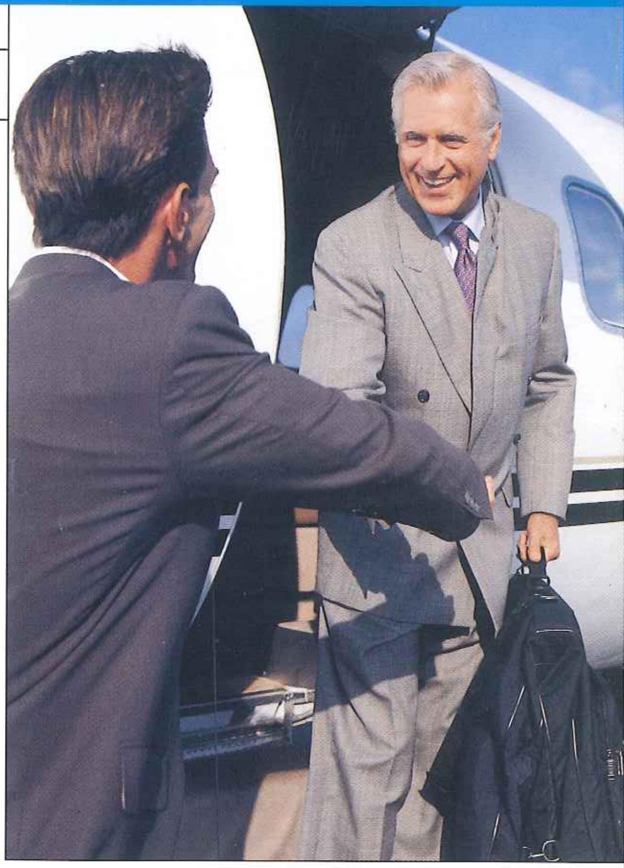
The Messier-Dowty Pension Scheme

pension points

May 2003



Keeping your benefits secure

We are pleased to report that the Messier-Dowty Pension Scheme went up in value over the year to 31 March 2002.

This is particularly good news because – as you may have read in the press – investment conditions have been difficult for pension schemes for several years now. Like most other company schemes, our assets fell in value over the year. However, our investment managers performed significantly better than their target and helped to keep the loss as low as possible.

" Extra payments will help keep the Scheme at a good funding level."

The stock markets remain uncertain, and company shares have continued to perform poorly. For example, over the year to the end of 2002 the value of the Scheme's assets fell by 22.1%. The Company has shown its ongoing commitment to the Scheme by agreeing to make extra payments to help keep the Scheme at a good funding level. At the same time, the Trustee is reviewing its investment strategy to keep any risk within acceptable boundaries.

You can find more about these issues, as well as the latest accounts and membership figures, inside this edition of *pension points*. If you have any questions about the contents, or about your benefits in particular, please contact your Human Resources Department.

Scheme membership

At 31 March 2002, there were 1,232 members in the Scheme. This figure is made up of:

Active members who are currently paying contributions into the Scheme	1,088
Deferred members who no longer pay contributions, but who have left benefits in the Scheme	83
Pensioners members (or their dependants) who are now receiving a pension from the Scheme	61

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a year in figures

From the accounts

The Scheme accounts are audited by Ernst & Young. The table below is a summary of the accounts for the year ended 31 March 2002, with a column showing last year's figures for you to compare the two.

If you would like to see a copy of the full version of the accounts, please contact your Human Resources Department.

Paid into the Scheme	2002 £000	2001 £000
Company contributions	3,104	2,867
Members' contributions	1,063	981
Members' AVCs	56	104
Transfers in	0	4
Investment income	21	16
Other income	149	38
Total	**4,393**	**4,010**

Paid out of the Scheme		
Benefits to members	962	510
Payment to and on account of leavers	22	35
Other payments	149	408
Administrative expenses	500	355
Total	**1,633**	**1,308**

In summary		
Value of Scheme at start of year	62,746	66,281
Money paid in minus money paid out	2,760	2,702
Change in market value of investments	- 854	- 6,237
Value of Scheme at 31 March	**64,652**	**62,746**

Investment update

The investment manager for the Scheme is Barclays Global Investors Limited (BGI). They invest the Scheme's assets across a range of different investments. The chart below shows the spread of assets at 31 March 2002:

To ensure the funds are always there to provide members' benefits now and in the future, the Trustee aims to allow the Scheme's assets the best potential for growth without exposing them to unnecessary risk. Spreading the investment across various locations worldwide is one way of keeping risk to a minimum, so that if one area performs poorly, it need not affect the rest of the assets.

The Trustee decides on an overall investment strategy for the Scheme, which by law it must put into writing. This document is called the Statement of Investment Principles. BGI is responsible for investing the Scheme's assets in accordance with that Statement and for taking other investment decisions on a day-to-day basis.

who's who

The Trustee monitors BGI's performance by measuring the returns it achieves against a 'benchmark'. The benchmark is an average figure worked out by a performance measurement service called CAPS. The Trustee sets BGI the target of performing 1.5% a year better than the CAPS average over rolling three-year periods.

Over the last few years, investment conditions have been very difficult for pension schemes. Although historically, shares have shown excellent overall rates of growth, they can go up and down in the short term, and are currently in one of these 'lows'. This is reflected in the negative benchmark of –4.2% for the year ended 31 March 2002. While negative returns are never welcome, BGI performed significantly better than the average, with a return of –1.4%. Over the three years to 31 March 2002, BGI's overall return was 0.3% a year, 1.2% better than the CAPS three-year benchmark of –0.9% a year.

After reviewing the investment strategy, the Trustee has decided to spread the investments – and in turn, the potential risk – more evenly between the global markets. UK shares will account for nearly 50% of the assets (down from nearly 70%), US shares 20%, European shares 20%, Japanese shares 5% and other Pacific shares 5%. The results from this new approach will appear in the next issue of this newsletter.

Benefits paid

The Scheme paid out nearly £1 million in benefits over the year to 31 March 2002:

Pensions	**£284,262**
Lump sums at retirement	**£498,063**
Lump sums paid from AVCs	**£30,811**
Lump sums paid on death	**£148,920**

To keep your benefits as secure as possible, the assets of the Scheme are held separately from those of the Company by an independent trustee company, Messier-Dowty Pension Trustees Limited.

The trustee company is run by six directors. Four of them are appointed by the Company, and the members elect the remaining two.

It is the Trustee's legal responsibility to run the Scheme in your best interests. So that it can do this, it appoints professional advisers to help it in areas where specialist expertise is needed.

The Trustee and its advisers are listed below:

Trustee Directors appointed by the Company

Bernard Lebrun, *Corporate Director*, Snecma

Pauline Janin, *HR Manager*, Messier Services

Bryan Teed, *Finance Director*, Messier-Dowty

The Law Debenture Pension Trust Corporation plc, normally represented by David Barrow

Trustee Directors nominated by the members

Michael Bircher, *Facilities Fitter*, Messier-Dowty

Maxwell Gough, *Engineering Group Leader*, Messier-Dowty

Professional advisers

Scheme Actuary: Amanda Turner, Hewitt Bacon & Woodrow

Administrator: Hewitt Bacon & Woodrow

Auditor: Ernst & Young

Investment Manager: Barclays Global Investors Limited

AVC Investment Managers: Eagle Star Life Assurance Company Limited, The Equitable Life Assurance Society

Legal Adviser: Slaughter & May

Bankers: Barclays Bank plc

In the news

Actuarial valuation

A full valuation of the Scheme was carried out as at 1 April 2002. Following this, the Company has agreed to pay contributions of 14.3% of Pensionable Salaries and also pay a further £1 million a year against the effect of the fall in share values over the past year.

Like most UK companies, Messier-Dowty Limited are concerned at increasing pension costs but are committed to providing employees with a competitive benefit package. They are currently reviewing the options which are open to them as part of a wider review of global benefit provision by Snecma. The Company will keep you fully informed of future developments regarding the Scheme.

Pensions under review

Pensions have been in the news a great deal in recent years, from the review of personal pension mis-selling at the end of the Nineties to the effect the recent economic conditions have had on pension schemes.

The Government has become aware that not enough people are saving for retirement. As a result, it is trying to reduce the burden on the State by encouraging more people to take responsibility for their own retirement income.

Three recent reports (each named after the financial expert commissioned to draft it by the Government) all look at some aspect of this issue.

The **Myners** report examined the way trustees ran pension schemes. As well as looking at investment issues, the report discussed making trustees more accountable for their decisions and providing more information about schemes to their members.

The **Pickering** and **Sandler** reports looked at simplifying the process of saving for retirement (Pickering covered company schemes while Sandler examined private savings products). Pickering recommended, among other things, sending members clearer, more targeted information and introduced a code of practice for trustees to follow. Sandler's suggestions included abolishing commission sales – acknowledging that the public simply not trusting salesmen is a major obstacle to people saving – and making providers declare in writing their investment strategy the way that pension scheme trustees do already.

The Government adopted Myners' recommendations as a code of practice for trustees to follow (with the possibility of the code becoming pensions law if standards were not met). The Trustee is committed to meeting this code of practice, and part of this effort resulted in the investment review you can read about inside this issue of *pension points*.

The Government published its response to Pickering and Sandler in a Green Paper at the end of last year, supporting some of their proposals and adding some of its own. There is now a consultation period before any of the proposals are taken forward.

Any questions?

If you would like to know more about any of the subjects covered in this issue of *pension points*, or if you have any questions about your benefits in particular, please contact your Human Resources Department.

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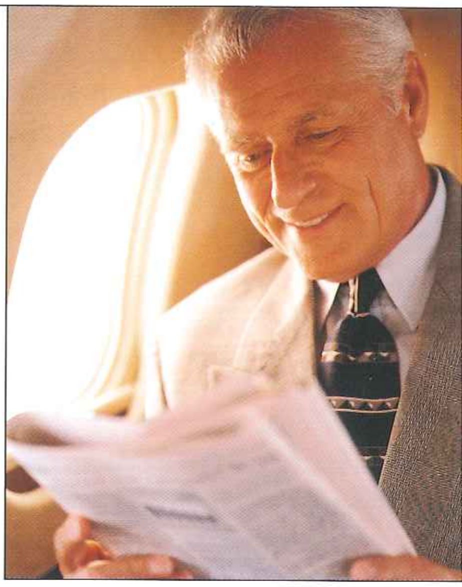
The Messier-Dowty Pension Scheme

pension points extra

May 2003

Boost your benefits with AVCs



As a member of the Messier-Dowty Pension Scheme, you are building up a 'final salary' pension. This means that your pension is linked to your salary and length of service in the Scheme when you come to retire. However far off that may seem to some of you, the best time to begin planning your retirement is now. Your Scheme membership is an excellent way to start. Company schemes are regarded as good ways to save for retirement because the employer contributes and the scheme is 'run' on your behalf.

By checking your benefit statements and/or using the calculation in your Scheme booklet you can keep an eye on the pension you are building up. The Scheme should provide you with a good level of benefit, but there are a few things you should consider:

- **Do you have any special plans for when you retire, for example, travel or home improvements?**
- **Do you or your family have any special needs?**
- **Does your age or date of joining the Scheme mean you won't be able to build up many years' service?**
- **Do you wish to retire before 65?**

If the answer to any of these questions is 'yes', then you may decide you would like to save some extra money for your retirement. One way you can do this is by paying AVCs.

What are AVCs?

'AVCs' stands for additional voluntary contributions. These are payments you make on top of your normal contributions to the Scheme. You build up 'money purchase' benefits which means that you can invest your contributions to produce a lump sum to buy a pension when you retire.

The amount of benefit you get is not defined. *AVCs can only be used to buy additional pension and cannot be taken as a lump sum.*

How can I benefit from AVCs?

You benefit from tax relief on your AVCs in the same way as on your normal contributions. AVCs have added flexibility – you can make them as regular contributions or as occasional payments. You can also choose the amount you want to pay, but your **total** contributions in any tax year (that is, normal payments plus AVCs) cannot come to more than the Inland Revenue limit of 15% of your total remuneration for that tax year.

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pension extra points

Boost your benefits with AVCs *continued...*

How do AVCs work?

Your AVCs are paid separately from your normal contributions into an account. Your account is then invested by Eagle Star, our AVC provider. When you retire, you use the money that has built up in your account to buy benefits on top of the 'main' pension you receive from the Messier-Dowty Pension Scheme.

What about investment?

Your account is invested with the aim that it grows over the long term — hopefully ahead of inflation — to provide you with a good level of extra benefits when you retire. However, all investment carries with it some level of risk. The investment managers at Eagle Star use their expertise to spread the AVC accounts across various types of investment in different parts of the world so that the risk is kept as low as possible.

Some main types of investment are:

Company shares (sometimes called 'equities'), which, although past performance is not a guide for the future, historically have grown at an excellent rate over long periods. However, they can go up and down dramatically in the short term, as shown by the current 'low' in the stock markets.

Bonds are loans to companies (or to the Government, when they are called 'gilts'). These are traditionally more secure than shares, but have not displayed as high a rate of growth and the value can be affected if they are sold at short notice. They are often used as investments for those nearing retirement because bond values move broadly in line with the cost of buying pensions.

Property tends to increase in value over long periods but is also subject to falls in the short term. However, it has the advantage of providing good income from rents.

Cash is the most secure of these investments, but as a result the interest on it is very low, and unlikely to match inflation. This means that the 'real' value goes down. For this reason, cash is usually used as an investment for people on the point of retiring to protect them from sudden falls in the market.

What are the choices?

It is up to you to decide which investment option you should choose. If you would like to invest AVC contributions your Human Resources Department has full details of all available funds.

Alternatives to AVCs

'FSAVCs' stands for free standing additional voluntary contributions. This option allows individuals to invest their contributions with an outside provider, independent of the normal contributions you make to the Scheme.

FSAVCs work in a similar way to your in-house AVCs and are available from most of the leading providers. For further details, contact an independent financial adviser.

What's the next step?

Before you make any decision you should read all of the literature which gives full details of the Scheme's AVC arrangements. These can be obtained from your Human Resources Department.

If you want specific advice about your investment choice, you should contact an independent financial adviser. Neither the Trustees or their advisers can give you independent financial advice as the decision on what is the best course of action for you will depend upon your own personal circumstances.

This item has been prepared according to our advisers' interpretation of current tax law and Inland Revenue practice, which may be subject to change. The value of tax relief will depend on your personal circumstances.

This announcement has been approved by Hewitt Associates Limited which is a member of the General Insurance Standards Council and is regulated by the FSA. Hewitt Associates Limited is a subsidiary of Hewitt Bacon & Woodrow Limited (advisers to the Trustees).

The Scheme's AVCs are provided by Eagle Star Life Assurance Company Limited which is regulated by the FSA for its Life Assurance, Pension and Investment products.

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